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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 7, 2009

Pages 227 to 410

APPEARANCES

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1 --- Upon commencing at 9:07 a.m.

2

3 THE CHAIRPERSON: Okay, good morning,
4 everyone. Welcome back, Day 2.

5 Ms. Everard, do you want to continue with
6 your cross-examination?

7 MR. KEVIN MCCULLOCH: Mr. Chairman, I did
8 mention to Ms. Everard that we have one (1) filing this
9 morning. This is the response to CAC/MSOS Pre-Ask Number
10 1 and I would ask that that be filed as MPI Exhibit
11 Number 6.

12

13 --- EXHIBIT NO. MPI-6: Response to CAC/MSOS Pre-Ask
14 1

15

16 THE CHAIRPERSON: Thank you, sir.

17

18 (BRIEF PAUSE)

19

20 THE CHAIRPERSON: Very good. Anything
21 else, Mr. McCulloch?

22 MR. KEVIN MCCULLOCH: No, sir.

23 THE CHAIRPERSON: Okay. Away we go then.

24

25 MPI PANEL, RESUMED:

1 MARILYN MCLAREN, Resumed

2 DONALD PALMER, Resumed

3

4 CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

5 MS. CANDACE EVERARD: Thank you, Mr.
6 Chairman. Yesterday when we adjourned, we were
7 discussing some issues surrounding the transition to the
8 proposed system, and I want to get into some questions
9 with respect to new Manitobans and how they'll be treated
10 coming into the province.

11 The Corporation has advised at the
12 response to IR-7, posed by the Board, that all new
13 Manitoba drivers will initially placed at DSR Level 0.

14 MS. MARILYN MCLAREN: Yes, that's right.
15 And that means initially, the very first time we
16 encounter them when they're in the broker's office, that
17 very first minute.

18 MS. CANDACE EVERARD: The answer also
19 provides that the driver can provide claims history for
20 up to the previous ten (10) years, so does the word "can"
21 mean that it's optional?

22 MS. MARILYN MCLAREN: Yes, but most are
23 very anxious to do so because they won't be eligible for
24 a discount without it.

25 MS. CANDACE EVERARD: But if the

1 individual had a poor claims history, they would have the
2 option of not producing it?

3 MS. MARILYN MCLAREN: There's nothing
4 really we can do as -- as the insurer to force the
5 production.

6 MS. CANDACE EVERARD: So they have the
7 option?

8 MS. MARILYN MCLAREN: They do have the
9 option, but the other piece of that is the driver's
10 abstract from the licensing authority which may or may
11 not have accident-related convictions on it.

12 MS. CANDACE EVERARD: And that was gonna
13 be my next question, whether or not it was required that
14 the individual produce a driver's abstract from the other
15 jurisdiction?

16 MS. MARILYN MCLAREN: Well, no, the
17 licensing authorities don't really work that way. It --
18 it's not up to the individual. The inter-jurisdictional
19 record exchange and the -- the Canadian driver licensing
20 agreement really calls for the jurisdictions to exchange
21 and share that information.

22 It's very much predicated on the Canadian
23 Council of Motor Transport Administrators, who is
24 basically the national organization of registrars of
25 motor vehicles across the country, and as well as

1 representation from Transport Canada, one (1) of their --
2 their key objectives is insuring, to the extent possible
3 that one (1) individual has only one (1) licence and one
4 (1) driving record.

5 So the information is exchanged between
6 jurisdictions. It's not the customers responsibility to
7 bring that information forward.

8 MS. CANDACE EVERARD: But given the
9 framework that you've described, MPI will be in receipt
10 of that person's driver's abstract?

11 MS. MARILYN MCLAREN: Yes, definitely.

12 MS. CANDACE EVERARD: Are there any
13 jurisdictions from which an individual might be coming
14 that is not a party to the framework that you described?
15 In other words, are there places that people may come
16 from where there will be no driver's abstract coming
17 along with them?

18 MS. MARILYN MCLAREN: Yes. The framework
19 I talked about is a Canadian framework and all
20 territories and provinces are part of that framework. In
21 addition there are a number of US states where there are
22 reciprocal agreements, either between the national
23 coordinating body or individual provinces.

24 But there are -- are many countries and
25 many US states that are not what are known as reciprocal

1 jurisdictions. So at that point it -- it is up to the
2 customer's discretion if they want to get a driver's
3 abstract from that jurisdiction and produce it.

4 MS. CANDACE EVERARD: And I take it that
5 the framework that we've discussing is in place now?
6 It's not something that's new to DSR?

7 Is that correct?

8 MS. MARILYN MCLAREN: Exactly. It's been
9 in place for quite a while.

10 MS. CANDACE EVERARD: Okay. The IR
11 answer also reflects that if a driver's abstract is
12 provided to the head office, the information will be
13 entered and it appears that any convictions that are
14 reflected on the abstract that -- that are part of DSR
15 will be assigned the appropriate number of demerits.

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

17 MS. CANDACE EVERARD: In the last
18 paragraph of this answer it's reflected that this method
19 may be more generous to some new Manitobans.

20 Can you elaborate on that, what that
21 means.

22 MS. MARILYN MCLAREN: One (1) example
23 might be the fact that it has taken a Manitoban ten (10)
24 years to get five (5) merit points in the system that we
25 have today. So the five (5) merit points plus the five

1 (5) years of claim-free driving is what will give them
2 the ten (10) new DSR merit points.

3 It's possible, depending on the
4 information that comes forward, from both the licensing
5 authority and the previous insurer, that they may very
6 well get to ten (10) without ten (10) years of
7 experience, because of the different system.

8 MS. CANDACE EVERARD: The answer also
9 reflects that if individuals prove to be higher risk
10 drivers they will quickly gravitate to their correct
11 position on the scale.

12 Can you expand on that statement?

13 MR. DONALD PALMER: As we've discussed
14 yesterday, with all transition it's -- it's a starting
15 place. But we have seen that there is really a
16 connection between risk and the rate that's -- and -- and
17 movement.

18 So if they are higher risk drivers and
19 start having accidents and convictions, then they will
20 move on the scale freely, just like all of the
21 Manitobans. So they'll -- they'll find their place.

22 MS. CANDACE EVERARD: This IR response in
23 the last paragraph again also provides in the very last
24 sentence that other options for placing new Manitobans
25 were considered but proved to be overly punitive and much

1 too complex for the public to understand.

2 First question is: What were those other
3 options that were considered?

4

5 (BRIEF PAUSE)

6

7 MR. DONALD PALMER: Mostly a question of
8 -- if...

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: We're going -- it's a
13 fairly complex answer, so we're going to take that as an
14 undertaking and -- and submit it after the break.

15 MS. CANDACE EVERARD: Sure. And just so
16 the record's clear, the first question was: What were
17 the other options that were considered. And then my next
18 question was going to be: Why were they deemed to be
19 overly punitive and much too complex for the public to
20 understand? Thank you.

21

22 --- UNDERTAKING NO. 3: MPI to reply to questions:
23 What were the other options
24 for placing new Manitobans
25 that were considered? And

1 just read in the second paragraph under "B" that begins,
2 "The rate application is...".

3 MR. DONALD PALMER:

4 "The rate application is the
5 Corporation's view of the desirable
6 rating impact on Manitobans of both DSR
7 and streamlined renewals. Without
8 either initiative, the Corporation
9 likely would have applied for overall
10 rate reductions taking the net income
11 forecast closer to break-even. The
12 Corporation takes the position that DSR
13 and streamline renewal programs ought
14 not to be introduced with an across-
15 the-board decrease, but by rewarding
16 the longest term safe drivers."

17 MS. CANDACE EVERARD: And I believe what
18 Ms. McLaren said yesterday in her opening evidence was
19 that rather than apply for a 2 percent rate decrease in
20 the next GRA, the Corporation decided to include this
21 rate decrease for the safest drivers in the DSR
22 transition strategy?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE EVERARD: So that tells us
25 where, from the Corporation's perspective, it would have

1 been. Let's talk about for a moment just the pure impact
2 of the DSR, so still leaving aside the commission savings
3 for the moment.

4 If I could get you to turn to Question 17
5 posed by the Board in the IR process, and in particular
6 the answer to 17(a). There's a table reflected there.
7 Can you explain for the record what the table represents.

8

9 (BRIEF PAUSE)

10

11 MR. DONALD PALMER: Table of the
12 projected total Basic net written premium, the next
13 column -- I'm -- I'm looking at the -- the title on the -
14 - the column; it looks like it was truncated -- but that
15 would be the impact of the DSR on the -- the total
16 written premium. And the next one is the percentage of
17 total Basic written premium of the -- the decrease.

18 MS. CANDACE EVERARD: Now, do these
19 percentages represent what the required rate increases
20 would be to implement the DSR without...?

21 MR. DONALD PALMER: No, they're --
22 they're the rate decreases that we have put in as a
23 result of lowering the rates.

24 MS. CANDACE EVERARD: Okay. If I could
25 ask you to turn to the Application for a moment, and in

1 one of the pre-asks posed by the Board and answered by
2 the Corporation, in particular Number 2, and I'm asking
3 you to turn to the Schedule attached to that answer, so
4 the chart which is Attachment 2(b). We see --

5 MR. DONALD PALMER: I have it.

6 MS. CANDACE EVERARD: We see the same
7 figures reflected in the row entitled "Total Net Premiums
8 Written," under the DSR heading for each of the years;
9 that is the same five (5) figures that we just looked at
10 on page 29 of SM-5.

11 So the -- that total of 110.9 million.

12 Are you with me?

13 MR. DONALD PALMER: Yes, I'm there.

14 MS. CANDACE EVERARD: And if we look at
15 this table a little bit further, the row entitled "Total
16 Earned Revenues" reflects, and again, I'm looking under
17 the heading of DSR for each of the five (5) years, we see
18 a decrease in Total Earned Revenues in the current year,
19 2009/'10, of some 3.8 million decrease in total earned
20 revenues for next year, 2010/'11, of some 17 million,
21 23.7 million in the subsequent year, and so on.

22 Is that right?

23 MR. DONALD PALMER: Yes.

24 MS. CANDACE EVERARD: And if we total
25 those five (5) figures, it would appear to be a decrease

1 in total earned revenues of some \$93.7 million.

2 Does that sound about right?

3 MR. DONALD PALMER: It sounds about
4 right, yes.

5 MS. CANDACE EVERARD: Now still looking
6 at the -- this particular attachment, 2(b) to the Pre-
7 Ask, there's another column reflected in each of the
8 years which is called SRP, which I take it stands for
9 Streamline Renewal Process, is that right?

10 MR. DONALD PALMER: Yes.

11 MS. CANDACE EVERARD: And we see in the
12 current year there's no dollar amount associated with
13 that heading. In the next year, 2010/'11, there is a
14 figure reflected on the Commission row, under that
15 heading, of some six hundred and thirty-three thousand
16 (633,000).

17 Is that right?

18 MR. DONALD PALMER: Yes.

19 MS. CANDACE EVERARD: And in the
20 subsequent three (3) years reflected on this table, the
21 same figure increases to about 6 million in 2011/'12, to
22 fourteen point six (14.6) in 2012/'13, and to twenty
23 point one (20.1) in 2013/'14?

24 MR. DONALD PALMER: Yes.

25 MS. CANDACE EVERARD: So in other words

1 the first real significant number in that column on this
2 chart kicks in in 2011/'12.

3 Is that fair to say?

4 MR. DONALD PALMER: I'll agree with that,
5 yes.

6 MS. CANDACE EVERARD: There's another
7 column reflected on this chart. It's the -- the first
8 one in each year on the far left. It's called "ADJ FC".

9 Would that stand for Adjusted Forecast?

10 MR. DONALD PALMER: Yes.

11 MS. CANDACE EVERARD: And can you explain
12 the difference -- or what the adjustments have been to --
13 to the forecast, why that column's there and what it
14 means?

15 MR. DONALD PALMER: The adjusted forecast
16 is -- is basically changing the starting point from the
17 third-quarter results. So for written premium, for
18 example, we -- we previously had a eight/nine (8/9)
19 forecast. We have actualized that up to the end of the
20 third-quarter, and then from there started our
21 projections again with the assumptions in -- in volume
22 forecast and upgrade forecast and whatnot. So it's --
23 it's an adjustment from -- just because we've got a
24 different starting place of -- of actuals.

25 MS. CANDACE EVERARD: But these adjusted

1 forecasts do not include any changes in assumptions?

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE EVERARD: Okay. Still
4 looking at this table, there's another line that we have
5 a question about, and that is under the heading of "Net
6 Claims Incurred", the first row is "Claims Expense," and
7 there appears to be in each of the years, a small
8 reduction reflected.

9 What does that relate to?

10

11 (BRIEF PAUSE)

12

13 MR. DONALD PALMER: Some of the allocated
14 costs change when you change for -- forecasts. So it --
15 it's a question of cost allocations.

16 MS. CANDACE EVERARD: Okay. I'd ask you
17 then to turn to Question 13 posed by the Board in the
18 Information Request round.

19 MR. DONALD PALMER: Could -- could we
20 have one (1) moment, please?

21 MS. CANDACE EVERARD: Yeah, of course.

22

23 (BRIEF PAUSE)

24

25 MR. DONALD PALMER: Just taking a look at

1 the answer to Pre-Ask 2(a) just for a moment. In -- in
2 the long term, the savings that were derived from
3 streamline renewal, sort of drive -- drives the
4 sustainability of the decreases from DSR. We don't have
5 full implementation, as you pointed out, of -- of the
6 streamline renewal savings until 2013/'14 but we do have
7 -- as our financial projections have shown, there was net
8 income shown for the next few years, which further
9 enabled us to provide that rate decrease.

10 So over the long-term, this statement is
11 absolutely correct. There's that short-term bridging,
12 however, that's more the result of the short-term
13 financial position of the Corporation, rather than that
14 long-term SRP effect.

15 MS. CANDACE EVERARD: What you're saying
16 basically is that the savings from the broker commission
17 deal don't kick in at the same time as the premium
18 reductions from DSR, so there's a bit of a time lag, for
19 lack of a better word.

20 MR. DONALD PALMER: That's correct.

21 MS. CANDACE EVERARD: Okay. If I can get
22 you to have a look at Question 13 posed by the Board in
23 the IR round, and Attachment A. And we're still dealing,
24 in general, with the same subject matter that we've been
25 speaking of in the last few minutes.

1 MR. DONALD PALMER: I have it.

2 MS. CANDACE EVERARD: Thank you. This
3 attachment -- that is Attachment A to Question 13 --
4 provides for the outlook period and going out for the
5 next few years, a series of projected net losses along --
6 I'm looking at the very bottom row of the table. If I'm
7 reading it correctly, it would appear that there's a
8 projected loss for the current year of some 1.2 million;
9 to go to fourteen point nine (14.9) next year, 2010/'11;
10 the year after that, 2011/'12, to be 17.4 million; and
11 then in 2012/'13 to be about 8.5 million.

12 Is that right?

13 MR. DONALD PALMER: Not exactly. The --
14 that's the change in the -- the differences between the
15 financials in the 2009 or -- or with DSR and without DSR,
16 so it's not net income as you have described it.

17 MS. CANDACE EVERARD: Thank you for
18 correcting that. I appreciate that. This is the
19 difference between the two (2) tables on this document:
20 The first that reflects with DSR and the second that
21 reflects without?

22 MR. DONALD PALMER: That's correct.

23 MS. CANDACE EVERARD: If we add together,
24 though, the numbers that I described, we would get a
25 total change from with DSR to without DSR, of some 42.1

1 million over the four (4) year period; that is from the
2 current year, 2009/'10, through to 2012/'13?

3 MR. DONALD PALMER: The fastest fingers
4 on the calculator have confirmed that.

5 MS. CANDACE EVERARD: And this change of
6 some 42.1 million over the four (4) year period that
7 we've described, does take into account for those years
8 the commission savings, because those are included in the
9 numbers on this table, that's right?

10 MR. DONALD PALMER: That's correct.

11 MS. CANDACE EVERARD: So just to make
12 that I understand this correctly, even taking into
13 account for those four (4) years the commission savings,
14 there's still \$42.1 million less coming in over the four
15 (4) year period than there would have been without DSR.

16 Would that be fair to say?

17 MR. DONALD PALMER: And that reflects the
18 decreases that we've included as part of DSR
19 implementation.

20 MS. CANDACE EVERARD: And those are
21 decreases --

22 MS. MARILYN MCLAREN: Sorry, Ms. Everard,
23 that may seem like putting too fine a point on it, but
24 the Corporation really believes it's not putting too fine
25 a point on it at all; that's not the cost of DSR. That

1 does not necessarily have to be -- the \$40 some odd
2 million difference in the Corporation's financial
3 position is not because of DSR; it's because of the
4 rating -- the -- the rate application that the
5 Corporation has filed along with the new DSR program.
6 They really are quite separate.

7 DSR could be implemented without that loss
8 of revenue. If you didn't look at those decreases in the
9 people with eight (8), nine (9), or ten (10), merits
10 there would not be that loss of revenue.

11 MS. CANDACE EVERARD: And that was going
12 to be my next question, so let's talk about that.

13 Why not implement DSR without the \$42
14 million reduction?

15 MS. MARILYN MCLAREN: For the reasons
16 that the Corporation has stated. Clearly, the financials
17 show -- and -- and -- we very clearly said yesterday that
18 there's -- there's nothing on the horizon that shows any
19 deterioration in the financials that have been in front
20 of this Board beginning last June, I guess. There's no
21 deterioration.

22 The fact of the matter is, understanding
23 the process that we've been involved with here at the PUB
24 for many years, the \$42 million dollars was going to go,
25 one (1) way or the other. It is not based on a break-

1 even situation, so why then implement DSR with a rate
2 decrease that -- that loses some revenue? It certainly
3 does not create a financial loss but -- but foregoes some
4 revenue. Because if we didn't, the revenue would have --
5 we believe would have had to be foregone anyway.

6 And this is an excellent opportunity to
7 kick off the new program in a way that really does
8 recognize the people with eight (8), nine (9), and ten
9 (10) merits. It addresses one (1) of the biggest
10 irritants with the old program, with respect to one (1)
11 aspect of the double-dipping. And for those reasons we
12 decided it was a -- a good way to deal with what clearly
13 appears to be more net income than a break-even program
14 would expect to have.

15 MS. CANDACE EVERARD: So if I understand
16 what you're saying correctly, the Corporation's position
17 is that it would have ended up with that premium
18 reduction in any event and it's taking this chance to
19 give a better financial advantage to the safer drivers,
20 as opposed to those that do not have safe driving
21 records.

22 Is that basically what you're saying?

23 MR. DONALD PALMER: As with any rate
24 change that we apply for wit -- this -- this Board, it's
25 not -- it has never been done on an across-the-board

1 basis. So we always look at the classification cells
2 that -- that need increases and -- and need decreases and
3 then balance all those to the total revenue requirement.

4 This is exactly the same as that and if I
5 could direct your attention to the financials with DSR
6 and -- and specifically, the 2010/'11 and '11/'12 bottom
7 lines, the negative 8.3 million and the 9.5 million for
8 that rating year absolutely break even, or very, very
9 close to -- to break even, from a rates setting
10 perspective.

11 So that reflects the -- as we've always
12 done with the striving for break-even rates and this
13 Application before the Board for those targeted rate
14 decreases does exactly the same as we have always done.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE EVERARD: At a typical GRA,
19 the Corporation provides certain projections, with
20 respect to where it thinks its financial position will be
21 in ensuing years. There have also been projections
22 provided, as we've just been discussing, with respect to
23 this Application.

24 Is it the case though that the Corporation
25 is asking the Board in this Application to set DSR rates

1 based on -- more heavily on the -- the projections than
2 it normally would at a GRA? Like at -- at a GRA, the
3 Board is taking into account the future projections but
4 is only setting rates on the year with which it is
5 dealing. Is -- is there a difference between that and
6 the pending Application?

7 MR. DONALD PALMER: No, no real
8 difference. I -- I guess the one slight difference --
9 we're applying for DSR rates for a sixteen (16) month
10 period, so there is a -- a bit of a stub period
11 difference.

12 But ignoring that for a moment, if we look
13 at the rates that we're applying for, for '10 -- '10/'11,
14 that really both affect the '10/'11 year and the '11/'12
15 year -- again, just as we do for any rate application.
16 So the -- the real test, whether those are break-even
17 rates or not, is to look at the bottom line results of
18 '10/'11, '11/'12, as I've just pointed out, and that
19 shows the break-even.

20 So again, this is no different than any
21 other rate Application that we present before this Board.

22 MS. MARILYN MCLAREN: And with respect to
23 Mr. Palmer's comments and your question about, you know,
24 the -- their projections, as opposed to a nearer term
25 forecast, it's also really for a very small, small

1 percentage of the Corporation's overall revenues. So in
2 effect, that is what we're doing. There is an outlook
3 period here that would normally be covered with a -- you
4 know, a full-blown forecast, and that is because we are
5 in this sixteen (16) month window period.

6 The -- I -- I'm not sure that we would
7 being that, you know, if we were looking at the entire
8 \$800 million of revenue required to have a, you know, a
9 sufficient stable break-even program for a -- a period of
10 time. I mean, it is for a very small percentage of the
11 overall revenue.

12 MS. CANDACE EVERARD: We've been
13 discussing the approach being taken by the Corporation to
14 reward the -- the very safest drivers over the last few
15 minutes. What about the prospect for, rather than
16 rewarding the safest drivers in the way of reduced
17 premiums, but improving basic benefits for accident
18 victims?

19 Is that something that's been given
20 thought by the Corporation?

21 MS. MARILYN MCLAREN: As part of this
22 process, no, no. Making sure the basic Autopac program
23 continues to have the -- one of the best most
24 comprehensive package of benefits, is something that we
25 pay a great deal of attention to. There's been a number

1 of times since 1994 that the pure no-fault program has
2 been modified to expand its scope so to speak.

3 That's something that the Corporation
4 works on and considers and -- and, you know, when
5 appropriate makes recommendations to government on, but
6 certainly was not in -- in any way -- that ongoing
7 process was not in any way tied to this process here.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE EVERARD: Okay. If we
12 continue to look at Attachment A to the answer to Number
13 13, and some of the numbers that we've been speaking of,
14 the table relating to the "with DSR projections" reflect,
15 as, Mr. Palmer, you've stated, a net loss of 8.3 million
16 in 2010/'11, and net income of 9.5 million in 2011/'12.

17 MR. DONALD PALMER: That's correct.

18 MS. CANDACE EVERARD: And that's compared
19 to the next table, which is the "without DSR" table, that
20 reflects for 2010/'11, net income of 6.5 million, and for
21 2011/'12, net income of 27 million.

22 Am I right?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE EVERARD: How confident is
25 the Corporation, or how sure can the Board be, with

1 respect to these projections, given that they are a few
2 years out?

3 MR. DONALD PALMER: Again, that's
4 virtually the same situation, wherein -- and -- in any
5 GRA, give or take a few months. I mean, we're here in
6 April instead of October, so that -- that six (6) month
7 period. I can tell you that we have started our
8 forecasting process for -- for the next GRA and there are
9 a few ups and downs in that. We're taking a -- a real
10 close look at investment income for instance, taking a
11 look at the emerging experience that we've seen on the
12 claims side as well.

13 Right now, I can tell you that our claims
14 forecast look very good. We've -- as we've described
15 last year in -- at the 2009 GRA our forecasts for auto
16 theft, the -- the actuals were coming in much better than
17 -- than forecasted, so we've taken -- we'll take that
18 into account. We also had a lot of discussion with
19 regard to our PIPP forecasts, and that there -- there
20 seemed to be, over the last couple of years, an over-
21 forecasting of -- of PIPP. We've -- we're taking a good,
22 hard look at that, and early indications are that we'll
23 be bringing our PIPP forecasts down somewhat.

24 So I certainly don't expect any
25 significant bottom-line differences on a going-forward

1 basis and it's possible it could even be a little better.

2 MS. CANDACE EVERARD: And we'll have
3 those revised forecasts at the GRA application later this
4 year?

5 MR. DONALD PALMER: They will be filed in
6 June, yes.

7 MS. CANDACE EVERARD: I'd ask you to turn
8 to Question 18 posed by the Board in the IR exchange
9 process. The answer to Sub A at Number 18 provides that
10 there were no alternate rate schedules considered, and
11 the answer also provides that gradual implant --
12 implementation proposed for the DSR was based on, or
13 consistent with, the Corporation's practice and the
14 Board's rate-making methodology.

15 In the second paragraph, there's reference
16 to an exception to that implementation strategy, being
17 the decision to reduce driver premiums for those
18 individuals at DSR Level 8 or higher.

19 So that was a policy decision made by the
20 Corporation, is that fair to say?

21 MS. MARILYN MCLAREN: Yes, as opposed to
22 an overall reduction in the revenue requirement from
23 vehicle premiums; that was the decision. The starting
24 point being, as we spoke a few minutes ago, the revenue
25 shown in those outlook periods in the projections was

1 what participants to these proceedings have come to
2 understand as excess. It was excess revenue, it was
3 going to disappear one (1) way or the other. The policy
4 decision was what kind of application to put together and
5 apply for to do with excess revenue.

6 MS. CANDACE EVERARD: So the
7 Corporation's thinking was by having that excess revenue
8 disappear in favour of the safest drivers, the
9 Corporation could connect with them better, draw their
10 attention to the -- the new system or was it something
11 else?

12 MS. MARILYN MCLAREN: No, that -- very
13 much so, very much so. It was just a great opportunity.
14 Other things as well. As -- again, as we spoke about
15 earlier, the fact that it immediately addressed -- I -- I
16 don't remember off the top of my head how many hundred
17 thousand vehicle owners in the categories 8, 9, and 10,
18 would see their driver premium disappear, immediately
19 removing sort of an irritant that -- that we've heard
20 about for many years.

21 It -- it served a number of purposes but
22 the primary overall purpose, the revenue was about to
23 disappear we believe, given precedent in these
24 proceedings, and how best to start a program whose number
25 1 objective was to enhance the rewards for the safest

1 drivers; to be able to do that right on Day 1.

2 It's -- it's a great opportunity to -- to
3 catch their attention, to increase the likelihood that
4 they will pay -- it's a very big challenge getting people
5 to understand a new program like this. And we've done a
6 number of things and we'll continue to do a number of
7 things to increase the likelihood that they will pay
8 attention to it.

9 Because it's related to merits, we know we
10 have some level of attention right now, but the other
11 point is how do we get them to understand? And to do
12 something like this that will more likely grab their
13 attention and cause them to have a little bit closer look
14 at it, we really believed for -- for all intents and
15 purposes, for all of the reasons stated, it achieves
16 immediately one of the key goals of DSR.

17 It removes one of the irritants for a
18 significant number of these people. It will cause them
19 to be more interested in paying attention to what it is
20 we've done and how the new system will work. All of
21 those was -- were the reasons that we chose this
22 Application, as opposed to a different one.

23 MS. CANDACE EVERARD: And so the irritant
24 that you're talking about being removed is the driver's
25 licence premium?

1 MS. MARILYN MCLAREN: For vehicle owners,
2 yes.

3 MS. CANDACE EVERARD: And when you say
4 that the Corporation is gonna consider doing some other
5 things to draw attention to the system, can you just give
6 us a quick summary of what those will be?

7 MS. MARILYN MCLAREN: I think that
8 information is somewhere in the Information Request
9 responses, related to the kinds of things we plan to do
10 on the website. The renewal forms are a key part of
11 that, actually showing the scale on each and every form.
12 Personalized placement on the form for each and every
13 driver and vehicle owner.

14 So there's a number of things from a
15 communications perspective that we will continue to work
16 on to increase their -- their interests in becoming
17 informed.

18 MS. CANDACE EVERARD: In developing the
19 DSR program that's been proposed, what consideration did
20 the Corporation give to the current economic changes and
21 current economic times and what those conditions -- or
22 what kind of impact those conditions would have on the
23 Corporation?

24 MR. DONALD PALMER: I would say that
25 those short-term economic conditions were not part of --

1 of the overall program design. We've -- we've been in
2 the design process for a long -- a long time.

3 As Ms. McLaren said in her opening
4 statement, it's finally here, it's been a long time
5 coming. We have pulled out -- I know with the CAC
6 request on literature review, asking us what we did, we
7 went back to some emails that were exchanged in 2006 on -
8 - as kind of the early program design. So from that --
9 that standpoint, no, I would say that the current
10 economic situation didn't come into that -- that program
11 planning.

12 Of course, as we get -- got closer and we
13 were assigning actual rates and looking at the pro
14 formas, then absolutely our -- our forecasts became
15 important. And -- and it was through those forecasts
16 that we saw that there was excess revenue through the
17 2010/'11 and '11/'12 years that we could -- that we
18 didn't need and we will provide that targeted rate
19 decrease.

20 MS. MARILYN MCLAREN: Just a little bit
21 different perspective on the same answer. Clearly, no
22 consideration during the design because the design was --
23 was well underway, and actually the public consultations
24 were largely complete, you know, before the significant
25 economic difficulties started in the last quarter of last

1 year.

2 The -- I'm very confident that the
3 transition strategy would have been the same, even if,
4 you know, very robust economic times were -- were still
5 in existence here. But I think that the transitioner's
6 strategy is particularly appropriate, given the challenge
7 of changing and -- and volatile and unpredictable
8 economic circumstances.

9 Clearly, the big piece of the economic
10 environment in which we operate right now, that we had to
11 be assured of before coming forward with the Rate
12 Application, was the dependability of the forecasts that
13 we've been talking about for the last half hour or so.
14 So that's the -- that's the key piece of that.

15 In a broader sense, you know, with respect
16 to the Corporation's history with economic circumstances
17 and recessions and so on, often we will see a decrease in
18 the number of vehicles registered and insured. But as
19 we've talked about many times before, we believe that we
20 have the best possible relationship between the rate
21 charged for each and every vehicle and the risk that each
22 and every vehicle presents. There's a very direct,
23 measurable trade-off to a reduction in units registered
24 and insured and a reduction in claims costs, because we
25 have such a good link there.

1 So that doesn't pose an unknown like it
2 might for another organization or -- or this Corporation,
3 you know, a decade or more ago.

4 One (1) of the things we need to be
5 concerned about in a program like this is that there's
6 fundamental difference -- there's a fundamental
7 difference between safe driving behaviour, claims
8 reduction, accident reduction. A program like this is
9 not intended to discourage claiming. A program like
10 this, and everything else we do on the road safety front,
11 is to discourage the accidents in the first place.

12 So we want to be very careful that you --
13 especially when people are uncertain about their economic
14 future, you don't want to be doing things that encourage
15 them to just avoid claiming, even if they've had a
16 legitimate accident. Those kinds of considerations go
17 into the design and that again talks about the spread and
18 why the people at the lowest risk probably need to pay a
19 little bit more than they would on a pure actuarial
20 basis, like we were talking about yesterday, because you
21 don't want to make the program unsustainable from that
22 public policy guaranteed access perspective.

23 So those are all considerations that --
24 that we live and breath within the Corporation when it
25 comes to the Basic compulsory program, but there's really

1 only a very narrow application of all of those
2 considerations that came to determining what this
3 application would be.

4 MS. CANDACE EVERARD: With respect to the
5 forecasting there's been evidence given that even with
6 the poor economic conditions, or unfortunate economic
7 conditions in which we find ourselves that the
8 Corporation was relying on its forecasts. And I know you
9 told me a few minutes ago, Mr. Palmer, that the
10 assumptions for the adjusted forecast that we saw did not
11 change.

12 Do economic times or recession, if you
13 want to call it that, give rise to a change in any of the
14 assumptions used by the Corporation for its forecasting?

15 MR. DONALD PALMER: Sure. In terms of
16 the -- you know, always we're looking at changing
17 interest rates, changing inflation rates. The economic
18 times can -- can affect the volume forecasts, can affect
19 the upgrade forecasts, so absolutely, that -- the -- the
20 economic environment really is a key component of our
21 revenue forecasting process and our claims forecasting
22 process. We have an economist on -- on staff who -- who
23 sits on -- on the revenue forecast committee. She is
24 also a member of pricing and economics staff, so it's
25 part of that ongoing research.

1 So absolutely, it's part of the economic
2 scan that we always look towards in our forecasting
3 processes.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE EVERARD: Okay. So we've had
8 some evidence in the last hour or so since we've convened
9 this morning, with respect to the projected decreases in
10 revenue to the Corporation. And we've talked about the
11 pure impact of the DSR. We looked at page 29 or SM-5
12 with the 110 million. We've looked at other ways of
13 calculating the effect and the -- the \$42 million
14 expected decrease over the next four (4) years.

15 And I appreciate the Corporation's
16 evidence that that money was going somewhere anyways and
17 I'm not going back to that particular point right now.

18 But my question is with -- no matter how
19 you look at it, whether you're looking at the hundred and
20 ten (110) or the forty-two (42) and whether it would
21 have gone somewhere anyways, at the end of the day is it
22 fair to say that with less money coming in there will be
23 an impact on investment income to the Corporation? Less
24 money to invest, less investment income?

25 Is that fair to say?

1 MR. DONALD PALMER: We would have had
2 less money coming in anyway. I -- I think that's the
3 point. If we weren't applying for this targeted rate
4 decrease for safe drivers at this Rate Application, we
5 would have been come -- all else being equal, we would
6 have been coming back with a rate decrease at the 2010
7 GRA.

8 So to say that we would have had less
9 investment income, it's not really an apples to apples
10 comparison, because -- because we would never come to the
11 GRA with projections of a -- an average of a \$16 million
12 bottom line in the two (2) years that are effected by a
13 Rate Application. That would be an indicator of
14 approximately a 2 percent rate decrease that we would
15 have applied for, again spread out in an actuarially
16 sound method amongst all the rating classifications.

17 So -- so if -- if you're asking: Is our
18 investment income less with less premium income? Sure.
19 But we would have never been into -- we wouldn't have
20 seen that, we wouldn't come to this Board with an
21 application that showed healthy bottom lines when we're
22 looking for a break-even.

23 Or let me rephrase: We think that break-
24 even is a healthy bottom line, a big positive bottom
25 line.

1 MS. CANDACE EVERARD: While we're
2 speaking of investment, investments in the investment
3 portfolio, can you give us an indication of what the
4 current unrealized losses are in the Corporation's
5 investment portfolio?

6

7 (BRIEF PAUSE)

8

9 MR. DONALD PALMER: We've had an
10 investment rate of return in the last year of
11 approximately minus 5 percent.

12 So certainly we have less -- less assets
13 than we had a year ago. In terms of an exact number, in
14 terms of unrealized loss, or -- or accumulated other
15 comprehensive income, I -- to be more specific I'd like
16 to defer that until we file the fourth-quarter report
17 with this Board later on in these Hearings.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE EVERARD: Okay. So, Mr.
22 Palmer, you indicated yesterday and you've indicated
23 again that the fourth-quarter results ending February
24 28th of this year will be provided within about a week,
25 at least some indication.

1 What about, particularly with respect to
2 these investment issues, a -- a current update, a from
3 March 1st to present date indication, is that something
4 that can be provided?

5 MR. DONALD PALMER: From March 1st of
6 2009?

7 MS. CANDACE EVERARD: Yes.

8 MR. DONALD PALMER: They're pretty good.
9 That -- I don't know that I can be more specific than
10 that. Certainly, the last month has been better than the
11 previous six (6) were.

12 MS. CANDACE EVERARD: Hm...

13 MR. DONALD PALMER: And -- and may I just
14 add that I -- I've talked about -- about a minus 5
15 percent rate of return; that -- that is reflective, of
16 course, of our portfolio mix of 80 percent fixed income
17 and 20 percent equities. So, yes, the -- the stock
18 markets have been down considerably over the last six (6)
19 months, but there's less impact on us than many other
20 large organizations that have a different asset mix than
21 we have.

22 MS. CANDACE EVERARD: Thank you. Is the
23 Corporation aware that SGI has very recently announced
24 that it will be seeking a 4.2 percent increase in rates
25 in the upcoming year?

1 MR. DONALD PALMER: We are aware of that,
2 yes.

3 MS. CANDACE EVERARD: Okay. Speaking of
4 updates, with respect to investment issues, the -- if --
5 if possible, can the Corporation provide an update, with
6 respect to the possible implications of IFRS, or the
7 International Financial Reporting Standards, on the
8 forecast going forward?

9 Is there any new information on that?

10

11 (BRIEF PAUSE)

12

13 MR. DONALD PALMER: We don't -- right
14 now, we're not seeing impact. And remember that IFRS
15 doesn't come into effect until March 1st of 2011.

16 The classification of financial
17 instruments looks to be very much the same as it is
18 today. There doesn't seem to be much -- much difference
19 that we can -- but again, we're -- we're still in
20 preliminary phases of IFRS planning and making those
21 decisions. So as far as a detailed update to be provided
22 at -- at this Hearing, I really won't be in a position to
23 do that.

24

25 (BRIEF PAUSE)

1 MS. CANDACE EVERARD: Mr. Palmer, you
2 just said that IFRS takes effect March 1st of 2011, but
3 isn't it the case that for comparative purposes, there
4 will be required -- the financials prepared in that
5 manner, as of March 1st, 2010?

6 MR. DONALD PALMER: Yes, that's true.

7 THE CHAIRPERSON: I'm just wondering
8 about an update. I know from Manitoba Hydro, they have
9 given us estimates of write-downs that they would expect
10 to take as a result of the adoption of IFRS.

11 There's a lot of different accounting
12 policies that of course are affected by IFRS, and in some
13 cases some corporations have been early adopters and some
14 have not. But we have received forecasts of potential
15 affects on, you know, future results and current results,
16 so we were just wondering whether or not you were at that
17 same state of assessing, for example, deferred costs, and
18 things of that nature?

19

20 (BRIEF PAUSE)

21

22 MR. DONALD PALMER: Just to give a little
23 bit of information what we have done over the last number
24 of months; when we were here back in September/October we
25 had not chosen a financial -- or an implementation

1 regard to IFRS is the whole issue and classification of
2 property, plant, and equipment. And a company like Hydro
3 certainly has huge fixed assets that really it's a --
4 it's a major part of their consideration. We're a much
5 different business than that, so there is not the same
6 effect on us as far as property, plant, and equipment.

7 So we -- we are certainly back into the --
8 the detailed plan, making many of those decisions over
9 the summer. We will likely be able to inform the -- the
10 Board of major detail policy considerations likely in the
11 Fall. So we're -- we're well on the way.

12 I can tell you that with the scan that --
13 that we've done so far and -- there's not huge impact on
14 us from a bottom-line perspective, or from -- from a
15 financial results perspective, from a balance sheet
16 perspective. When we get into Phase 2 of IFRS-4, which
17 will happen sometime in the future, 2013, '14, '15,
18 depending on who you talk to, there will likely be a much
19 bigger impact on us. But as far as Phase 1, so far it's
20 not huge.

21 THE CHAIRPERSON: And when you say not
22 you, you're specifically including in that potential
23 impact on pension obligations and deferred costs?

24 MR. DONALD PALMER: Yes. I -- I'm
25 including that.

1 THE CHAIRPERSON: Thank you.

2

3 (BRIEF PAUSE)

4

5 CONTINUED BY MS. CANDACE EVERARD:

6 MS. CANDACE EVERARD: Mr. Palmer, the
7 implications of IFRS that you've just been speaking of
8 are not included, I take it, in the forecast that are in
9 this Application?

10 MR. DONALD PALMER: That's correct.

11 MS. CANDACE EVERARD: But some of the
12 changes dealing with IFRS, as we've discussed, will be in
13 place during the outlook period that's presently before
14 the Board?

15 MR. DONALD PALMER: Yes, beginning in
16 March 2011, yes.

17 MS. CANDACE EVERARD: So how much weight
18 can the Board safely place on the forecasts that are
19 before it, given that there are all these impending
20 changes?

21 MR. DONALD PALMER: I don't know --
22 they're not -- from what we've seen so far, they're not
23 huge. So -- and I would -- I would even say is large
24 smaller than huge? I don't know. It's not significant
25 from our forecasting perspective, that we've seen so far.

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: We've heard in the
4 media recently that the Corporation has made a major land
5 purchase, and if I'm wrong about that then please correct
6 me, but what are the implications of that purchase going
7 to be and are those included in the forecast that are
8 before the Board?

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: You're referring to
13 the acquisition of City Place --

14 MS. CANDACE EVERARD: Yes, sir.

15 MR. DONALD PALMER: -- and some parking
16 lots that adjoining City Place. From a operating
17 statement perspective there's not an immediate impact on
18 the financials. On a long term going-forward basis, that
19 -- that purchase was -- or the reason for that purchase
20 was -- was mainly us purchasing our own home, so we won't
21 have the lease costs going forward. We will have some
22 amortization costs. Long term, likely our operating
23 costs will decrease over the long term, so there will be
24 a -- a financial gain.

25 So -- so that will, in effect, on a going

1 -- going forward basis, that -- those effects have not
2 been built into our -- our projections.

3 There will be -- part of that purchase
4 will be classified as an investment, so there will be
5 investment income flowing to the Corporation through --
6 because of the retail space, because of the parking lot
7 revenue. That will -- has also not been taken into
8 account but investment and investment revenue is part of
9 the projections, and so in terms of -- of the im --
10 impact and change there will be a small impact, but --
11 but just looking at the operating statement, it won't be
12 obvious that there has been a major acquisition.

13 THE CHAIRPERSON: Did you sell
14 investments to buy the building?

15 MR. DONALD PALMER: The -- the purchase
16 is not closed yet. The closing date is May the 1st. In
17 terms of -- of planning and partially because of the
18 current economic situation, we do have a large -- large
19 amount of cash -- cash holdings currently, so there
20 really isn't a large liquidation of assets that's
21 required for this purchase.

22 THE CHAIRPERSON: So you don't have to
23 take any realized losses as a result of the acquisition?

24 MR. DONALD PALMER: Not as a result of
25 the acquisition. There are some realized losses that we

1 have taken over the last year but that wasn't as a -- as
2 a result of making this acquisition of City Place.

3 THE CHAIRPERSON: Thank you.

4

5 CONTINUED BY MS. CANDACE EVERARD:

6 MS. CANDACE EVERARD: Mr. Palmer, I'm
7 going to ask you to turn back to Question 13 posed by the
8 Board in the IR round. And this figure probably appears
9 in a number of places but we'll look at it on Attachment
10 B.

11 The forecast for the year that just ended,
12 2008/2009, in respect of total claims costs, is reflected
13 as a \$26.4 million decrease in claims costs, compared to
14 that which was forecasted.

15 Now that we are past that year end, was
16 this realized or what was the final result?

17

18 (BRIEF PAUSE)

19

20 MR. DONALD PALMER: We're a little
21 uncomfortable talking too much about our financials over
22 the last year until they're tabled in the Legislature.
23 So we're feeling constraints by that legislation.

24 In very broad terms our claims costs were
25 better than forecast and -- and better than this -- this

1 number, so they have not -- certainly have not
2 deteriorated. And all -- and -- and at the risk of -- of
3 being mocked by counsel once -- once again, I will just
4 say, stay tuned for that filing of the fourth-quarter
5 financial.

6 MS. CANDACE EVERARD: Can you give us a
7 sense of the source or the cause of the decrease? Was it
8 just that the forecast was high or was there something --
9 is there something specific that we can point to that
10 resulted in the decrease?

11 MR. DONALD PALMER: Two (2) major sources
12 that have I've -- that talked about.

13 One (1) was, comprehensive costs were
14 lower, mainly because of auto theft; continues to be a
15 very, very successful program and we've seen -- we
16 expected the thefts to decrease very significantly and
17 they have done even better than -- than we had expected.
18 So -- so that's one source.

19 The other source that we talked about at
20 some length in our GRA was PIPP costs, that we had PIPP
21 projections, and over the last three (3) or four (4)
22 years, the PIPP costs have not come up to the expectation
23 that -- that we had in our -- in our rates and in our
24 actuarial review. So that -- we have -- so those costs
25 are -- have decreased for 2008/'09.

1 Those are the two (2) major implications.

2 MS. CANDACE EVERARD: When the fourth-
3 quarter information comes in a week or so, will you be
4 able to split the savings according to those two (2)
5 categories?

6 MR. DONALD PALMER: No. Again, they're -
7 - even though they're released and public, they're
8 unaudited. We're a -- we haven't done the audited split
9 between Basic and the other lines of business and that
10 will all form part of the 2010 GRA.

11 So one -- once we file them, the -- the
12 savings that we've seen, the \$26 million or so, that
13 would have been apart from -- from PIPP. The way that we
14 have always booked our PIPP losses is kind of actualized
15 them to budget, and then at the year end when we have
16 completed our -- all our actuarial review, we actualize
17 them. So -- so most of the variance between this \$26
18 million figure and what will be included in the fourth-
19 quarter financial would be PIPP adjustments.

20 MS. CANDACE EVERARD: So does that mean
21 the twenty-six (26) is attributable to the decrease in
22 comprehensive costs and the -- basically, the success of
23 the anti-theft initiatives?

24 MR. DONALD PALMER: Because of the timing
25 of this -- this was based on -- on third-quarter -- for

1 the first three (3) quarters, we had also seen a decrease
2 in collision costs. It -- it intrigued us somewhat and
3 there was all kinds of speculation as to whether that was
4 tied to gas prices, for instance, that were very high in
5 the last spring and summer. All those decreases rapidly
6 deteriorated in the fourth-quarter. We had a -- a very
7 bad winter, from a claims perspective, with icy streets
8 and whatnot.

9 So -- so these costs that were based on
10 third-quarter results would have also included some
11 savings on collisions. Our actual fourth-quarter
12 results, those savings in collision have evaporated.

13 So to give you an exact number of how much
14 of that decrease was -- was collision and how much was
15 comp., probably 75 percent. I'm taking some liberties
16 here, but about three-quarters (3/4s) of it would --
17 would have been decrease in -- in Comprehensive costs due
18 to theft, and the other quarter probably for collision
19 costs.

20 MS. CANDACE EVERARD: Thank you. Mr.
21 Chairman, noting the time do you want to take the morning
22 break?

23 THE CHAIRPERSON: It's a good time.
24 Thank you.

25

1 --- Upon recessing at 10:31 a.m.

2 --- Upon resuming at 10:52 a.m.

3

4 THE CHAIRPERSON: Okay, folks. Ms.

5 Everard...?

6 MS. CANDACE EVERARD: Thank you, Mr.

7 Chairman.

8

9 CONTINUED BY MS. CANDACE EVERARD:

10 MS. CANDACE EVERARD: If I could ask the
11 panel to have a look at Answer 16 to the written
12 questions posed by the Board, in particular the answer to
13 Sub C, which is the very last schedule. This deals with
14 the issue of the administrative costs related to DSR.

15 Ms. McLaren, you had indicated in your
16 opening evidence that the costs were about a million and
17 a half a year, and that would appear to be consistent
18 with the numbers reflected in the total column or the
19 total row on this table?

20 MS. MARILYN MCLAREN: I would agree.

21 MS. CANDACE EVERARD: The one (1)
22 exception being the current year, 2009/'10, reflects
23 costs of some eight hundred thousand dollars (\$800,000)?

24 MS. MARILYN MCLAREN: Yes.

25 MS. CANDACE EVERARD: There's a reference

1 here on the fourth row to computer costs licence fees for
2 some forty thousand dollars (\$40,000) a year.

3 What is the software that's being licensed
4 by the Corporation?

5

6 (BRIEF PAUSE)

7

8 MR. DONALD PALMER: It's Informatica,
9 which is used in relation to the Enterprise Data
10 Warehouse.

11 MS. CANDACE EVERARD: The next row on the
12 table reflects maintenance computer costs. What does
13 that cover?

14

15 (BRIEF PAUSE)

16

17 MS. MARILYN MCLAREN: We're going from
18 little bit limited information and from memory here, but
19 we believe some of that would likely be related to
20 software maintenance, but also probably some maintenance,
21 with respect to new servers and -- and data storage that
22 we would require for the -- the new DSR data.

23 MS. CANDACE EVERARD: Does the
24 Corporation expect that implement -- implementation of
25 DSR will result in the purchase of any new computers?

1 MS. MARILYN MCLAREN: Servers, data
2 storage, things like that, but no more PCs, things like
3 that.

4 MS. CANDACE EVERARD: This schedule that
5 we're looking at, 16 Sub C in the second row, reflects
6 some numbers related to the amortization of capital
7 assets.

8 What capital assets are those that are
9 being amortized?

10 MS. MARILYN MCLAREN: That -- that would
11 be the servers and the data storage.

12 MS. CANDACE EVERARD: And it would appear
13 that the -- for the 2013/'14 fiscal year, the dollar
14 amount dropped significantly. Why is that?

15 MR. DONALD PALMER: That's the end of the
16 amortization period.

17 MS. MARILYN MCLAREN: It's only a three
18 (3) year amortization for that kind of equipment.

19 MS. CANDACE EVERARD: And there's not
20 expected to be a renewal or replacement of those assets
21 in that year?

22 MS. MARILYN MCLAREN: It's hard to say,
23 but -- but what we found lately is some of this
24 equipment is actually lasting a little bit more than
25 three (3) years. You know, that's something that's

1 changed through time. It used to be amortized over five
2 (5) and organizations found themselves replacing it in
3 less than five (5), dropped the amortization period, now
4 it seems to last a little bit longer.

5 MS. CANDACE EVERARD: I'd ask you to turn
6 to Question 14 posed by the Board in the written
7 exchange. This deals with the idea of a cost benefit
8 analysis relating to the DSR. The Corporation says in
9 this response -- and I know this evidence has been given
10 in the last couple of days -- that the Corporation's of
11 the view that claims savings are more likely to be
12 achieved as a result of the DSR, rather than the old
13 system or the current system.

14 Can you elaborate on the reasons for that.

15 MR. DONALD PALMER: That's certainly
16 linked to the understandability of the new system and
17 also with regard to our communication strategy,
18 specifically with the renewal forms that customers will
19 be able to link their immediate behaviour with what they
20 pay in -- in rates. And also gives the consequences of -
21 - or benefits if they improve their driving behaviour,
22 certainly for the higher risk drivers, that in the next
23 number of years you will see these benefits, in terms of
24 lower rates and -- and lower DSR level.

25 So when they're able to link their

1 behaviour with the rates that they pay as a consequence
2 of that behaviour, we believe that will improve their
3 behaviour.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE EVERARD: Going forward, will
8 the Corporation be able to measure the savings levels, if
9 any, by comparing the actual numbers to the results of
10 the prospective modelling process?

11 MR. DONALD PALMER: We will always be
12 able to compare actual versus expected results. To link
13 specifically that one causes the other and -- and make
14 that 100 percent link is always very difficult. And --
15 and, for instance, when we look at weather, and say we
16 had implemented DSR just at the beginning of this past
17 winter, and it's like -- so -- and say for instance that
18 the resulting claims costs were the same as they were in
19 the previous winter, well, we would have had no idea to
20 attribute that to say, DSR has no effect, or we -- the
21 proper -- the -- the right answer would be, Well, we
22 would have seen a 25 percent increase, because the winter
23 was so bad, but we in fact saw zero so that 25 percent
24 decrease would have been DSR.

25 It's -- it's hard to make that link

1 because you don't -- you don't have two (2) controlled
2 experiments happening at the same time.

3 So certainly we will -- as always we will
4 compare actual results versus expected results. We will
5 try as best we can to attribute any differences to
6 certain causal factors that we know about, but it will
7 always be an estimate.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE EVERARD: Does the
12 Corporation have an expectation going forward of what the
13 distribution of drivers will be on the DSR scale and how
14 that can be used to measure any changes in behaviour?

15 MR. DONALD PALMER: Yes, that's the
16 prospective modelling exercise that comes up with an
17 estimate of the number of drivers in -- in each DSR
18 category, so that will be used as a -- for comparative
19 purposes, yes.

20 MS. CANDACE EVERARD: Going forward,
21 would the Corporation consider it appropriate to measure
22 the impact of DSR on claims costs by comparing the
23 forecast presented here in TI-1 and TI-2, with the actual
24 future claims experience?

25 MR. DONALD PALMER: The implementation of

1 DSR is one of those causal factors that I -- I mentioned,
2 so absolutely, actual versus expected comparisons will be
3 made. And -- but there -- we know that there will be
4 other factors that influence claims costs, too.

5 So to be able to distinguish specifically
6 that it was DSR impact, or it was weather impact, or it
7 was some -- some other economic impact, we'll have to
8 make some estimates, with regard to that.

9 MS. CANDACE EVERARD: So what you're
10 saying is going forward it's going to be difficult to
11 isolate or measure what the effect of the DSR has been at
12 the end of the day?

13 MR. DONALD PALMER: I would agree with
14 that.

15 MS. CANDACE EVERARD: We know that the
16 Corporation isn't forecasting claims costs reductions on
17 account of DSR, but if driver behaviour does improve,
18 does the Corporation anticipate that the average position
19 on the DSR scale will move, not upward, but towards the
20 merit side?

21 MR. DONALD PALMER: More merits, less
22 demerits, yes.

23 MS. CANDACE EVERARD: If that were to
24 occur, would it result in a further decrease in premium
25 revenue beyond that which has been projected?

1 MR. DONALD PALMER: And claims costs, so
2 the two (2) -- the -- the decrease in premium revenue
3 would be offset by the decrease in claims costs.

4 Again, very much the same as a -- an
5 upgrade factor. If we get the upgrade factor or the
6 actual doesn't come out the same as what we expected it
7 to be, there would be differing premium income coming in
8 because of that difference, but there's also different --
9 there's a claim impact on that. And as long as we have
10 the rates right, the two (2) will move in lockstep. So
11 upgrade volume -- if you have more vehicles on the road,
12 you have more premium income, but you -- those additional
13 vehicles that are on the road also have claims, so you
14 also have an increase in claims costs. So, again, the
15 two (2) will be offset and move in lockstep.

16

17 (BRIEF PAUSE)

18

19 MS. CANDACE EVERARD: As the record
20 reflects, the Corporation isn't using actuarial
21 indicators for the purposes of DSR, but rather the
22 direction basis.

23 To what extent is that a factor in any
24 mismatch of the offset or lockstep that you've described?

25

1 MR. DONALD PALMER: That would be a
2 factor, somewhat different than the upgrade that I've
3 mentioned, where the rates are more actuarially
4 determined, in terms of the -- the clear scale and the
5 rate line that we've talked about.

6 I'm trying to rationalize what direction
7 it would -- it would go, but if there are less claims and
8 more movement into the lower categories that -- or higher
9 merit levels that aren't -- don't reflect enough
10 discount, likely the claims costs would go down more than
11 the decrease in premium revenue.

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE EVERARD: So, to summarize
16 your evidence, profitability will increase under the
17 scenario, if behaviour improves? I'm not asking you to
18 guarantee us that that's going to happen.

19 MR. DONALD PALMER: For MPI,
20 profitability is always a dangerous word. I -- I would
21 say that that would indicate a general rate decrease in
22 ensuing applications.

23

24 (BRIEF PAUSE)

25

1 MS. CANDACE EVERARD: Okay. I'm going to
2 move, then, to some questions dealing with the Rate
3 Stabilization Reserve or RSR.

4 Mr. Palmer, you gave some evidence in your
5 pre-filed testimony dealing with the RSR which I'd like
6 you to refer to, particular -- particularly page 4. Oh,
7 and it would help if I was looking at page 4 of your
8 evidence instead of Ms. McLaren's.

9 So, page 4 of your evidence, the fourth
10 last paragraph references in full the Rate Stabilization
11 Reserve.

12 Can you read in that particular paragraph,
13 and actually the one underneath it also, please.

14 MR. DONALD PALMER:

15 "The Basic Rate Stabilization Reserve
16 is intended to protect motorists from
17 rate increases made necessary by
18 unexpected events and losses arising
19 from non-recurring events or factors.
20 The RSR is expected to be 116.3 million
21 as at February 28th, 2010, compared to
22 an RSR of 120.4 million presented at
23 the 2009 GRA.

24 The RSR is projected to decrease to 108
25 million as at February 28th, 2011,

1 compared to 127 million shown in the
2 2009 GRA."

3 MS. CANDACE EVERARD: And can you explain
4 the reason for the decline in the RSR balance from that
5 forecast last year?

6 MR. DONALD PALMER: Because we've
7 included a rate decrease targeted at safe drivers in this
8 Application.

9 MS. CANDACE EVERARD: That's the DSR,
10 right? Sorry the head nod will not show up on the
11 transcript.

12 MR. DONALD PALMER: That's correct.

13 MS. CANDACE EVERARD: Thank you. Given
14 what is reflected in your pre-filed testimony as the
15 stated purpose of the RSR, which is consistent with what
16 it's been in the past, can you describe how the DSR is
17 consistent with that stated purpose?

18

19 (BRIEF PAUSE)

20

21 MR. DONALD PALMER: The -- the \$116
22 million and the \$120.4 million are very close to the
23 maximum levels that have been prescribed by the Public
24 Utilities Board. So in terms of amounts in excess of
25 that maximum, I don't know that it is even proper to call

1 that Rate Stabilization Reserve. It's excess RSR, excess
2 retained.

3 So I don't think or -- amounts in excess
4 of that, I don't know that the statement of protection --
5 protecting motorists from rate increases made necessary
6 by unexpected events, don't think that protection
7 necessarily applies to amounts in excess of the RSR
8 that's prescribed by the Public Utilities Board.

9 MS. CANDACE EVERARD: Historically
10 though, haven't excess amounts in the RSR have been dealt
11 with by way of a rebate rather than rate reduction?

12 MR. DONALD PALMER: Once they're there,
13 yes. And -- and we have applied for decreases on a going
14 forward basis when we saw that there was going to be a
15 net income that would add to the RSR, we have reduced
16 rates so the RSR doesn't get into those excessive levels.

17 MS. CANDACE EVERARD: So your evidence
18 and the Corporation's view isn't that the DSR is a draw
19 in the RSR for something other than its stated purpose,
20 but rather the funds that are being drawn, for lack of a
21 better word, are not properly RSR funds to begin with it.

22 Is that where you're coming from?

23 MR. DONALD PALMER: By this rate
24 reduction we're -- we're ensuring that those excess funds
25 won't be there so they don't have to be drawn down

1 through some other means.

2 MS. CANDACE EVERARD: Okay. That brings
3 me to the question and answer from the Information
4 Request exchange at Number 12, which deals with this very
5 issue.

6 In particular I'm looking at the response
7 to 12 Sub B, the first paragraph which deals with the
8 overall financial impact and the Corporation's view of
9 the DSR. And the final sentence in that paragraph reads:

10 "There is no 'draw' [in quotes] on the
11 RSR."

12 Can you elaborate on that statement being
13 made by the Corporation, with reference to the content of
14 TI-2 in the Application. In other words, bring the two
15 (2) together for me.

16

17 (BRIEF PAUSE)

18

19 MR. DONALD PALMER: Looking at page TI --
20 TI-2 at -- with DSR, the Rate Stabilization Reserve
21 balances are shown in the middle of the page. So for the
22 end of 2007/'08, we were at \$127 million. The forecast
23 for the end of '08/'09, \$121.7 million. And then
24 projected to be 116.3 million, decreasing to 107 -- 108
25 million for 2010/'11, back up to 117, and then on to 150

1 in '12/'13.

2 The -- the balances for each one of those
3 years are either in excess or in the upper part of the
4 range of the RSR target range, as set by the PUB. So in
5 -- in terms of -- of drawing down the RSR, we're well in
6 the range so -- so we don't look at that as a -- as a
7 draw. I suppose you could argue in '10/'11, you have a
8 loss of \$8.3 million, you might characterize that as a
9 draw, but then is made up by net income for the policy
10 year in the following year of \$9.5 million.

11 So -- so in that first full year of DSR
12 operation, there is no draw. Comparing that to the RSR
13 statements in -- on the next page, the retained earnings
14 without DSR, on a going forward basis everyone of those
15 numbers from '10/'11 and beyond is in excess of the RSR.
16 So would be -- there would be some required action,
17 either rate decreases that net incomes would decrease on
18 a going forward basis, or if we kept rates the same,
19 likely that would signify or signal rebates for those
20 particular years.

21 MS. CANDACE EVERARD: So from -- if I
22 understand what you're saying, Mr. Palmer, the
23 perspective of the Corporation is that when we compare
24 the with-DSR number son page 1 to the without-DSR numbers
25 on page 2, the fact that the with-DSR numbers are smaller

1 consistently does not constitute a draw on the RSR?

2 MR. DONALD PALMER: That's correct. It -
3 - it is an indicator that there is a lower rate level in
4 the with DSR numbers.

5 MS. CANDACE EVERARD: Now the Board asked
6 a pre-ask question with respect to the RSR; that was
7 number 4. If I could ask you to have a look at that
8 answer.

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: I have it.

13 MS. CANDACE EVERARD: So the answer to
14 Pre-Ask Number 4 is the with-DSR schedule relating to the
15 RSR, but it has included in it, not only the Board's RSR
16 target range but also the Corporation's internal RSR
17 target range?

18 MR. DONALD PALMER: That would be 50 to
19 100 percent of MCT, yes.

20 MS. CANDACE EVERARD: Right. And it
21 would appear that for the four (4) years commencing with
22 the current year, 2009/'10, and ending with 2012/'13, the
23 projected RSR balance at year-end will be less than the
24 Corporation's internal range. Meaning less than the
25 bottom end of the Corporation's internal range. I'm

1 looking at the 116.3 million in 2009/'10, compared with a
2 bottom-end in the Corporation's eyes of 130 million, and
3 so on.

4 MR. DONALD PALMER: And -- and I would
5 also point out that the top of the PUB range is also
6 below the bottom of the target range, yes.

7 MS. CANDACE EVERARD: I know, but that's
8 not what I'm asking you about right now.

9 So, do we agree with -- with the
10 proposition that the year end balance for those four (4)
11 years is less than the bottom-end of the Corporation's
12 range?

13 MR. DONALD PALMER: Yes, I will agree.

14 MS. CANDACE EVERARD: Now, CAC/MSOS asked
15 an Information Request on the issue of the Corporation's
16 view of what the RSR balance should be. That was Number
17 2. You don't necessarily need to go there, but you can
18 if you want.

19 In -- in essence, the Corporation, when
20 asked about its view of the appropriate size of the RSR
21 and whether that had changed since the last GRA, said
22 that it was further investigating the issue of the size
23 of the RSR and will likely be addressing this issue at
24 the 2010 GRA.

25 Can you comment on that further?

1 MS. MARILYN MCLAREN: Through -- through
2 the discussions at the last proceedings, the Corporation,
3 I believe, went on the record to say that -- that it,
4 too, as -- as the PUB, itself, the Board has stated,
5 believes it's in the public interest to -- to resolve
6 this divergence of -- of views, with respect to that.

7 I can tell you what -- what we're doing
8 within the Corporation right now began some time ago; is
9 -- is determining whether or not there are alternative
10 and -- and appropriate ways to assess the risk, the
11 financial risk, that the Corporation faces. That's
12 really what the RSR is all about, is in terms of finding
13 the -- the appropriate mechanism to provide Manitobans
14 with the rate stability that they really rely on.

15 So we're -- we're -- the Corporation's
16 first objective is: Is there a different way to assess
17 that financial risk? We -- we are not, sort of,
18 beginning the process to say, Okay, how can we propose to
19 move closer and -- and get rid of this divide, so to
20 speak?

21 So that's what we're doing. And that work
22 is underway, just as the forecasting is underway, just
23 as, you know, we have all of that year-end work. We
24 really need the year-end wor -- so it's all coming
25 together. It's not yet done.

1 But I would just confirm the statement in
2 that Response to -- to CAC/MSOS, that we expect we will
3 have something new on the subject to bring forward in the
4 application.

5 MS. CANDACE EVERARD: Thank you. I'm
6 going to ask you to turn now to Question 22, posed by the
7 Board in the First Round, which also deals with RSR
8 balance. And Attachment A, in particular, is where I'd
9 ask you to look. And that's the first Attachment A. It's
10 the 1-22 Sub A, Attachment A, as opposed to the Sub B,
11 Attachment A.

12 MR. DONALD PALMER: I think I'm with you.

13 MS. CANDACE EVERARD: Hope so. So, this
14 schedule just go -- takes us out another year. It goes
15 out to 2013/'14, and it would appear provides that -- at
16 this point, it's projected that -- or forecasted, rather
17 -- that as of the end of that particular fiscal year, the
18 RSR balance looks to be about 201.8 million.

19 Is that right?

20 MR. DONALD PALMER: That's what the
21 schedule shows, yes.

22 MS. CANDACE EVERARD: And this is with
23 DSR, and that would -- as reflected on the face of the
24 schedule, if that were to materialize, put the RSR well
25 above the Board's range for that year, which is set to

1 top out at 132 million.

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE EVERARD: And actually it
4 looks that the projected RSR balance, even in the
5 previous year, 2012/'13, is set to -- or projected to
6 top-out the Board's range by exceeding it by some 24
7 million.

8 MR. DONALD PALMER: Yes.

9

10 (BRIEF PAUSE)

11

12 MS. CANDACE EVERARD: For this four (4)
13 year period that we've been talking about, that is
14 between 2009/'10 and 2012/'13, does the Corporation have
15 a plan, or has it given any thought to what would happen
16 if there's an event or series of events that would lead
17 to a decrease of the RSR balance, to take it below even
18 the Board's bottom end range, like a hail storm, or a
19 series of hail storms, or whatever scenario you want to
20 imagine.

21

22 (BRIEF PAUSE)

23

24 MR. DONALD PALMER: Any RSR rebuilding
25 strategy that we would employ would depend on the

1 circumstances at the time, whether the draw or the reason
2 that we went below the bottom end of the PUB was a one
3 (1) time event, like, catastrophic, or -- or whether it
4 was the result of some other economic activity like
5 higher inflation, your remedial action could include just
6 an RSR surcharge on rates. It could include both an RSR
7 surcharges and -- and a regular rate increase.

8 We have seen, during my tenure at MPI,
9 probably both of those -- those happen. In the mid
10 1990s, we saw the RSR dip below zero. There was RSR
11 surcharges that were put in on a gradual basis, so we put
12 in an RSR surcharge of 2 percent in the first year, and
13 then an additional 2 percent in the second year, and then
14 an additional 1 percent in the third year, in order to
15 replenish the -- the RSR.

16 So the projections that we have don't
17 include that -- that eventuality, and we would address
18 that sort of on a -- on a case-by-case basis, as what we
19 thought the best solution was at the time.

20 MS. MARILYN MCLAREN: But maybe a little
21 bit more specifically related to the outlook that you's
22 referencing here, Attachment A, of Sub A, PUB/MPI-1-22.

23 If -- trying to keep the rolling twenty
24 (20) month two (2) year periods, that if, for example, we
25 were preparing an application for the '12/'13 year and a

1 status quo revenue requirement and -- and claims forecast
2 looked like it was going to produce a \$33 million -- or
3 \$51 million net income for that year, which is the income
4 shown in the '13/'14 year, which is the income for the
5 previous year, which is the rate at for '12/'13 we're
6 talking about.

7 If instead of \$150 million the RSR was at
8 \$50 million, a legitimate approach to consider would be
9 to apply for a status quo rate application, not reduce
10 rates to avoid the net income of \$51 million, but leave
11 rates where they otherwise already were and apply for the
12 use of those rates to rebuild the RSR.

13 So given the numbers that we were looking
14 -- here, that may very well be a legitimate approach, but
15 who knows where will be when. But in terms of this
16 particular outlook and projection that might be
17 reasonable if that happened at some point.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE EVERARD: We've heard
22 evidence about the Corporation's view that this rate
23 decrease -- sort of in lieu of a rate decrease, the DSR
24 is being proposed and that the idea is that the savings
25 accrue to the best drivers rather than across the board

1 as a normal rate decrease would.

2 Does the Corporation have a view on
3 distribution of any future premium rebates that may arise
4 in the normal course, and whether if that were to occur
5 those should be distributed according to DSR rating, as
6 opposed to across the board as has been done in the past?

7 MR. DONALD PALMER: First, let me correct
8 you, Ms. Everard. Generally, rate decreases are not done
9 on an across-the-board basis; they are done specifically
10 with regard to individual classification cells. So for
11 example, in 2007 we had a 2 percent -- 2.6 percent
12 average rate decrease, but some Manitoba motorists got an
13 increase. More got decreases. Certainly more got
14 decreases that were -- the decrease is greater than 2.6
15 percent.

16 So depending on the past historical
17 experience of those particular classification cells, that
18 would be the indicator of the individual rate changes
19 that occurred, so not done on an overall basis. With
20 regard on a going-forward basis, we would take the same
21 approach and -- and say -- but add one (1) more variable
22 into the mix and that's DSR levels and DSR rates.

23 In general, over the last ten (10) years
24 for -- for sure we haven't looked at the driver premium
25 in too much detail. We haven't looked at the discount --

1 the vehicle discount levels. We haven't looked at
2 necessarily the surcharge levels. I would anticipate
3 that would change over the -- the next number of years.

4 And -- and we've already indicated to the
5 Board that we're looking at increasing the maximum
6 vehicle discount rate over the next number of years to 27
7 1/2 percent and then to 30 percent. That becomes part of
8 our -- or will become part of our regular annual rate-
9 setting exercise, as to the distribution of rate
10 decreases and whether they will be giving, in terms of
11 lower rates, for pleasure cars in Winnipeg, or whether
12 they'll be given to DSR Level 12 drivers.

13 It will be certainly part of the rate-
14 setting balancing exercise in -- in which we get the
15 required overall level of revenue.

16 MS. MARILYN MCLAREN: Ms. Everard, that -
17 - that was the actuary always looking well into the
18 future. I think your question was also focussed on what
19 might a future rebate look like if we ever had too much
20 money in the RSR. That's sort of a retrospective view of
21 the world.

22 First, I think it's -- it's fair to say
23 that the Corporation sees little opportunity for rebates
24 in the -- in the foreseeable future. I think one (1) of
25 the large drivers of past rebates, I think that's been

1 mentioned in -- in orders of this Board, related to the
2 taking of gains in the equity market. That hasn't
3 happened for about two (2) years now, not necessarily
4 because of the economic circumstances, but the
5 Corporation has -- has not chosen to -- to do that within
6 the last couple of years.

7 And I think as we continue to improve the
8 -- the forecasting processes and the relationship between
9 rates charged and risk presented and -- and dealing with
10 some of the things on the PIPP side of things,
11 significant excess revenue from forecast is becoming less
12 and less likely.

13 So having said that, if we find ourselves
14 in the position of having to figure out what to do about
15 rebates, we may very well think about it differently. We
16 might. But there -- there are different ways to think
17 about it and -- and we may choose to think about it
18 differently.

19 I can tell you SGI has done it differently
20 than we have. They've rebated excess funds in their RSR,
21 calculated by base rates; not the rates that people
22 actually pay but -- but by the base rate. So if
23 someone's entitled to a 20 percent discount, they would
24 in effect get a rebate calculated on the base rate, not
25 the discounted 20 percent rate that they actually paid.

1 So they're targeting some of that excess rebate to their
2 best drivers.

3 There's more than one (1) way to do it.
4 We may very well in the future if we find ourselves in
5 that situation come back with exactly the same approach,
6 as we have previously. We -- we may not. But I think we
7 don't expect to find ourselves in that situation any time
8 soon, but we'll have to figure it out and see what we
9 come to the Board with if we get there.

10 MS. CANDACE EVERARD: And if there was a
11 situation that arose where a premium rebate was on the
12 horizon, the Corporation, I think by what you're saying,
13 would have the ability to track and distribute funds
14 according to DSR level?

15 MS. MARILYN MCLAREN: Yes, we -- we could
16 do that. Yeah.

17 MS. CANDACE EVERARD: Now looking back at
18 Attachment A, to 1-22 Sub A --

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

21 MS. CANDACE EVERARD: Sure. I just want
22 to look back at Attachment A to 1-22(a). It's the same
23 one we've been looking at.

24 The RSR projected balances reflected here
25 include or reflect the impact of not just the DSR but

1 also of the streamline renewal process?

2 MR. DONALD PALMER: Yes.

3 MS. CANDACE EVERARD: Can you tell us
4 whether there are any other changes to the forecasts
5 reflected in this document from those presented at the
6 last GRA, other than the DSR and SRP?

7 MR. DONALD PALMER: And the start of --
8 from a different base, again, these would be generated
9 from the results that were generated from the Q3 results.
10 So -- and we talked about that a little bit this morning,
11 that adjusted forecast.

12 MS. CANDACE EVERARD: And Q3 means
13 Quarter 3?

14 MR. DONALD PALMER: Yes.

15 MS. CANDACE EVERARD: Okay. Looking at
16 Attachment B for a moment, so just the very next page,
17 this is Attachment B to 1-22 Sub A.

18 And just to do a little comparison between
19 Attachments A and B -- A being the with-DSR, and B being
20 without-DSR -- we see that if we look at the very last
21 year reflected in the outlook period 2013/'14, the with-
22 DSR anticipated balance is 201.8 million and the without-
23 DSR balance for the same year is 255 million?

24 MR. DONALD PALMER: That's correct.

25 MS. CANDACE EVERARD: So that's a

1 difference of about 51 million? Sorry, 54.

2 MR. DONALD PALMER: That's correct.

3

4 (BRIEF PAUSE)

5

6 MS. CANDACE EVERARD: So I take it, based
7 on the evidence that's been given over the course of this
8 proceeding, that it's the Corporation's view that the
9 impact of the DSR on the RSR will not serve to weaken the
10 financial position of the Corporation.

11 MR. DONALD PALMER: That's correct.

12 MS. CANDACE EVERARD: Okay, continuing
13 with Question 22. I now want to ask you to turn the page
14 and look at Attachment A to 122(b). This schedule
15 provides a bit more detail in that it breaks out the
16 detail of net income pre-DSR, DSR, and the streamline
17 renewal numbers.

18 Is that correct?

19 MR. DONALD PALMER: That's correct.

20 MS. CANDACE EVERARD: So if I'm reading
21 this correctly, if we look at the year 2009/'10, the year
22 that we're in, Basic's net income would have been about
23 2.6 million -- sorry, that would have been a \$2.6 million
24 net loss to Basic, but with the implementation of DSR, as
25 reflected on this schedule, the net loss moves to about

1 6.3 million.

2 Is that right?

3 MR. DONALD PALMER: That's correct.

4 MS. CANDACE EVERARD: And then in the
5 next year, which will be the subject of the GRA to be
6 filed in June, the 2010/2011 fiscal year, the -- there
7 was projected income, positive income, to Basic of some
8 7.5 million, but taking into account the DSR, and as
9 well, the modest commission savings in that year, the --
10 at the end of the day, the current projection is a net
11 loss of 8.3 million.

12 Is that right?

13 MR. DONALD PALMER: That's correct.

14 MS. CANDACE EVERARD: If we look across
15 the DSR row in this schedule, from 2009/'10 through to
16 2013/'14 -- so I'm looking at the three point seven
17 (3.7), the sixteen point five (16.5), the twenty-three
18 (23), et cetera -- if we add those together, it appears
19 to give a total underwriting loss of some 90.8 million,
20 if we just add those figures together.

21 Does that look about right?

22

23 (BRIEF PAUSE)

24

25 MR. DONALD PALMER: I would agree with

1 that.

2 MS. CANDACE EVERARD: Okay. Just a
3 couple of questions while we're discussing the RSR, with
4 respect to the Dynamic Capital Adequacy Test or the DCAT.

5
6 Does the Corporation believe that the
7 implementation of DSR will expose it to any new sources
8 of risk?

9
10 (BRIEF PAUSE)

11
12 MR. DONALD PALMER: We -- we're talking
13 about -- in terms of -- of driver premiums, specifically
14 -- about \$30 million. So, there may be some risk --
15 especially when you implement a -- a new program -- there
16 could be some risk that your outcomes won't be what you
17 expect. That's one (1) -- one (1) of the risks of
18 development of any new program, I suppose.

19 Would that be big enough to be one of the
20 top three (3) adverse scenarios in the DCAT? I doubt it.
21 I suppose it's possible that -- if we were that much
22 different in -- in -- in our projections and what our
23 prospective modelling has been. But it -- it's hard to
24 me -- for me to imagine a scenario that there is huge
25 adverse consequences, of the risk of -- of DSR. So I will

1 say almost certainly not, but I'm gonna leave myself that
2 much of an opening, being a still -- a conservative,
3 careful actuary.

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: Couldn't it be argued
8 that it actually reduces the overall risk, because it
9 provides the Corporation with more options, with respect
10 to the scale of difference between merit and demerit?
11 More flexibility?

12 MR. DONALD PALMER: There is more
13 flexibility in terms of management reaction to some of
14 the -- those risks. I don't know that it necessarily
15 reduces the risk itself.

16 MS. MARILYN MCLAREN: Or maybe we're
17 talking the difference between inherent risk and residual
18 risk. The -- and inherently, the risk is the risk, but
19 based on some of the management options, the residual may
20 be somewhat lower.

21

22 CONTINUED BY MS. CANDACE EVERARD:

23 MS. CANDACE EVERARD: Just for the
24 purposes of the record, can you confirm when the Board
25 last saw a DCAT report from the Corporation?

1 MR. DONALD PALMER: There was one (1)
2 filed at the last proceedings. I think it was for -- not
3 the previous year-end, but the one before that. I'll
4 have to double-check on that.

5 MS. CANDACE EVERARD: I'm not trying to
6 test your memory, so if you could double-check, that
7 would be appreciated.

8 MR. DONALD PALMER: There definitely was
9 one (1) that was filed at the last proceedings.

10 MS. CANDACE EVERARD: Do you remember if
11 it included any information relative to DSR?

12 MR. DONALD PALMER: No, it would have --
13 would not have.

14 MS. CANDACE EVERARD: When does the
15 Corporation anticipate the Board will see an updated
16 DCAT?

17 MR. DONALD PALMER: At the next GRA.

18 MS. CANDACE EVERARD: And presumably,
19 that will include reference to DSR?

20 MR. DONALD PALMER: The DSR will be
21 incorporated into the base scenario, yes.

22

23 (BRIEF PAUSE)

24

25 THE CHAIRPERSON: While they are

1 conferring I'm just returning to this risk business, just
2 in conceptual terms.

3 Could it be argued that your assumption
4 with respect to claims cost, which is no effect of the
5 DSR, is actually presumably the worst case scenario?

6 Vis-a-vis the DSR. How could the DSR lead
7 to a worsening in claims experience?

8 MS. MARILYN MCLAREN: I think it's
9 unlikely that it would lead to a worsening. There is the
10 possibility that people in the upper reaches of the merit
11 schedule will decide that the financial impact of filing
12 a claim is lower than it otherwise would have been and
13 maybe they'll file claims.

14 I don't think that's much of a risk. We
15 did see that though. I think it was the year, 2001, when
16 we stopped taking away the full merit discount from long-
17 term safe drivers who had their first at-fault accident,
18 and instead charged them the \$200 surcharge on the first
19 in a long time. The accident frequency of that group
20 increased.

21 So I think, again, that comes back to the
22 difference between accident frequency and claiming
23 frequency. The accidents I'm sure were there. I don't
24 think they started driving worse. I think they started
25 filing, probably for the most part, less -- less severe

1 claims. But -- but we do have a little bit of history
2 where the program design can make people come forward
3 with claims that seems they otherwise didn't.

4 THE CHAIRPERSON: Interesting, thank you.

5

6 CONTINUED BY MS. CANDACE EVERARD:

7 MS. CANDACE EVERARD: Ms. McLaren, just
8 following on your exchange with the Chairman, what about
9 the converse scenario, where an individual just does not
10 insure the vehicle and then still has a claim? They
11 choose not to insure because of a high premium, but then
12 there are still some kind of collision and claims cost
13 that flow from that.

14 MS. MARILYN MCLEAN: That's always a
15 possibility. I think the design of the program, you
16 know, the -- the integration with registration, makes
17 that less likely here than in other jurisdictions. You
18 don't have a plate, you don't have a sticker, you -- you
19 have to register the vehicle.

20 We do have, you know, some level of
21 enforcement, with respect to unlicensed drivers driving
22 vehicles. Clearly, there's no coverage for the vehicle
23 when someone knowingly gives their vehicle to someone
24 without a driver's licence, so there's no claims cost
25 there. But, clearly, if there are other injured people

1 or -- or damage to another party's vehicle, those would
2 be costs that the fund bears.

3 That's one (1) of the considerations;
4 again, the public policy perspective versus the actuarial
5 science of where is the top and where is the bottom. You
6 can't price people out of the market. It's very
7 important that drivers stay engaged. It's one (1) of the
8 things that -- that, years ago, as long as -- 1971, lead
9 the Government to create the -- how do you wear off
10 demerits, and -- and, again, is included in the
11 regulation, kind of the same idea: How do you wear off
12 those demerits? Trying very hard from, you know, the
13 Government's perspective to keep people engaged, keep
14 people part of the program.

15 THE CHAIRPERSON: Don't you have that
16 problem with the auto theft, with youth stealing cars,
17 damages; they do not pay off the debt owing to MPI,
18 presumably?

19 Don't you have that problem of
20 disengagement?

21 MS. MARILYN MCLAREN: Absolutely.
22 Particularly the problem --

23 THE CHAIRPERSON: Does the DSR help at
24 all with this? I realize that you have the opportunity
25 to provide some form of relief.

1 MS. MARILYN MCLAREN: You know, there are
2 -- in -- in the driver licensing system there are
3 probably a handful -- well, more -- you know, describe
4 handful -- several dozen young people who have never had
5 a driver licence, who have been convicted of stealing
6 many cars and have all kinds of demerits. We -- we do
7 know that -- that important tool in helping young,
8 disconnected, disenfranchised people, to sort of become
9 productive members of society is a driver licence. It
10 offers employment. It offers all kinds of things.

11 There may be opportunities there, in terms
12 of getting rid of those demerits through the, you know,
13 the accelerated process that's specified in the
14 regulation.

15 I think we always as -- as, you know, the
16 public insurer, we have always had claims that are paid
17 that we never -- didn't get a premium for or cannot
18 subrogate and so on. So that -- that's always been
19 there. This doesn't increase the likelihood of that
20 unless the rates charged on that demerit side of the
21 scale really encourage people to opt out. That's where
22 the risk would be on that side of things.

23 THE CHAIRPERSON: I will have to reflect
24 on that. What I was getting at was whether or not there
25 was any opportunities in the DSR to allow, or to further

1 rehabilitation, if you like, of people that have
2 basically fallen out of the system, because of their
3 practices as youths.

4 MS. MARILYN MCLAREN: There -- there's
5 some of that that's always been part of the system
6 though. I mean, I think the -- clearly, this system,
7 itself, is designed for -- for people who are engaged,
8 who are active participants in the vehicle insurance and
9 the driver licence system, clearly. I think the
10 Corporation has considered and actually had a look at one
11 (1) opportunity that came by fairly recently to help some
12 of these people re-engage.

13 It's probably not significantly enhanced
14 with the Driver Safety Rating System, because these are
15 people who have had their licences suspended or never had
16 a licence. They have a bunch of demerits in the existing
17 system. And we've looked at -- at some programs with
18 some of the agencies that are helping to foster sort of a
19 -- training and employment, and -- and see if there's
20 something we can do to get them into the system.

21 I -- I think that is part of what we do,
22 and I don't know that it's significantly enhanced with
23 the change to the, you know, Bonus-Malus structure.

24 THE CHAIRPERSON: Thanks. I was just
25 wondering because I was thinking as the success goes on

1 with the anti-theft campaign, eventually you get down to
2 the flat line, so to speak, of the incidents of theft,
3 which presumably is considerably less than what was the
4 experience that led to the program. And then you're left
5 with hundreds of people presumably that have participated
6 a theft that have grown past that now, but are
7 disassociated with normal driving and licensing, and a
8 lot of things that come with life.

9 MS. MARILYN MCLAREN: I think that's
10 true. One (1) of the things that we do need to learn
11 about: There -- there's been some research showing that
12 people who don't obey traffic laws tend not to obey any
13 laws. So there is a -- a fairly strong, you know,
14 broadly speaking criminal element down there at the
15 bottom of the demerit scale. Some of those certainly
16 would have been auto theft, in -- in our context.

17 I think the thing that makes Manitoba a
18 little bit different from a broad statement about, you
19 know, who is having all these convictions, is the extent
20 to which the auto theft problem here was driven by youth.
21 And I think that's something that we'll always inform the
22 programs we decide to support, the initiatives that we
23 decide to take part in -- is very important for us, in --
24 in this community, you know, to stay very focussed on
25 what can we do to -- to help the youth.

1 It -- it's not necessarily the same in
2 other places.

3 THE CHAIRPERSON: I was just recalling
4 your comments many, many applications ago, when you were
5 advancing the whole idea of the Immobilizer Fund and all
6 the rest of it, and you cast a sort of a wide net of the
7 social considerations related to auto theft. And that's
8 what I was basically pursuing.

9 As you come out of that problem, through
10 efforts, I was just wondering what do you do with the
11 basically the ones that have engaged in it again. So
12 just on that, whether you continue to give thought now
13 that you don't have the problem, or is the problem -- at
14 least it's becoming less and less over time.

15 MS. MARILYN MCLAREN: No, I -- I think
16 that's fair. And I think that is part of, you know, the
17 capacity the -- the way this program works that we can
18 look to do things like that.

19 One (1) of the things in all honesty that
20 we're looking at -- and again, you probably will see more
21 in -- in June -- is -- so if the Corporation's risk
22 related to theft is -- is diminishing to the point where,
23 you know, structured programs are not required to deal
24 with it, are -- are there other kinds of risk that the
25 Corporation would face from -- to a significant extent

1 maybe some of the same kids.

2 You know -- I mean, what -- what's
3 happening in that broader context in a way that -- that
4 MPI may have a need or desire to help mitigate other
5 situations that can cost us money on the claims front,
6 and -- and can hurt us, as is -- active and contributing
7 Corporation to sort of the fabric of this community.

8 THE CHAIRPERSON: Thank you.

9 Ms. Everard...?

10

11 CONTINUED BY MS. CANDACE EVERARD:

12 MS. CANDACE EVERARD: Thank you, Mr.
13 Chairman. I'm just going to move into a bit of a -- a
14 different area and I have a few questions on and -- then
15 before the lunch break.

16 Does the Corporation agree that in
17 assessing rates for service the Board should have a look
18 at the overall financial well-being of the Corporation?

19 MS. MARILYN MCLAREN: No, actually. We
20 understand that this Board has taken that position for a
21 long period of time. We -- we've acknowledged that but
22 we've not agreed or -- or supported it.

23 We're not sure where that takes us. I can
24 remember in years past, Mr. Galenzoski posing some of
25 those questions through time. Where does that take us if

1 in fact the basic program is -- is strong and financially
2 sound but other parts the Corporation aren't? Do you do
3 something different with basic rates? Do you give us a
4 different basic RSR?

5 I'm not sure where that takes us, so I
6 think this -- especially when you consider the fact that
7 the basic compulsory program is 80 percent or more of the
8 financial position of the Corporation, the activities of
9 the Corporation. I'm -- I'm not sure where that
10 perspective would actually play out in -- in the
11 regulatory process, according to -- that we have here
12 with the Basic compulsory program.

13 MS. CANDACE EVERARD: Okay. And we'll
14 come back to that in a second.

15 In the round of Information Requests the
16 Board asked that the retained earnings for Extension an
17 SRE be provided -- this is at 1-22 Sub C -- and the
18 response was that these retained earnings are not germane
19 to the Application.

20 Do you have anything to add as to the why,
21 behind that answer, beyond what you've already said?

22 MS. MARILYN MCLAREN: No, not -- not
23 really beyond what we've already said. The annual report
24 that the Corporation publishes is a -- is a corporate
25 document. Detail is broken out there. You have the one

1 from the last fiscal year. Another one will be tabled in
2 the legislature in June. You'll have that -- he'll have
3 that one. That's the way we've dealt with this for the
4 last number of years, is -- that is public information,
5 it's on the record, and that's what we are able to
6 discuss in these proceedings.

7 MS. CANDACE EVERARD: So the financial
8 information that will be coming forward within a week or
9 so will not include anything with respect to an Extension
10 or SRE?

11 MR. DONALD PALMER: It -- it will be
12 corporate.

13 MS. CANDACE EVERARD: So it will --

14 MR. DONALD PALMER: Yes.

15 MS. CANDACE EVERARD: So I take it then,
16 based on the oral evidence that we've just heard, that
17 the Corporation is maintaining its answer in 1-22 Sub C
18 and is basically refusing to provide the information
19 that's being requested right now?

20 MS. MARILYN MCLAREN: Yes.

21 THE CHAIRPERSON: Your assets are
22 commingled, are they not? Like, there is no such thing
23 as Basic investments?

24 MR. DONALD PALMER: That's correct.

25 THE CHAIRPERSON: So some things are

1 desperately gone wrong in Extension or SRE or something
2 like that, and you had to liquidate investments that
3 would affect Basic as much as the other divisions,
4 correct?

5

6 (BRIEF PAUSE)

7

8 MR. DONALD PALMER: No. I -- I wouldn't
9 necessarily agree with that. If you had to liquidate
10 assets, I guess it would depend on what assets you
11 liquidated. There could be a positive or negative effect
12 of that.

13 Something desperately wrong that happened
14 to Extension and SRE, again with the relative size of
15 those -- those divisions compared to Basic, our Basic
16 revenue, as Ms. McLaren pointed out, is about 80 percent
17 of total corporate revenue. So again, to -- to say that
18 there would be something that wrong really would be the
19 tail wagging the dog. It's difficult for me to say that
20 there'd be a huge impact on Basic from -- from what
21 you've described.

22 THE CHAIRPERSON: The investments are
23 commingled so the asset mix of the investment portfolio
24 is done on a corporate-wide basis, correct?

25 MR. DONALD PALMER: Yes.

1 THE CHAIRPERSON: And the nature of
2 Extension and SRE is not identical in all characteristics
3 to that of Basic, is it?

4 MR. DONALD PALMER: No. I would say that
5 in terms of claims liabilities, for instance, Basic
6 probably has a longer tail because of the long-term
7 nature of PIPP benefits.

8 Extension would be very short tail. Most
9 of -- I'm thinking about 75 per -- 80 percent of the
10 Extension premium is likely deductible buy-down. That's
11 our biggest product, which would be very short -- short
12 tail Extension -- would be split between the physical
13 damage and liability which would be medium tail.

14 THE CHAIRPERSON: Yes, I was thinking
15 along the same lines on that point. I mean, the matching
16 of terms of assets and liabilities would differ between
17 Basic and Extension and SRE?

18 MR. DONALD PALMER: Yes.

19 THE CHAIRPERSON: Hm --

20 MS. MARILYN MCLAREN: Sorry, Mr.
21 Chairman, if I could. The portfolio is a corporate
22 investment portfolio. It doesn't necessarily mean that
23 each and every purchase or sale has to be handled that
24 way. There was a time a while back when we were -- we --
25 we designated some investments to fund the increase of

1 the remaining Part 2 accident benefit claimants after we
2 moved into the PIPP environment.

3 So -- and -- and there's constant change
4 in the investment portfolio. You know, bonds -- bonds
5 come and go, equities come and go. There would -- there
6 would be nothing that would prevent us, if we somehow had
7 this catastrophic event in one (1) of the competitive
8 lines, that -- that needed some cash to take some of the
9 ongoing turnover of the portfolio for that purpose. It
10 would have no effect on other lines.

11 THE CHAIRPERSON: I'm just thinking, as
12 you are through this, I mean, right now there are no
13 assets specifically designated as being Basics'
14 investments, as opposed to a commingled situation?

15 MR. DONALD PALMER: The -- the last time
16 we had earmarked investments was probably about five (5)
17 years ago.

18 THE CHAIRPERSON: And what happens to
19 Basic and vice versa, so to speak? If changes occur in
20 Basic, for example, if the deductible jumps, it also
21 affects what happens potentially in your marketing of
22 your Extension productions, does it not? In other words,
23 you would have an opportunity to generate profits in
24 Extension if you did something with Basic, is that not
25 true?

1 MR. DONALD PALMER: I -- I certainly
2 remember an increase in deductible in Basic that
3 generated huge losses in Extension. So depending on
4 coverage, depending on what rate impact you may take, it
5 could affect you either way.

6 THE CHAIRPERSON: Yes, that's all I was
7 getting at, is there could be an effect on the if you
8 want to call it competitive lines by something that
9 happens to Basic or vice versa, so to speak. They affect
10 each other.

11 MR. DONALD PALMER: I would agree that
12 Basic would affect Extension. The other way is certainly
13 less likely.

14 THE CHAIRPERSON: I'm sure we'll carry on
15 thinking about this.

16 Ms. Everard...?

17

18 CONTINUED BY MS. CANDACE EVERARD:

19 MS. CANDACE EVERARD: Thank you. I just
20 have a few more questions on this subject.

21 We've had evidence in past proceedings
22 about the percentage of Basic customers that are also
23 customers of Extension. Roughly where is that percentage
24 at present?

25 MS. MARILYN MCLAREN: Overall, probably

1 somewhere over 80 percent. It hasn't changed much.

2 MS. CANDACE EVERARD: I -- and I -- I
3 thought it was maybe closer to ninety (90). For some
4 reason I thought maybe eighty-eight (88) but I'm just
5 going by my memory.

6 Does that sound about right?

7

8 (BRIEF PAUSE)

9

10 MS. MARILYN MCLAREN: It's generally in
11 the ballpark. We don't have it in front of us right now.
12 It depends how you slice and dice it, too.

13 MS. CANDACE EVERARD: But the eighty-
14 eight (88) isn't completely out of line?

15 MS. MARILYN MCLAREN: Probably not.

16 MS. CANDACE EVERARD: Okay. Now, we know
17 that in the Board's last order, following on the GRA from
18 -- that was conducted in -- or the hearing that was
19 conducted in 2008, there were some statements in the
20 order, with respect to the Board's views on information
21 and Extension and I'm sure that -- that the panel's
22 familiar with those. Following on that order coming out
23 there was some media attention to the order, naturally,
24 and there was a statement made that was quoted in a -- in
25 an article by the Minister, Mr. Chomiak, something to the

1 effect that he would leave it up to the Corporation and
2 the Board to work this issue out, this issue of the Board
3 seeking information -- certain information with respect
4 to Extension and SRE and the Corporation not providing
5 it.

6 Is the Corporation familiar with the
7 statement that I'm referring to from the Minister?

8 MS. MARILYN MCLAREN: We saw those same
9 media reports, sure.

10 MS. CANDACE EVERARD: Does that statement
11 by the Minister in any way change the Corporation's
12 perspective with respect to these matters, or is it the
13 evidence that regardless of that statement the
14 Corporation's position is the exact same?

15 MS. MARILYN MCLAREN: Well, we responded
16 to the Information Request well after the Minister's
17 comments. There's a great deal of discussion around, not
18 only the Order itself, but, in no small part, the -- the
19 news release and -- and news follow-up that took place
20 when that Order was released.

21 In my view, some of the back and forth
22 that -- that went on, excluding comments by the Minister
23 -- I'm not talking about comments from the Minister at
24 all -- but some of the comments and quotes and so on that
25 went on, put the Corporation in a very awkward position.

1 At no time -- at no time has -- has this
2 Board ever suggested that the Corporation is doing
3 anything other than complying with the legislation as it
4 exists. And it was -- it was very difficult
5 characterization of the situation that was played out in
6 the media that has -- I have a real concern with that.
7 And -- and I'm not sure how best to address that.

8 When you -- when you are complying with
9 the legislation -- where there is no question on anyone's
10 part that we've ever been told that we're doing anything
11 other than complying with the legislation. I mean,
12 that's one (1) of the things that happened subsequent to
13 the Minister's comments, is we had a look at it and
14 reviewed it and second-guessed ourselves and asked
15 others, and that was the continuing conclusion -- that --
16 we are complying with the legislation. Nothing
17 substantive has changed.

18 There has been conversation back and forth
19 over more than a decade, periodically, about what should
20 the jurisdiction be and what should the information be.
21 But I think, you know, the Corporation's made its
22 position clear. We -- you know, there's a process now in
23 place, actually, where the Auditor General asks our
24 external auditor to confirm whether or not the
25 Corporation is behaving and conducting itself consistent

1 with the applicable legislation. We work very hard at
2 that.

3 so I think this whole situation, when --
4 when, really, what -- what the Order has said in the last
5 couple of years, is that the Board believes its
6 jurisdiction ought to be expanded. That -- that we have
7 said we don't believe that, but that's not our issue. So
8 to be characterized as -- as some not cooperative and
9 withholding information, but at the same time being
10 characterized as fully complying with the legislation, is
11 -- is a very awkward position that we're very
12 uncomfortable with.

13 MS. CANDACE EVERARD: Ms. McLaren, you've
14 just described a -- a line of communication between, I
15 think -- did you say the Attorney General and the
16 external auditor that something that's new?

17 MS. MARILYN MCLAREN: No, I'm sorry, I
18 said the Auditor General. The Auditor General for the
19 Province of Manitoba asks our external auditor to -- to
20 confirm that. And I -- I believe that there is a note or
21 comment to that effect in legislation or in our annual
22 report, something to that. It's a standard process that
23 they use now with all Crowns and agencies that they
24 oversee.

25 MS. CANDACE EVERARD: So was that

1 something that's new to MPI? Or -- 'cause you just said
2 it's in effect now, and so that lead me to believe that
3 maybe it was something that was relatively new.

4 MS. MARILYN MCLAREN: Not -- not for a
5 long, long standing time, but it has been a few years.
6 And I believe we assisted in the testing of the process.
7 We were one of the first organizations to go through the
8 process, as requested by the Auditor General. But, no,
9 it is -- it is a broader process now. It's been in
10 place, I would suggest, for less than five (5) years --
11 I'd say, less than five (5) years.

12 MS. CANDACE EVERARD: And just so that
13 we're clear, you spoke about the jurisdiction of the
14 board being set out in the legislation, and certainly,
15 that's the case, and the issue that the Corporation does
16 not agree that that jurisdiction, set out in the
17 legislation, should be expanded.

18 But does the Corporation agree that
19 there's a distinction between that possibility or that
20 issue versus the Board's jurisdiction remaining the same;
21 that is, over rates for servi -- rates for service in
22 Basic, but the Board being provided with some
23 information, with respect to the other lines of business,
24 in order to carry out its duties over the jurisdiction
25 that it has.

1 Do -- do you appreciate the -- the
2 distinction that I'm trying to draw?

3 MS. MARILYN MCLAREN: Yes, I -- I do
4 appreciate that. And, you know, we -- we are constantly
5 using our judgment to provide the information that we
6 think is important and relevant to the Board's legislated
7 jurisdiction. Mr. Palmer just, you know, provided a fair
8 bit of detail about the Extension lines and the tail on
9 claims and so on; that's really not precisely within the
10 legislated mandate of the Board, but -- but we shared
11 that, because we are trying very hard to do as much as we
12 can to ensure this is an effective and -- and meaningful
13 process. But we're always cognisant of our
14 responsibilities to the competitive lines and the
15 legislation that we are obligated to -- to hold to.

16 MS. CANDACE EVERARD: And -- and just
17 following-up on that point, with respect to information
18 that the Corporation has provided or does provide.

19 Isn't it the case that a number of years
20 ago there was information certainly with respect to the
21 retained earnings of the competitive lines provided and
22 that that changed some number of years ago; maybe four
23 (4) or five (5) years ago the Corporation stopped
24 providing that?

25 MS. MARILYN MCLAREN: We -- and I don't

1 remember the context of that. I don't remember when we
2 started and I don't remember precisely when we stopped
3 it. Bit for some reason we started providing some
4 forecasts of net income and retained earnings to
5 competitive lines, and that -- we -- we no longer do
6 that.

7 But clearly anything that is in the public
8 domain is information that is available to this Board as
9 well.

10 MS. CANDACE EVERARD: Does the
11 Corporation agree that as a general principle were there,
12 in -- in a situation where there is uncertainty or --
13 complete information, that perhaps that should give rise
14 to some conservatism in action?

15 MS. MARILYN MCLAREN: Certainly one (1)
16 of the considerations is -- one of the realities of the
17 work that we are all asked to do is, you know, making
18 decisions with imperfect information. And we use our
19 judgment, the Board uses its judgment.

20 MS. CANDACE EVERARD: Mr. Chairman, I'd
21 suggest we have the lunch break now, if that's
22 acceptable.

23 THE CHAIRPERSON: Sounds like a good
24 time. Okay. Perhaps we'll see you all back then at
25 1:30. Thank you.

1 --- Upon recessing at 12:17 p.m.

2 --- Upon resuming at 1:34 p.m.

3

4 THE CHAIRPERSON: Okay, fed and watered,
5 we are back.

6 Ms. Everard...?

7

8 CONTINUED BY MS. CANDACE EVERARD:

9 MS. CANDACE EVERARD: Thank you, Mr.
10 Chairman. I just want to follow-up the subject matter
11 that we were speaking of just before the lunch break.

12 Ms. McLaren, you and I had an exchange
13 with respect to the rough percentage of Basic policy
14 holders that also take part in Extension, and I think we
15 agreed it was in and around 88 percent, or somewhere in
16 that range.

17 Does the Corporation have a sense of what
18 number of its Basic policy holders avail themselves of
19 Extension, whether that's from MPI or from another
20 insurance carrier? In other words would that percentage
21 change any if there were other insurance carr --
22 insurance carriers taken into account?

23 MS. MARILYN MCLAREN: It would be higher.
24 The percentage would be higher because there are more
25 people buying Extension than those who buy it from MPI.

1 MS. CANDACE EVERARD: Do you have a sense
2 of how much higher?

3 MS. MARILYN MCLAREN: I think in these
4 proceedings previously we filed information published by
5 the Superintendent of Insurance in Manitoba; that's
6 really our gauge because it -- it reports on automobile
7 insurance premiums written by the various insurers doing
8 business in Manitoba.

9 MS. CANDACE EVERARD: Okay. What are
10 some of the types of coverage that's available through
11 Extension? I -- I know about having a lower deductible,
12 there's third party liability coverage. Are those the
13 main ones, or are there other significant types of
14 coverage offered through Extension?

15 MR. DONALD PALMER: Those would be --
16 those two (2) would be the lion's share. There's a
17 coverage for off-road vehicle because they're -- they're
18 not covered under the basic Autopac other than third-
19 party liability. We have a rental car policy. There's
20 some extension motorcycles products. Those are -- that
21 would be most of them.

22 MS. CANDACE EVERARD: Okay. What is the
23 Corporation's view of the Basic coverage that's
24 available? Is it the Corporation's view that that's
25 adequate, such that the Corporation, if it had to, would

1 advise a person that they don't need Extension coverage?
2 Or where does the Corporation stand on the adequacy
3 there?

4 MS. MARILYN MCLAREN: The Corporation's
5 view is that adequate coverage is really very subjective
6 and needs to be determined by the vehicle owner. I think
7 when it comes to lia -- liability, extending the
8 liability coverage, the Corporation has always taken the
9 position that people should buy as much as they can
10 afford. It comes at a very low cost no matter you
11 purchase it and it's not difficult to envision rare but
12 costly circumstances where it may in fact come into play.

13 Deductible really depends on people's
14 cashflow, you know, I think in terms of the Basic
15 program. We believe that the Basic program is very broad
16 covered, comprehensive coverage, high quality coverage,
17 but individuals, for various reasons, may choose to buy
18 even more; that it -- it's a balance that always needs to
19 be struck by what are you requiring people to buy and
20 what may meet people's needs on a more individualized
21 basis.

22 Sometimes people's needs change as their
23 personal circumstances change. Sometimes that's not so
24 true; they -- they have a particular view of the
25 insurance they want to carry; it doesn't change so much

1 through time. But it -- the value of having access to a
2 variety of optional coverages is that people can exercise
3 their right to determine what is best for them outside of
4 the compulsory insurance program.

5 MS. CANDACE EVERARD: Is it true that the
6 liability coverage under Basic is two hundred thousand
7 dollars (\$200,000)?

8 MS. MARILYN MCLAREN: Yes, that's true.

9 MS. CANDACE EVERARD: So just so -- to
10 make sure that I understand this correctly, if I drive my
11 car, which is insured here obviously, down into the
12 States and enter -- or have some kind of a collision that
13 causes horrific damage or injury, does that mean that I'm
14 covered to the extent of two hundred thousand dollars
15 (\$200,000) Canadian under Basic?

16 MS. MARILYN MCLAREN: That's right.

17 MS. CANDACE EVERARD: And if I want to
18 have coverage beyond that, then it -- I may want to
19 entertain purchasing an Extension policy in that regard.

20 Is that right?

21 MS. MARILYN MCLAREN: Yes.

22 MS. CANDACE EVERARD: I'm going to ask
23 you to take a look at Question 23, posed by the Board in
24 the Information Request exchange. We took a quick look
25 at the strategic plan yesterday; we're going to look at a

1 different part of it now.

2 The question posed by the Board in Sub A
3 of this IR, was to advise of the extent to which the DSR
4 system has been incorporated into the business plan. The
5 Corporation provided a copy of its Strategic Plan and
6 advised
7 that the DSR was included in Strategy 3.6.

8 Is that right?

9 MR. DONALD PALMER: That's correct.

10 MS. CANDACE EVERARD: I'd ask you to turn
11 to page 13 of the Strategic Plan which reflects Strategy
12 3.6 as part of the strategies relating to Goal Number 3.

13 Could you please read in for the record
14 Goal Number 3, as reflected on page 13.

15 MR. DONALD PALMER:

16 "Manitoba Public Insurance will be a
17 leader in automobile insurance and
18 vehicle and driver licensing providing
19 Manitobans with superior products,
20 coverage, and service. The Corporation
21 will utilize technology to provide
22 products and services that will enhance
23 the value it delivers to Manitobans."

24 MS. CANDACE EVERARD: And as the IR
25 response reflects, the Corporation has advised that the

1 DSR was included in Strategy 3.6.

2 Could you read in Strategy 3.6 for the
3 record, please.

4 MR. DONALD PALMER:

5 "To improve the service relationship
6 between drivers and vehicle owners and
7 the Corporation by modernizing business
8 processes, ensuring all aspects of
9 driver risk rating are consistent,
10 clear, and fair."

11 MS. CANDACE EVERARD: We talked about,
12 yesterday, the three (3) stated goals for the DSR
13 program: That is to provide higher reward for safest
14 drivers, provide strong incentives for high-risk drivers
15 to improve their behaviour, and to improve driver
16 understanding of how their behaviour affects the amount
17 they pay for insurance.

18 Can you elaborate on how those stated
19 goals will address the strategy in three point six (3.6),
20 that you just read in?

21

22 (BRIEF PAUSE)

23

24 MR. DONALD PALMER: I -- I think the key
25 is the last few words of that particular strategy:

1 "...ensuring all aspects of driver risk
2 rating are consistent, clear, and fair.

3

4 In terms of -- of safe driving, safer
5 drivers paying lower amounts of insurance, I -- I think
6 that would meet anybody's definition of -- of fair,
7 certainly from an actuarial perspective, and -- and
8 really one (1) of the things that our -- our customers
9 are advising that they're -- that they want.

10 In terms of clear, again that's the
11 enhancing -- enhancement of the understanding of the
12 program, to make sure that our drivers understand the
13 relationship between their driving behaviour and the
14 rates that are charged.

15 MS. CANDACE EVERARD: Just a moment, Mr.
16 Chairman.

17 MR. DONALD PALMER: The -- in the
18 Information Response we said three point six (3.6), which
19 certainly is applicable. I think there's another
20 strategy that is related to that and I think that's the
21 one that we referenced yesterday, and that's seven point
22 four (7.4), which is to develop a clear and
23 understandable method to reward good drivers -- ensure
24 that individuals pay insurance rates that reflect the
25 risk they represent on the road.

1 MS. CANDACE EVERARD: So the Corporation
2 is of the view that the DSR in fact relates to both of
3 those strategies, three point six (3.6) and seven point
4 four (7.4)?

5 MR. DONALD PALMER: Absolutely.

6 MS. CANDACE EVERARD: Is it the case
7 though from the answer to the IR given by the
8 Corporation, that it's priority is three point six (3.6)
9 over seven point four (7.4), or is that not the case?

10 MR. DONALD PALMER: I think they're equal
11 priorities. When we were looking through the Strategic
12 Plan and -- to determine where DSR was because we knew it
13 was in there, three point six (3.6) is the first one I
14 found, so that's the one I quoted, and I, likely, in the
15 Information Response, should have quoted both of them.

16 MS. CANDACE EVERARD: Thank you. I'd ask
17 you now to turn to Question 20, posed by the Board. This
18 was a question to ask the Corporation to explain the
19 extent to which DR program -- DSR program revenue
20 reduction and costs were being borne by Extension, and if
21 the same were not borne by Extension, why not? The
22 answer was that there has been no change to the Extension
23 discount program, therefore no costs are allocated.

24 Is that right?

25 MR. DONALD PALMER: That's correct.

1 MS. CANDACE EVERARD: Is it the case then
2 that there have been no changes in the processes or
3 procedures related to DSR or Streamline Renewal that will
4 impact the procedures undertaken to write Extension
5 insurance policies?

6 MR. DONALD PALMER: The...

7

8 (BRIEF PAUSE)

9

10 MR. DONALD PALMER: There -- there are no
11 changes to the processes for writing Extension policies.
12 With Streamline Renewal, their -- their renewals are
13 included on the same form, but again attached to the --
14 the Basic policy. So again, that -- that process has not
15 changed.

16

17 (BRIEF PAUSE)

18

19 MS. CANDACE EVERARD: Have there been any
20 changes to Extension underwriting to take into account
21 the new emphasis on rewarding good drivers and incenting
22 poor drivers to improve?

23 MR. DONALD PALMER: No.

24 MS. CANDACE EVERARD: If it turns out
25 that as a result of the DSR program there are savings in

1 the way of claims costs reduction, would there be savings
2 for the Extension line of business, as well as for Basic?

3 MR. DONALD PALMER: There could be.

4 MS. CANDACE EVERARD: If that
5 materializes that there are savings to the Extension
6 line, then wouldn't it follow that some of the costs of
7 the DSR should be borne by Extension as well as Basic?

8 MR. DONALD PALMER: No. I -- I wouldn't
9 agree with that. The -- the costs -- any reduced costs
10 in -- for Extension would be passed along and in lower
11 Extension rates. The purpose of the DSR program and the
12 inter-relationship of vehicle premiums and driver
13 premiums is solely Basic. There are no driver --
14 Extension driver premiums per se.

15 So the program was designed exclusively
16 for the Basic program and that's where the costs should -
17 - should be.

18 MS. CANDACE EVERARD: But isn't DVL part
19 of the Extension line of business?

20 MR. DONALD PALMER: No. There's a
21 separate line of business for administration of the
22 Driver Vehicle Act. The losses that have -- that we've
23 seen over the past few years in term -- and have been
24 noted in our annual report, are funded by profits from
25 Extension, but they're not part of the Extension line of

1 business.

2 MS. CANDACE EVERARD: It's not part of
3 Basic either?

4 MR. DONALD PALMER: That's correct.

5 MS. CANDACE EVERARD: We know that the
6 Corporation has a cost allocation study in the works. Is
7 there an update that can be provided to the Board at this
8 time with respect to that?

9 MR. DONALD PALMER: The update is that
10 the cost allocation study is in the works. We -- we have
11 selected a -- a vendor to -- to do that study. Deloitte
12 has been chosen for that assignment and they are -- they
13 are underway. We have had one (1) workshop within MPI
14 with key personnel to -- and key management to discuss
15 the study and for them to understand our business and --
16 and what we do.

17 So it's -- the work is ongoing. We expect
18 to have sort of a touch point update likely next week.
19 And we are on schedule to file that study with the Board
20 with our Application in -- in June.

21 MS. CANDACE EVERARD: Thank you. I'm
22 going to move then to some questions about the DSR scale.
23 If I could ask you to turn to Question 5 posed by the
24 Board.

25 The questions were asked at Sub A and Sub

1 B why the regulation did not contemplate further positive
2 merit levels beyond plus fifteen (15) and conversely why
3 the scale did not contemplate further demerit levels
4 beyond minus twenty (20).

5 Can you just elaborate, for the record,
6 the responses with respect to those two (2) points?

7 MR. DONALD PALMER: There comes a point
8 that an extra year of -- of clean driving doesn't
9 necessarily mean a reduced rate or a reduced risk. And
10 for example, with our -- in our public consultation and -
11 - and the number of -- of people who have responded to
12 this, I -- I clearly remember one (1) particular letter
13 that the individual said that, you know, he was certainly
14 in favour of -- of having more recognition that he
15 himself had been driving for sixty-three (63) years
16 without an accident. And I think that that's certainly
17 commendable. I don't know that he has less risk than
18 somebody who had only been driving sixty-two (62) years.

19 So -- so there is a diminishing return at
20 that point. Fifteen (15) years is certainly a point that
21 -- that that's scale -- the graph is certainly flattening
22 out. Whether it's definitely fifteen (15) years -- maybe
23 slightly more or slightly less, but that's certainly
24 around the level where you get diminishing returns.

25 In terms of the negative side of the

1 scale, there's real limitations as to again, somebody who
2 is that high, whether there is any value in giving
3 penalties that are so big that they start to lose
4 meaning. And again, when we were doing our -- our
5 initial studying in -- into the existing program and see
6 what demerit levels some people had had, and there was
7 people that had literally hundreds of demerits. There's
8 a -- no value beyond that in -- in giving them more,
9 because they're obviously not learning from getting
10 demerits.

11 So again, even the twenty (20) scale,
12 there's very few drivers up there. You're -- you're
13 getting to the point where there's not much more value
14 that you're going to get by providing somebody with more
15 than twenty (20) demerits.

16 MS. CANDACE EVERARD: Just on that point,
17 that is an individual with twenty (20) demerits, if I
18 could ask you to turn over the page to the answer to "D",
19 of the same IR. This was the question where we asked:

20 "If an individual who's already at
21 demerit level minus twenty (20) is
22 convicted of, say, impaired driving,
23 loses their licence for a year, where
24 do they end up on the scale when they
25 resume driving?"

1 And the answer was:

2 "At their renewal selection after
3 conviction, they will be assigned
4 additional demerits, but since they are
5 at the maximum, they will remain at DSR
6 level minus twenty (20)."

7 I think everybody understands that the
8 bottom level on the scale is minus twenty (20), but what
9 does the Corporation mean when it says it will assign
10 additional demerits? Does that mean it -- it keeps track
11 of other demerits beyond the minus twenty (20), or -- or
12 what does that mean?

13 MR. DONALD PALMER: This is -- is almost
14 -- difference between an operating statement and a
15 balance sheet. So, in terms of specific demerits, in a -
16 - in a scale, will move you certain number of steps. At
17 the end of that, you will be at a -- accumulated number
18 of demerits. That accumulated number is always capped at
19 twenty (20).

20 So -- so if you're twenty (20), you have a
21 conviction that gives you two (2) demerits, we keep track
22 of all those convictions. Minus twenty (20), minus two
23 (2) is twenty-two (22), but the cap on the scale is
24 twenty (20).

25 So -- so we do keep track of those

1 demerits, but in terms of the actual DSR level, there's
2 no addition.

3 MS. CANDACE EVERARD: Yeah. And -- and I
4 understand that, that the lowest DSR level is minus
5 twenty (20), so for premium purposes that person's always
6 gonna be treated as a minus twenty (20). But when you
7 say the Corporation will still track demerits in excess
8 of that -- that is the case? That -- that's what you
9 said?

10 MR. DONALD PALMER: Yeah, we know the
11 convictions that people will continue to accumulate, yes.

12 MS. CANDACE EVERARD: So what happens to
13 those excess demerits if I can call them that? Using the
14 example that you gave, if somebody's already at a minus
15 twenty (20), they have another minor conviction, or a
16 minor conviction, such that they're notionally at minus
17 twenty-two (22), the Corporation is gonna keep track of
18 that and then what did they use that information for?

19 MS. MARILYN MCLAREN: What we're talking
20 about here is an individual's building driver record.
21 There may have been two (2) entries on that driver record
22 to get to minus 20; there may have been forty-two (42)
23 entries on that driver record. The driver record
24 basically stays intact as long as there is new
25 convictions coming forward. So there are a tiny number

1 of individuals whose personal driving record in the
2 driving record database is pages long.

3 What -- what we're saying in this instance
4 is if an individual receives a drunk driving conviction
5 that's worth ten (10) demerits, there will be a line on
6 his driver record showing the drunk driving conviction,
7 showing the ten (10) demerits, but for insurance rating
8 purposes if that would really put him at thirty (30) or
9 forty (40) or whatever, he sits at twenty (20).

10 So an individual's driving record has all
11 of their activity since we began to track it, since it
12 was created when they first got their licence and every
13 bit of activity that's happened since. So when we say we
14 -- we assign the additional demerits, there is a row on
15 the driver record for each conviction with the
16 appropriate number of convictions normally assigned for
17 that offence.

18 MS. CANDACE EVERARD: So then -- and --
19 and I appreciate that minus twenty (20) is the lowest
20 place on the DSR scale, and for premium purposes that's
21 where the person's going to be categorized and treated,
22 so then what is the other information used for, the
23 information that you just described that still stays on
24 the driving record?

25 MR. DONALD PALMER: It could be used for

1 -- well, is used in driver's abstracts, for instance, any
2 -- for interjurisdictional purposes. We talked about
3 reciprocal agreements and -- and new Manitobans coming in
4 and how they're treated. The same information goes
5 outward for -- for Manitobans. So not used for rating
6 purposes but certainly used for other driver record
7 purposes.

8 MS. MARILYN MCLAREN: The information
9 about the convictions that people received are --
10 historically have been used in two (2) places within
11 Manitoba, and now currently house those two (2) places
12 within Manitoba Public Insurance. The driver improvement
13 and control would pay a lot of attention to the most
14 recent drunk driving conviction in a long string of
15 convictions that perhaps accumulates to twenty (20) or
16 forty (40) demerits; that's where it would be used on a -
17 - in an operational, administrative capacity with respect
18 to the driver's record.

19 MS. CANDACE EVERARD: And I appreciate
20 that, that, that driver may be called in for a show cause
21 hearing or whatever. I mean, if they're convicted of an
22 impaired, they're not going to have a licence anyways but
23 that kind of think we -- we understand.

24 How does an individual in that scenario
25 move up the scale? There's a schedule in the material

1 with respect to a person moving up a certain number of
2 levels if they have one (1) year of clean driving with an
3 active licence or a year of driving with an inactive
4 licence. So for the purposes of that scale -- and I -- I
5 will have some more questions about that, but just with
6 this one (1) narrow example, how will an individual in
7 the scenario that -- that we've just been describing,
8 that is they're notionally worse than minus twenty (20),
9 do they still move on the same scale?

10 So if they have one (1) clean year,
11 they're moving up per that accelerated scale?

12 MR. DONALD PALMER: Okay. Yes, they are
13 treated as if they were a minus twenty (20) so if they
14 were at minus twenty (20) and they have another
15 conviction in one (1) year and another one the year after
16 that and then they started safe -- safe driving, see the
17 light, then after they have a clean year, then they will
18 start moving up the DSR scale.

19 MS. CANDACE EVERARD: And -- and that's
20 from minus twenty (20)?

21 MR. DONALD PALMER: That's correct.

22

23 (BRIEF PAUSE)

24

25 MS. CANDACE EVERARD: Okay. So -- just

1 so that we're clear, if we have two (2) individuals, one
2 (1) in a situation that we've just described which was at
3 a minus twenty (20), they did have another conviction
4 that notionally would cause them to have more demerits
5 than minus twenty (20). And we have another individual
6 who say has had two (2) major convictions and only two
7 (2) major convictions, such that they are at minus twenty
8 (20) and notionally no worse.

9 Both of those individuals if they had from
10 day 1 to day 365 a clean active driving year, they will
11 both end up at the same level, which I believe would be a
12 minus thirteen (13).

13 MR. DONALD PALMER: That's correct.

14 MS. CANDACE EVERARD: Thank you. I'd ask
15 you then to turn to Question 11, posed by the Board.
16 This is the IR that asked to reproduce the renewal
17 notices for certain individuals.

18 MR. DONALD PALMER: I have them.

19 MS. CANDACE EVERARD: In particular what
20 we asked for at Sub A was the renewal notice for an
21 individual with the minus twenty (20), so at the twenty
22 (20) demerit level at three (3) different points in time.
23 It appears from looking at the face of the renewal
24 notice, but we just want to confirm, that that individual
25 is able to pay their driver premium in monthly

1 instalments.

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE EVERARD: Has the Corporation
4 considered its view of whether drivers that find
5 themselves at a minus twenty (20) or at some other poor
6 level on the scale, to undergo driver retraining? Some
7 form of reeducation?

8 MR. DONALD PALMER: That certainly is a
9 possibility and again, as Ms. McLaren -- as Ms. McLaren
10 outlined, there are two (2) functions here that -- we're
11 talking insurance rates and measurement of risk, which is
12 the insurance portion. There's also driver improvement
13 and control, which is measuring a driver and -- and
14 possible remedial action that can be taken for that --
15 that driver.

16 So yes, it -- there are courses that are
17 in some cases required to -- as remedial action, so that
18 that driver may become a safer -- safer driver and start
19 moving up the DSR scale, but is really not part of the
20 DSR and the insurance premiums.

21 MS. CANDACE EVERARD: As I'd indicated I
22 do have some questions about moving up the scale. And so
23 I would ask you now to turn to SM-1, Attachment B, page
24 2, which has that chart that reflects who gets to go
25 where and in what circumstance.

1 MR. DONALD PALMER: Sorry. Again, SM-1?

2 MS. CANDACE EVERARD: SM-1, Attachment B,
3 page 2. So it's just about the third last page in SM-1.

4 MR. DONALD PALMER: And at the top says
5 "Movement on scale after implementation"?

6 MS. CANDACE EVERARD: That's the one. So
7 the chart -- or the table in the right hand corner on the
8 bottom half of the page reflects the steps.

9 What is a definition of an "inactive
10 licence"? I could seem to locate a definition of that in
11 the material. But if I've missed it, please tell me.

12 MR. DONALD PALMER: An active driver is
13 someone who has had an active valid licence for at least
14 eleven (11) months in the -- prior to the renewal. So an
15 inactive driver is someone who had -- either didn't renew
16 their driver licence, possibly was suspended, for some
17 reason was not driving for eleven (11) months of the
18 previous year.

19 MS. CANDACE EVERARD: Okay, so --

20 MR. DONALD PALMER: And -- and did not
21 have an active licence for that time.

22 MS. MARILYN MCLAREN: We can provide a
23 definition. The people with a medical suspension would
24 be in this category. People who choose not to renew
25 their licence because they can't afford the surcharge are

1 in this category. Clearly operating in the principle that
2 there -- there are inactive licences and also inactive
3 drivers, someone whose -- whose driving privileges have
4 been suspended under the law because of egregious
5 behaviour would not be in the inactive category.

6 MS. CANDACE EVERARD: Okay. Thank you
7 for clarifying that, because on this particular document
8 there is reference to someone having their licence be
9 inactive because of a temporary medical suspension, so we
10 knew that that was included. And similarly, someone who
11 chooses to sit out as has been described.

12 But my next question was going to be
13 whether inactive was something different from suspended,
14 as in suspended either pursuant to Criminal Code, or by a
15 judge or whatever the case be.

16 So your evidence, Ms. McLaren, is that
17 that is -- if you are suspended because that penalty has
18 been imposed on you, whether it's under the legislation
19 by a judge or presumably by the driver improvement
20 people, you are not considered inactive; you are
21 suspended.

22 So it's like a third category?

23 MS. MARILYN MCLAREN: That's right. And
24 the demerits sit until you come back.

25 MS. CANDACE EVERARD: Okay. So while you

1 are under a suspension, your DSR level remains the same?

2 MS. MARILYN MCLAREN: Correct.

3 MS. CANDACE EVERARD: Ms. McLaren, would
4 you be able to provide that definition? I -- I think
5 we've got it, but if you have something more official
6 that would be great.

7 MS. MARILYN MCLAREN: Yes, we'll do that.

8 MS. CANDACE EVERARD: Thank you.

9

10 --- UNDERTAKING NO. 4: MPI to provide definition for
11 "suspended driver"

12

13 CONTINUED BY MS. CANDACE EVERARD:

14 MS. CANDACE EVERARD: So the idea
15 according to Attachment B, is that someone with an active
16 licence moves out of the demerit zone at a more
17 accelerated rate than does someone with an inactive
18 licence. So for example, the guy or girl, at minus
19 twenty (20), if they have an active licence they'll move
20 out -- up seven (7) steps in one (1) year of clean
21 driving, or with an inactive licence will move up four
22 (4) steps?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE EVERARD: Now, I gather from
25 this table that the accelerated movement up the scale

1 only applies to individuals between, essentially DSR
2 Level 3 and 20, because it would appear that everything
3 over that, that is anyone who's sitting at a minus one
4 (1) or better on the scale, is moving up only with one
5 (1) year of clean, active driving.

6 Is that right?

7 MR. DONALD PALMER: That's correct.

8 MS. CANDACE EVERARD: Has there been any
9 discussion or does the Corporation have a view of the
10 equity of that being the case when we think about a
11 situation where someone in the merit side, for example,
12 may have to give up their licence for a period of time
13 for medical reasons? Because if I'm understanding this
14 correctly -- and -- and tell me if I'm wrong -- someone
15 in the merit zone who has to give up their licence for a
16 period of time for medical reasons, isn't going to move
17 anywhere on the scale. Whereas someone in the demerit
18 zone who may be inactive for the same reason will have
19 movement.

20 Is that something that's been talked
21 about, looked at?

22 MR. DONALD PALMER: Absolutely. And --
23 and the -- the cause for great debate in -- in our
24 planning -- and as you I'm sure realize there are many
25 judgments within the DSR program as -- as to how we

1 should treat certain people under certain circumstances.

2 The -- as far as the treatment of inactive
3 drivers -- and there is not -- if someone doesn't drive,
4 it's not an indication -- if they're certainly at a merit
5 level that they will improve upon a given merit level.
6 We -- we're aware that under the -- that people really do
7 wai -- or can wait out higher driver's licen -- or
8 premium, because they can't afford -- afford it. And
9 that's their lesson. And we didn't think that it was
10 fair that they necessarily mo -- move up as fast as
11 someone who had and was driving for a year to improve
12 upon their skills, but thought that should be some
13 incentive for them to get back on the road.

14 And so that was the compromise situation
15 to move up but slightly slower. We saw a different issue
16 with people who were at the merit level and didn't see
17 that -- that they had improved that much more.

18 MS. CANDACE EVERARD: Thank you. I'm
19 going to ask you now to turn to 26 -- Question 26, posed
20 by the Board in the IR exchange, and in particular Item
21 B. This was a question relating to the predicted value
22 of at-fault claims and minor convictions.

23 And if you look at the last sentence of
24 the answer to "B," it reads:

25 "The selected penalties were based on

1 the results of the retrospective model,
2 the existing demerit penalties, and
3 public acceptability."

4 MR. DONALD PALMER: That's correct.

5 MS. CANDACE EVERARD: Can you rank for
6 the Board, in the Corporation's view, the relative
7 importance of those three factors in the selection of the
8 DSR proposed penalties?

9 MR. DONALD PALMER: They're all of
10 importance. I don't think we can rank one as being more
11 important than the others.

12

13 (BRIEF PAUSE)

14

15 MR. DONALD PALMER: If I can just maybe
16 expand on that a little bit. As we are introducing a --
17 a new program and the existing demerits for -- take that
18 as an example, and sometimes there could be great focus
19 on just the fact that maybe you're giving different
20 number of demerits for speeding, three (3) versus two
21 (2), for instance, and that becomes the focus of people
22 looking at the program, rather than the overall part of
23 the program itself. So with our various modelling
24 options, certainly we had to ensure that whatever number
25 of merits or demerits were chosen that the model was

1 still predictive.

2 So -- so I think the -- the existing
3 demerit penalties, I think that certainly ties into
4 public acceptability and to make sure that the -- the
5 model still works and is predictive of risk, is tied
6 right into that. So whatever we choose has to meet all
7 three (3) of those, or at least the -- the first criteria
8 and the third criteria.

9 And I think the existing demerit penalties
10 really is -- feeds into the public acceptability as well.
11 So -- so they're all interwoven together. The goal
12 certainly is that you -- you end up with a model that is
13 predictive and -- and we've done that.

14

15 (BRIEF PAUSE)

16

17 MS. CANDACE EVERARD: What if we looked
18 at it this way: The results of the retrospective models
19 seem to indicate that the safest drivers were paying a
20 bit more than they should, and the worst drivers were
21 paying a bit less than they should, and the Corporation's
22 consideration of that situation was -- seems to really
23 have been driven by public acceptability.

24 So isn't it fair to say that public
25 acceptability is a bit of a -- has trumped in a way the

1 other two (2), at least to an extent?

2 MS. MARILYN MCLAREN: From the
3 perspective of the Corporation's belief that pure
4 actuarial rate making on the DSR scale is not
5 appropriate, I would agree with that. But we -- we
6 clearly needed to put a lot of emphasis on insuring the
7 model really did still work and that it was predictive,
8 and that's very, very important to us.

9 I -- I think it's fair to say, an
10 important consideration of -- of the governments -- and I
11 think we referenced that somewhere in response to one (1)
12 of the questions -- is don't mess with the demerits that
13 have been in existence for a long time in the middle of a
14 massive new program implementation.

15 If -- if they decide they want to
16 introduce something like demerits for twenty-four (24)
17 hour roadside suspensions, it should be done in the
18 context of a revisit and consideration of a policy change
19 on the whole drinking and driving deterrence front; not
20 as part of a program implementation. So that was very
21 important as well.

22 When it comes to public acceptability,
23 that -- that's the toughest nut in all of this. And if
24 you just think about the way we talked about convictions
25 and accidents on the part of yourself, Board counsel, and

1 counsel for CAC/MSOS, yesterday, Mr. Williams talked
2 about the fact that his clients tended to think that
3 convictions were really important because they're
4 purposeful -- I'm paraphrasing, forgive me -- but that
5 accidents are accidents.

6 Well, in exactly the same half day period,
7 you characterized something quite different in that
8 convictions happen, they're dealt with, but they don't
9 cost the Corporation's insurance fund anything.
10 Accidents are what really drive insurance costs. So
11 inferring from that, maybe accidents need to be weighted
12 more heavily. Two (2) completely different views, both
13 legitimate, both held strongly by certain sectors of the
14 population. So let's find public acceptability in all of
15 this.

16 And I think often when it comes to things
17 like this, we need to introduce change in a manner that
18 is at least disruptive and as consistent with the current
19 reality as possible. And I think that's -- speaks to,
20 not the program design but the transition strategy. You
21 know, I think the program design has a lot of flexibility
22 through time, like I mentioned yesterday, but transition
23 is something that we need to deal with very carefully, so
24 that people do understand it and they can bridge between
25 what we do today and what we will be doing next year.

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(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Coming back to the second category, so to speak, the retrospective model being the first, existing demerit penalties being the second, and public acceptability being the third.

When we're talking about existing demerit penalties, are we considering those in the context of really the transitional considerations only, or are we also thinking of them in a way that affects the selection of the ultimate targeted DSR penalties going forward?

MR. DONALD PALMER: We're talking in terms of -- of the demerit -- the assignment of demerits that was passed within the DSR regulation.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Maybe we can just take a step back. Can you clarify what the Corporation meant by existing demerit penalties in its answer to 26(b).

MR. DONALD PALMER: We have demerit penalties in terms of the demerits that are assigned for each conviction. So as opposed to the demerit penalties

1 for a driver premium char -- charged ones and -- and I
2 see there that that could be a bit ambiguous, but in this
3 context we meant the demerits assigned for each
4 conviction.

5 MS. CANDACE EVERARD: So the number of
6 convic -- or the number of demerits that are associated
7 with each conviction that a person has?

8 MR. DONALD PALMER: That's correct.

9 MS. MARILYN MCLAREN: Yeah, Annex A of
10 the regulations, starting on page 39, the list of all the
11 different convictions and the demerit points that are
12 associated with each one.

13

14 (BRIEF PAUSE)

15

16 MS. CANDACE EVERARD: And just as a bit
17 of a follow-up on this discussion of public
18 acceptability, can we have a few examples of what the
19 Corporation's referring to?

20 MR. DONALD PALMER: Could you be a little
21 more specific?

22 MS. CANDACE EVERARD: Sure. What I'm
23 trying to ask is: How did public acceptability influence
24 the design of the system?

25 MR. DONALD PALMER: We had extensive

1 surveying done back in 2006/2007, in that period, that we
2 have filed as part of this Application about whether
3 certain actions should affect a premium and by how much.

4 So -- so that certainly was -- was part of
5 it. I -- I remember being an observer in -- in focus
6 groups of -- asking: Do you think this action should
7 count towards what you pay for your driver's premium or
8 for your vehicle premium and how much should be taken
9 into consideration? So if you have a scale from zero to
10 ten (10), is it a zero, is it a two (2), is it a five
11 (5), is it a ten (10).

12 And asking various scenarios for that, I
13 know something like impaired driving that some people
14 said even if you were at the highest merit level and had
15 an impaired driving you should immediately go to the --
16 the worst level that you -- that you could. That kind of
17 -- those are some -- some beliefs that some people had.

18 So essentially it was through surveying
19 that we were -- came up with the -- the split that we --
20 we've got and the input factors that we selected.

21 MS. MARILYN MCLAREN: Other examples
22 would be the decision to stick with minus twenty (20),
23 even if the research that Mr. Palmer talked about
24 indicated there was no perceptible change after twelve
25 (12) demerits. We probably would have been inclined to -

1 - to propose to government sticking with the minus twenty
2 (20) on both the downside, on the upside. I don't think
3 the public would be thrilled with thinking that twelve
4 (12) is the worst you can be, or that there's any point
5 of going to fifty (50), you know? So I think things like
6 as well.

7 The design of the program -- the
8 Attachment B, page 2, from SM-1, that we were talking
9 about before, the accelerated movement is not unlike
10 what's existed since 1971 in the regulations with respect
11 to the Charge 1 demerit point additional premiums. Kind
12 of -- we always sort of think about it as -- as the half-
13 life, you know, that you kind of wear down your demerits
14 in an accelerated way that's very consistent.

15 More than anything else the DSR regulation
16 is probably most similar to the regulation that had the
17 demerit point additional premiums, since 1971. So some
18 of those fundamental principles that -- that we were able
19 to make work for us with the new system that people do
20 know and understand and make sense to them, wasn't --
21 that would be another example of making sure that key
22 concepts were publicly acceptable.

23

24

(BRIEF PAUSE)

25

1 MS. CANDACE EVERARD: Would it be fair to
2 say that the proposal to increase the maximum vehicle
3 premium discount from 25 percent to 30 percent is
4 something that was driven by public acceptability, or is
5 that a -- is that another example that we can look to?

6 MR. DONALD PALMER: That will be well
7 received by the public and certainly would fall under the
8 -- the category of being publicly acceptable, but again
9 that has to be done on the context of being able to
10 afford it, that we still have premiums that cover the --
11 the operation of -- of the insurance program, and there -
12 - there really still has to be some of that actuarial
13 soundness.

14 If the best drivers only are on average 20
15 percent better than -- than the -- or 20 percent better
16 than medium drivers, if -- however you rank them -- then
17 it certainly wouldn't be indicated that we should give
18 them more than a 20 percent discount. I think we've seen
19 from the -- the evidence that there are drivers who are
20 30 percent better than other drivers in -- in terms of --
21 and should get that vehicle discount. So more than just
22 the public acceptability factor would -- would feed into
23 the decision to go to the 30 percent discount.

24 MS. CANDACE EVERARD: On the flip side,
25 looking at driver premiums at the bottom end of the

1 scale, the -- the minus twenty (20), which, as we've
2 discussed, the Corporation is considering have a twenty-
3 five hundred dollar (\$2,500) maximum driver premium going
4 out a few years, obviously subject to approval, et
5 cetera, but is that idea and that accelerated scale
6 something that is also an example of public
7 acceptability?

8 MR. DONALD PALMER: Partly publicly
9 acceptable. And -- and I -- I know that there was a --
10 specific survey questions around that: What do you think
11 the most somebody should pay would be? It would -- it
12 also becomes a question of affordability and
13 collectability. We don't want to have hundred thousand
14 dollar penalties that nobody would ever pay and likely
15 still drive.

16 So there's a bit of a tradeoff there.
17 What do you think that level is, in -- in terms that
18 you'll still collect it? People will still treat that as
19 an incentive to become a safer driver, but -- but will
20 still pay it and be licensed and become that better
21 driver.

22 So at what level -- is it twenty-five
23 hundred (2,500)? Is it twenty-eight hundred (2,800)? It
24 -- it becomes a bit of a grey area but that was a number
25 that seemed to satisfy the publicly acceptable criteria,

1 as well as being something that people would pay, again
2 within the context of weekly -- monthly payments. And
3 again, that becomes a very key part of this, is that we
4 not only can charge the premium, but -- but we will give
5 the opportunity of the people to be able to afford it to
6 pay on a monthly basis.

7 MS. CANDACE EVERARD: And we know because
8 it's been discussed in the last couple of days, that the
9 driver premiums that is -- are being looked at for
10 2011/'12 and 2012/'13 are not on the table in this
11 application?

12 MR. DONALD PALMER: That's correct.

13 MS. CANDACE EVERARD: And I take it that
14 -- and -- and you may have said this yesterday, Mr.
15 Palmer, but the -- the Corporation will continue to
16 evaluate as time goes on and as the system is in place,
17 the appropriateness of what has been reflected currently,
18 and it may change?

19 MR. DONALD PALMER: Yes. We will
20 continue to study it, yes.

21 THE CHAIRPERSON: When you are educating
22 the public to the new DSR plan, will you be informing
23 them of the -- of the transition plan up to the higher
24 levels of penalties that lie in the future, so they'll be
25 aware of the consequences of continued bad driving?

1 MR. DONALD PALMER: Yes, we will.

2

3 CONTINUED BY MS. CANDACE EVERARD:

4 MS. CANDACE EVERARD: I'd like to take
5 you to Question 46 posed by the Board. This was the IR
6 where we asked the Corporation to compare the impact of
7 the new system on individuals at various DSR levels who
8 had one (1) at-fault accident and one (1) minor
9 conviction, versus that of the old system. And we -- the
10 assumption was made for the purposes of the exercise that
11 the average -- or that the vehicle premium was twelve
12 hundred dollars (\$1,200) per year.

13 MR. DONALD PALMER: Yes.

14 MS. CANDACE EVERARD: So I just want to
15 have a -- a run through these tables. We look at the
16 first example, Example Number 1. This was an individual
17 who was initially placed at DSR Level 7, and it would
18 appear that if that individual had no incidents in the
19 next seven (7) years, under the current system, they'd be
20 paying the Basic -- a total premium of sixty-five hundred
21 (6,500); whereas, under the proposed system, they'll be
22 paying a premium of sixty-two hundred (6,200).

23 Is that right?

24 MR. DONALD PALMER: That's correct.

25 MS. CANDACE EVERARD: And if we look at

1 the lower table, just at the DSR half, if that individual
2 has one (1) at-fault claim, which will take them down
3 five (5) levels on the DSR scale, as well as a minor
4 conviction, which will take them down an additional two
5 (2), they'll be paying seven thousand six hundred and
6 seventy-five dollars (\$7,675), so it's a difference of
7 fourteen hundred and seventy-five dollars (\$1,475).

8 Is that right? I'm subtracting this
9 sixty-two hundred (6,200) from the seventy-six seventy-
10 five (7,675).

11 MR. DONALD PALMER: Sorry, you -- you
12 lost me. I think I got halfway back, but could you
13 repeat that, please?

14 MS. CANDACE EVERARD: Yeah, for sure.
15 Under the -- the new system -- under the DSR system -- so
16 we're just looking at the right-hand side of the two (2)
17 tables -- this individual, if they are initially placed
18 at DSR Level 7, they have one (1) year of cleaning
19 driving. Based on the -- the average premium that we
20 discussed, the twelve hundred dollars (\$1,200), they're
21 going to pay sixty-two hundred dollars (\$6,200). If they
22 have one (1) at-fault claim and a minor conviction,
23 they're going to pay seventy-six hundred and seventy-five
24 dollars (\$7,675), so they're -- they're paying an extra
25 fourteen hundred and seventy-five dollars (\$1,475) over a

1 seven (7) year period, as a consequence of the at-fault
2 claim and the minor conviction.

3 MR. DONALD PALMER: That's correct.

4 MS. CANDACE EVERARD: If we turn over the
5 page, the second example was an individual who's
6 initially placed at DSR Level 5, so they're starting out
7 two (2) levels lower than the person in Example 1. Under
8 DSR, with a clean record for one (1) year, they're paying
9 six thousand five hundred and fifty-five dollars
10 (\$6,555), and with the same seven (7) level hit, due to
11 an at-fault accident and a minor conviction, they're now
12 paying eight thousand dollars (\$8,000), so that's a
13 difference of fourteen hundred and forty-five dollars
14 (\$1,445).

15 MR. DONALD PALMER: Yes, that's true --
16 correct.

17 MS. CANDACE EVERARD: In the third
18 example, the same scenario, this time though the person
19 is starting out at DSR Level 3, rather than paying six
20 thousand nine hundred and twenty dollars (\$6,920),
21 they're paying eight thousand three hundred and fifteen
22 (8,315), with their seven (7) level hit, which is
23 thirteen hundred and ninety-five dollars (\$1,395) more.

24 MR. DONALD PALMER: I'm with you again.

25 MS. CANDACE EVERARD: In the fourth

1 example, the individual who starts out at DSR Level 0,
2 rather than paying seven thousand seven hundred and forty
3 dollars (\$7,740) with a year of clean driving, they pay
4 eight thousand nine hundred and thirty-five dollars
5 (\$8,935) over seven (7) years after the seven (7) level
6 hit, so they're paying eleven hundred and ninety-five
7 dollars (\$1,195) more.

8 MR. DONALD PALMER: That's correct.

9 MS. CANDACE EVERARD: So the relative
10 difference, looking at the four (4) examples that we've
11 looked at, are that the person who starts out at DSR
12 Level 7, is going to pay fourteen hundred and seventy-
13 five dollars (\$1,475) more than they would have, but for
14 the seven (7) demerits; whereas a person who starts out
15 at DSR Level 0 is only paying eleven hundred and ninety-
16 five dollars (\$1,195) more over the same period.

17 Is that right?

18 MR. DONALD PALMER: That's correct and I
19 would also point out that the second driver is paying
20 eight thousand nine hundred and thirty-five dollars
21 (\$8,935) compared to the first one of seven thousand six
22 hundred and seventy-five dollars (\$7,675). So -- so
23 again, it's not so much the difference as the ultimate
24 level of each of those drivers. And in your latter case
25 they are paying about thirteen hundred dollar (\$1,300) --

1 thirteen hundred dollars (\$1,300) more over that seven
2 (7) year period.

3 MS. CANDACE EVERARD: I appreciate that.
4 When we compare Example 1 to Example 4, the Example 4
5 person is paying more in dollars, but the -- the relative
6 increase to each individual is more for the person who
7 started out at DSR Level 0 than the person who started
8 with seven (7) DSR merits.

9 MR. DONALD PALMER: And that difference
10 is reflected with the risk.

11 MS. CANDACE EVERARD: Sorry. Can -- can
12 you explain that, because shouldn't a person at a Merit
13 Level 7 be less risky than a person at Merit Level 0?

14 MR. DONALD PALMER: Yes. And they --
15 they pay sixty-two hundred dollars (\$6,200), versus
16 seventy-seven hundred and forty dollars (\$7,740).

17 MS. CANDACE EVERARD: But they're paying
18 more for the same seven (7) demerits. Their penalty is
19 greater in other words.

20

21 (BRIEF PAUSE)

22

23 MR. DONALD PALMER: On a relative basis
24 with the -- the change in the curve, because we have
25 demonstrated that the DSR level -- the ultimate DSR level

1 is reflective of -- of risk, so -- but is not completely
2 actuarially sound.

3 So within these -- these levels and the
4 constraints that we have, on a percentage basis you --
5 you're right there. But those two (2) drivers, again
6 you'll have to look at ultimately what they pay, not
7 necessarily what they would have paid under different
8 scenarios.

9

10 (BRIEF PAUSE)

11

12 MS. CANDACE EVERARD: I -- I just want to
13 follow-up on this a little bit further. In SM-1, on page
14 5, it's reflected that -- and I'm looking at Subparagraph
15 F -- it says that:

16 "By phasing in the higher demerits
17 surcharge amounts over four (4) years
18 drivers will have time to adjust their
19 behaviour and improve their position on
20 the scale before being assessed higher
21 penalties. No one will receive a
22 higher surcharge if they receive no new
23 convictions."

24 Just coming back to IR-46 that we were
25 looking at, and this time I'll ask you to turn to Example

1 6, which we had not looked at yet. This is the person
2 who started out at DSR Level Minus 10, so ten (10)
3 demerits. It -- it appears from the face of this example
4 that under the current system their driver premium would
5 be seven hundred and fifteen dollars (\$715) and under DSR
6 it would be nine hundred (900).

7 Is that right?

8

9 (BRIEF PAUSE)

10

11 MR. DONALD PALMER: That -- that's
12 correct.

13 MS. CANDACE EVERARD: And that comes from
14 the top table on that page?

15 MR. DONALD PALMER: That's correct.

16 MS. CANDACE EVERARD: If we look at
17 Example 7 of the same IR answer, and this is an
18 individual who starts out in DSR at Demerit Level 20, so
19 a negative twenty (20), again looking at the top table
20 which reflects the difference between the current system
21 and the new system, it would appear that the driver
22 premium to be paid under the existing system is eighteen
23 hundred and five dollars (\$1,805) and under the driver --
24 or the DSR system, rather, two thousand three hundred and
25 eighty four dollars (\$2,384).

1 Is that right?

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE EVERARD: Now, on this
4 particular table for current system, the left-hand side
5 column -- or table, rather, for Year 1 it reflects a
6 driver's premium of nine hundred and twenty-five dollars
7 (\$925).

8 Do you see that?

9 MR. DONALD PALMER: I see that, yes.

10 MS. CANDACE EVERARD: The Corporation
11 provided, as part of the filing, a table of the current
12 driver premium charges, and in particular SM-1,
13 Attachment A.

14 Sorry, I didn't realize you --

15 MR. DONALD PALMER: Sorry, could you
16 repeat the question, please?

17 MS. CANDACE EVERARD: Yeah, for sure.

18 So in Example 7, in the top table, it's
19 reflected that this individual who, under the current
20 system, is the equivalent of a DSR minus twenty (20), is
21 going to be paying a driver premium of nine hundred and
22 twenty-five dollars (\$925). If we look at SM-1,
23 Attachment A, there is a list of the driver premiums
24 under the current system, and it appears that a person at
25 minus twenty (-20) the current premium is a thousand and

1 forty-four dollars (\$1,044).

2 Is that correct?

3 MR. DONALD PALMER: Sorry, under the DSR
4 system it's a thousand and forty-four (1,044)? I think
5 there -- there is, under the current system, the -- we
6 have a number of demerits up to twenty (20), which is
7 nine hundred and twenty-five dollars (\$925) as a
8 surcharge, and then twenty-one (21) or more is nine
9 hundred and ninety-nine (999). We have combined those
10 all into twen -- into twenty (20), and set that level at
11 -- at the nine hundred and ninety-nine dollars (\$999).

12 So there are -- I think there were thirty-
13 nine (39) drivers who had exactly twenty (20) demerits.
14 So strictly speaking, this -- this phasing-in the
15 surcharge, those thirty-nine (39) drivers will be paying
16 more under the -- under the DSR system than the old
17 system.

18 Yeah, in our -- in or modelling exercise
19 there was thirty-nine (39).

20 MS. CANDACE EVERARD: So --

21 MR. DONALD PALMER: And one (1) -- one
22 (1) other addition into the -- that table, I've just been
23 informed that that driver premium, nine twenty-five
24 (925), we should be adding forty-five dollars (\$45) to
25 each one of those levels as the basic premium.

1 MS. CANDACE EVERARD: Thank you for
2 clarifying that.

3 Just backing up for a moment to a
4 statement that you just made a couple of minutes ago,
5 that some of -- or these individuals at Demerit Level 20
6 will actually be paying a somewhat higher driver's
7 premium under DSR. And that's even in the absence of a
8 new conviction or an at-fault claim?

9 MR. DONALD PALMER: That's correct.

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: We'll just take a ten
14 (10) minute break now, then we'll come back at 3:00 and
15 go through to 4:00. Thank you.

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

18

19 --- Upon recessing at 2:50 p.m.

20 --- Upon resuming at 3:10 p.m.

21

22 THE CHAIRPERSON: Okay; welcome back.
23 Ms. Everard...?

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

1 CONTINUED BY MS. CANDACE EVERARD:

2 MS. CANDACE EVERARD: I'm now going to
3 turn to some questions, with respect to intersection
4 safety cameras also known as red-light cameras. Question
5 32 posed by the Board in the Information Request process
6 deals with this.

7 Firstly, I think it's clear from the
8 record that red-light camera convictions or infractions
9 are not incorporated into the proposed DSR design.

10 Is that right?

11 MR. DONALD PALMER: That's correct.

12 MS. CANDACE EVERARD: Now, looking at the
13 response to 1-32(a), which provides for the number of
14 Highway Traffic Act convictions in Winnipeg for the years
15 2000 through 2007, it would appear that that number over
16 the last few years has declined fairly significantly.

17 Would you agree?

18 MR. DONALD PALMER: Yes, I would agree
19 with that.

20 MS. CANDACE EVERARD: And just so that
21 we're clear what we're talking about when we're speaking
22 of Highway Traffic Act convictions, we're talking about
23 tickets issued by an officer at the time of a moving
24 violation as opposed to a camera infraction?

25 MR. DONALD PALMER: Yes.

1 MS. CANDACE EVERARD: Now the Corporation
2 has said in the answer to Sub B that a review of this
3 data and the numbers under Sub A that there would appear
4 to be a correlation between the introduction of the red-
5 light cameras in 2003 and a downward trend in convictions
6 under the Highway Traffic Act in subsequent years; is
7 that right?

8 MR. DONALD PALMER: Yes, the convictions
9 did decrease after 2003.

10 MS. CANDACE EVERARD: In fact, in 2000 --
11 in both 2000 and 2002 there were over forty thousand
12 (40,000) convictions under the Act and when the red-light
13 cameras came into effect January, I believe it was
14 January, yeah January of 2003, that figure fell in that
15 year, 2003, to some thirty-two thousand (32,000) and
16 thereafter has ranged between twenty-one thousand
17 (21,000) or so and about twenty-seven and a half (27 1/2)
18 thousand.

19 Is that right?

20 MR. DONALD PALMER: That's correct.

21 MS. CANDACE EVERARD: Now, at the last
22 GRA the Corporation had indicated that it was having some
23 discussions with the Winnipeg Police Service about this
24 decline and that the police recognized the importance of
25 traffic enforcement and had a number of initiatives

1 underway to try to improve the situation. Is there an
2 update with respect to those discussions?

3 MS. MARILYN MCLAREN: Just that I'm
4 confident that that commitment on the part of the WPS is
5 there, it remains, and that the conversations are
6 continuing, the meetings continue, and I believe that --
7 that we may actually see an increase over the '07 stats
8 when we see the '08 stats at this point.

9 MS. CANDACE EVERARD: I appreciate that
10 this IR response and the discussion that we've been
11 having deals solely with Winnipeg. Do we know anything
12 about the statistics in other parts of Manitoba that
13 would be dealt with by the RCMP, whether there has been a
14 decline there or not?

15 MS. MARILYN MCLAREN: Over the -- the
16 last decade or so there -- there certainly has been a
17 decline and it's across the country. It's not something
18 that is specific to Manitoba or Winnipeg at all.
19 Virtually every jurisdiction has seen a -- a decrease in
20 traffic enforcement as measured by the incidence of
21 tickets being handed out.

22 More recently, though, the RCMP has
23 increased. I think the last two (2) years we saw an
24 increase in the number of convictions dealt with by the
25 RCMP in Manitoba.

1 MS. CANDACE EVERARD: Coming back to the
2 issue of the intersection safety cameras or the red-light
3 cameras, let's leave aside for the moment the issue or
4 the fact that the driver cannot be identified by the
5 camera at this point. If we leave that aside, what does
6 the Corporation say about the predictive value for future
7 claims of those infractions versus Highway Traffic Act
8 convictions?

9 MR. DONALD PALMER: I don't think we know
10 the answer to that question. We -- we don't -- we don't
11 have the -- the stats. We haven't put them into our
12 database. We haven't done the predictive modelling to --
13 to come up with any conclusion on that.

14 MS. CANDACE EVERARD: But wouldn't you
15 agree -- would you agree as a general proposition that
16 whether it's a speeding infraction that's caught on the
17 camera or whether it's a running the red light, the act
18 is still, if committed, the same act whether it's caught
19 by a camera or caught by a live-body officer?

20 MR. DONALD PALMER: Sure, I -- I would --
21 I would agree with that. In terms of predictive value,
22 though, I think you still have to know the -- the
23 accident frequency of the particular person or -- or
24 vehicle and I don't know that if -- if there's a vehicle
25 that gets red-light cameras, if that vehicle is going to

1 have more accidents. I don't know the answer to that.

2 MS. CANDACE EVERARD: So let me ask you
3 this: If the driver in the case of the camera infraction
4 could be identified, and come to a little bit more
5 discussion about that in a moment, but if that were the
6 case would your answer change?

7 MR. DONALD PALMER: Sure. I would say at
8 that point in time, if the driver was identified, that
9 then it becomes no different, as you said, than a -- than
10 if that ticket had been given by a police officer.

11 So I don't see any reason to distinguish
12 if the driver was identifiable between the red-light
13 camera and the -- getting caught in a speed trap.

14 MS. CANDACE EVERARD: So if there was a
15 way to identify the driver as a general proposition, it
16 would be appropriate, desirable to include those
17 convictions, and I know it's an if, in the assignment of
18 demerits under the system?

19 MR. DONALD PALMER: I would agree.

20 MS. CANDACE EVERARD: Now I -- I
21 appreciate that there are sections of the Highway Traffic
22 Act that deal with this issue and that those are not
23 within the -- the control of the Corporation but I do
24 want to have a discussion about this.

25 I'm assuming that the Corporation is

1 familiar with the section of the Highway Traffic Act
2 which is 229(2) that says that whenever there's an owner
3 of a vehicle that's involved in a contravention of the
4 Act, the owner can be charged with any offence for which
5 the driver may be charged although both cannot be
6 convicted.

7 MR. DONALD PALMER: That's -- that's
8 correct.

9 MS. CANDACE EVERARD: So in other words
10 if there's a situation, and just I'll give this as an
11 example because it's one of the more common ones of
12 there's a failure to exchange particulars, and let's say
13 it's a hit and run in a parking lot and there's a witness
14 that sees the hit and run, don't know who the driver is
15 but notes the licence plate, reports it to the police,
16 chances are that owner is going to end up with a ticket
17 for failing to exchange and it's going to be up to them
18 to either identify who the driver was or otherwise deal
19 with the ticket.

20 Is -- is that scenario somewhat familiar?

21 MS. MARILYN MCLAREN: That's the
22 intention of that provision, yes.

23 MS. CANDACE EVERARD: Does the
24 Corporation have a view with respect to whether the
25 legislation that applies to the camera infractions could

1 be amended to be dealt with similarly?

2 And as I say, I appreciate it's not within
3 the control of the Corporation but I'm asking whether the
4 Corporation has a view on that.

5 MS. MARILYN MCLAREN: I think, yeah, we
6 really don't have an opinion on that other than to say
7 that many sections of many pieces of legislation could
8 probably be modified somehow.

9 You know, it's clearly -- clearly I think
10 everyone in this room knows there are significant public
11 policy issues around here that are well outside the realm
12 of this Corporation or this Board.

13 Intersection safety cameras have lots of
14 interest and -- and policy and -- and all kinds of
15 baggage, so to speak, that go with them that are -- that
16 have nothing to do with the Corporation, its Application
17 or the Public Utilities Board.

18 Governments can change sections of
19 legislation. I think we all know that this particular
20 legislation was discussed and brought in and -- and
21 commitments to be made about exactly what the purpose of
22 it was and how demerits would not be assigned and that's
23 the situation we continue to find ourselves in.

24 So I'm not sure what else we -- we can
25 enlighten through this proceeding on this topic.

1 MS. CANDACE EVERARD: Well, that's fine,
2 but I think there may be some more enlightenment, so I'm
3 going to continue with -- with a few more questions.

4 We know that to the extent that there are
5 infractions being caught by the cameras and -- and
6 whether it's the speeding or whether it's running the red
7 light as we've identified, it's the same offence that's
8 occurring but it's an issue of identification.

9 And certainly based on the material that's
10 been provided, the existing system, the proposed system,
11 convictions where the driver is identified for speeding,
12 running a red light, carry penalties that affect their
13 current merit or demerit status and their level under the
14 proposed DSR. We're agreed so far?

15 MR. DONALD PALMER: Absolutely.

16 MS. CANDACE EVERARD: So I appreciate
17 that the government may or may not choose to amend
18 various pieces of legislation for many different reasons,
19 but notionally wouldn't the DSR system run more fairly
20 and more comprehensively if all of these infractions that
21 are occurring but are not being captured because of this
22 identification issue, would that not be more appropriate
23 and -- and make the system run better if there were a way
24 to do that?

25 MS. MARILYN MCLAREN: I -- I think we

1 would agree with you that it would certainly be more
2 comprehensive. The system may -- the functioning of the
3 system may be enhanced with more data, therefore more
4 robust information about the actions of drivers because
5 there's always a driver behind the wheel, whether they're
6 identified or not.

7 Whether that translates to being fair as
8 defined by notions of public acceptability that are
9 within the jurisdiction of other bodies, we're not going
10 to speculate or comment on that. It's -- it's outside
11 our responsibility.

12 MS. CANDACE EVERARD: Okay. So whether a
13 driver gets tagged by a speed trap being operated by an
14 officer or a mobile photo radar unit, same act, but there
15 will be different sets of consequences in those two
16 situations and the Corporation doesn't take a position on
17 the fairness of that?

18 MS. MARILYN MCLAREN: Right, because the
19 authority who -- who holds the responsibility to weigh in
20 on that I think has -- has made a determination for
21 whatever reason. Maybe part of that is public
22 perceptions of fairness, maybe it's not, I'm not sure.
23 But I think our perspective on what it means is -- is
24 limited by the comments I've made so far.

25 MS. CANDACE EVERARD: Now we know from

1 the answer to Question 32 that was posed, that the
2 Corporation does not receive information from the
3 Winnipeg Police Service with respect to the number of
4 infractions that are associated with the cameras.

5 Is that right?

6 MS. MARILYN MCLAREN: Yes, I -- I -- to
7 my knowledge we don't have that data at all.

8 MS. CANDACE EVERARD: And, Ms. McLaren,
9 you mentioned earlier today the -- or maybe it was Mr.
10 Palmer, I forget -- the survey results, and certainly
11 there have been extensive survey results provided as part
12 of the filing and the whole public consultation process
13 that was undergone.

14 And it appears from having a review of
15 those results with respect to these cameras and this
16 issue that the Corporation did not survey the public for
17 the most part with respect to the cameras. Is that --
18 there was some but at least for some of the questions
19 that we reviewed, red-light cameras were excluded.

20 And I -- I can give you a reference if
21 you'd -- if you'd like it.

22 MS. MARILYN MCLAREN: If you have a
23 reference as to what we did --

24 MS. CANDACE EVERARD: Yeah, sure.

25 MS. MARILYN MCLAREN: -- include, that's

1 fine, sure.

2 MS. CANDACE EVERARD: Tab 2, which is the
3 September '07 survey, page 12. This is an example of a
4 question being posed and, as I say, the red-light camera
5 as being specifically excepted from the question, or
6 excluded from the question.

7

8 (BRIEF PAUSE)

9

10 MS. MARILYN MCLAREN: Okay, we've got
11 that reference.

12 MS. CANDACE EVERARD: So would that type
13 of an exclusion in a survey question have been put there
14 or that part of the question specifically excluded by the
15 Corporation for the reasons that you've identified or why
16 would that be specifically excluded?

17 MS. MARILYN MCLAREN: I think the
18 Corporation recognized very early in the process with
19 respect to the development of DSR that very explicit
20 public statements, public commitments, had been made with
21 respect to what those convictions would be use for and
22 what they wouldn't be, those of the intersection safety
23 cameras.

24 I think we did an earlier survey where if
25 -- we'll double-check but going from memory we did ask a

1 direct question that was the public surveyed were
2 overwhelmingly opposed to including those intersection
3 cameras in a system like the merit discount program, DSR,
4 demerit point, additional -- any of those, they -- they
5 overwhelmingly opposed that. We --

6 MS. CANDACE EVERARD: That would be Tab 4
7 pages 30 and 31.

8 MS. MARILYN MCLAREN: Okay. So we did
9 that earlier; we knew that. We also knew because of the
10 public statements that had been made -- and made, you
11 know, not just once back in 2003 -- that there was no
12 appetite to diverge from -- from that public commitment
13 and -- and the way the program was introduced. So we
14 were trying to make sure people understood exactly what
15 we were talking about, what we deemed to be in the realm
16 of the feasible, and proceeded on that basis.

17 MS. CANDACE EVERARD: So it's fair to say
18 then, given that feedback and given the scheme currently
19 set out in the legislation, that the Corporation is
20 content and doesn't -- I'm not getting that the
21 Corporation is taking a strong position with respect to
22 any changes regarding these cameras and the -- the
23 ability or lack thereof to identify the driver; is that
24 fair to say?

25 MS. MARILYN MCLAREN: No, that's not fair

1 to say. I think what's fair to say is the convictions
2 that move people down the new DSR scale are specified in
3 the Regulation, intersection safety cameras aren't there.
4 If they ever show up there, that'll be a decision on the
5 part of the government to include them.

6 You know, people recommend different
7 things to government at different times. This Board
8 recommended for a number of years that seatbelt
9 convictions should earn demerits. For many years that --
10 that was recommended by this Board. Many years after
11 that, the government decided to do it. I'm -- I'm not
12 sure what exactly led them to do it at that particular
13 point in time but -- but they're there now.

14 So that's the regulation; that's what
15 we're working with. That's all you should really take
16 from this conversation is -- is we're working with what
17 we have to work with.

18 MS. CANDACE EVERARD: Okay. On a
19 somewhat related point I want to put a bit of a scenario
20 to you.

21 Let's say we have a vehicle owner that has
22 ten (10) years claims-free driving experience, no
23 convictions under the Highway Traffic Act, such that if
24 the system that's currently being proposed is fully
25 rolled out and the vehicle premium discounts end up being

1 what is currently set out, that person will pay zero
2 dollars for their driver's licence and will enjoy a 30
3 percent discount on their vehicle premium; Okay?

4 MR. DONALD PALMER: Yes.

5 MS. CANDACE EVERARD: So in -- in other
6 words, this is a person who is a good driver who's being
7 rewarded for their experience which is certainly one (1)
8 of the goals of the system.

9 MR. DONALD PALMER: Yes.

10 MS. CANDACE EVERARD: So what if that
11 person had ten (10) red-light camera infractions in the
12 last year and their spouse, who also drives the vehicle
13 but is not the registered owner, had three (3) Highway
14 Traffic Act speeding convictions and two (2) at-fault
15 accidents, I take it there would be no effect on the
16 owner's DSR level in that scenario and hence no change in
17 the vehicle premium collected?

18 MR. DONALD PALMER: Under the situation
19 as you've described, that's correct.

20 MS. CANDACE EVERARD: The spouse, the --
21 the offending spouse with the three (3) speeding tickets
22 under the Highway Traffic Act and two (2) at-fault
23 accidents is obviously going to have an effect on their
24 DSR level and pay a driver premium accordingly but the
25 vehicle premium's going to remain the same?

1 MR. DONALD PALMER: Yes.

2 MS. CANDACE EVERARD: Now, let's add one
3 (1) more factor into this scenario. The same vehicle
4 owner with the offending spouse unfortunately had that
5 spouse pass those offending genes on to their child.

6 So we now have a licensed driver, third
7 driver on this vehicle, who also has multiple at-fault
8 accidents and let's say some major convictions. The same
9 result would hold true. That is the child would suffer
10 whatever consequences there would be to his or her DSR
11 level whereas the registered owner of the vehicle, still
12 not having at-fault claims themselves or any convictions
13 themselves, that vehicle premium discount is going to
14 remain intact.

15 Is that right?

16 MR. DONALD PALMER: That's correct.

17 MS. CANDACE EVERARD: Is it fair to say
18 or is it the Corporation's view that that registered
19 owner is still deserving of a zero dollar driver's
20 licence and a 30 percent vehicle premium discount by
21 lending the vehicle or letting the vehicle be driven by
22 these other poor drivers?

23 MS. MARILYN MCLAREN: Definitely because
24 in the system that we have, we've got all those DSR
25 demerits and -- and surcharges and will be getting

1 significant additional financial contribution from those
2 other two (2) people. Absolutely.

3 MS. CANDACE EVERARD: So it's -- the
4 Corporation is comfortable with that -- those driver
5 premiums being collected from the two (2) bad drivers but
6 the vehicle premium having the discount intact and that
7 registered owner basically being unaffected as far as the
8 Corporation is concerned by the bad behaviour of the
9 individuals to whom they'd lent the vehicle?

10 MR. DONALD PALMER: Unaffected from the
11 MPI premium perspective. I suspect with the situation as
12 you've described there are other consequences besides the
13 Autopac premium, the payment of several deductibles, for
14 instance, the fact that the vehicle may be significantly
15 depreciated because of the number of accidents that it
16 has had.

17 So there are other consequences. So from
18 a MPI premium perspective, you're -- you're correct.

19 MS. MARILYN MCLAREN: We're -- we're more
20 than comfortable. We think that's one of the real
21 strengths of the program. That's why it -- we believe
22 it's such a benefit to individually rate each and every
23 driver.

24 You can't control who owns vehicles, you
25 can't control that side of the equation. But this is

1 highly, highly preferable to administratively listing who
2 these people are and having a complicated rating system
3 based on the relative contribution of three (3)
4 individual drivers to one (1) vehicle premium.

5 Highly complicated, highly
6 administratively burdensome and we think it's ideal that
7 the Manitoba system allows for individual risk grading of
8 individual drivers. So we -- that's exactly what we're
9 here to -- to sort of celebrate the continuation that's
10 been in place since 1971 of that approach.

11 MS. CANDACE EVERARD: Thank you. I now
12 have a few questions with respect to the streamlined
13 renewal process so I'd ask you to turn to SM-2.

14 This is the part of the Application, of
15 course, that deals with and describes the streamlined
16 renewal process.

17 We would appreciate it though if the
18 process of how renewing licence and registration will
19 change, and so if that could be described for the record?

20 MS. MARILYN MCLAREN: We mentioned
21 yesterday that the -- the building block, the -- the
22 necessary building block for the streamlined renewal
23 process was really the integration of the functions of
24 the former DVL branch of government into the Corporation,
25 and the alignment of driver licence renewal processing

1 along with Autopac renewals on the same date, in the same
2 process, in the broker's office as all of which we did
3 about two and a half (2 1/2) years ago in the Fall of
4 2006.

5 So what we were able to with that is -- is
6 leverage those opportunities to significantly improve the
7 administration yet again and extend the licensing period
8 from one (1) year to five (5) years, knowing that almost
9 no policy coverage changes are made during the renewal
10 process. So there's nothing magic about having a -- a
11 document, a licence or so on for a one (1) year period
12 versus a five (5) year period.

13 And as the popularity of the monthly
14 payment program continues to grow, we're also now in a
15 position where, as most Manitobans really believe the
16 annual renewal process to be not much more than a
17 payment, we will begin treating it like a payment.
18 Monthly payments will take place over the full five (5)
19 year cycle of that policy period.

20 At the twelve (12) month intervals we will
21 send a notification to people saying that their -- their
22 monthly payment will go up three dollars (\$3), down two
23 dollars (\$2), but the payments will continue. So for the
24 majority of customers who -- who do make use of the
25 monthly payment plan and a streamlined renewal process,

1 they will no longer have to go to visit the broker unless
2 they really, truly need to do so.

3 And we're aligning this, as well, with a
4 five (5) year one (1) part driver licence document and we
5 think it's appropriate that a new photo be taken every
6 five (5) years and that's why we've aligned the process
7 together in a five (5) year window.

8 So that's basically the heart of it, is
9 people will go to see their broker when they need to, not
10 annually unless they need to, and they will have to go
11 for a new photo and new documentation every -- once every
12 five (5) years.

13 MS. CANDACE EVERARD: Tell me about some
14 of the specifics of the vehicle renewal process. When
15 you go now to your broker you get a little sticker to be
16 put on your licence plate and you get a certificate of
17 insurance that sits in the glove box, normally. How is
18 that going to be done? Are stickers still going to be
19 used and -- and how is that going to happen?

20 MS. MARILYN MCLAREN: Stickers will be
21 used. They're -- they're not used in all jurisdictions
22 anymore; maybe that's something that will need to be
23 looked at at some point but certainly during the
24 transition stickers will continue to be used. They'll be
25 issued for a five (5) year period.

1 MS. CANDACE EVERARD: So -- okay, I --
2 that I understand. The payments, though, will still be
3 due notionally annually or monthly depending on what the
4 person does. How will whether or not a person's sticker
5 is valid as in the premiums been paid, how will that be
6 known to, say, the police service, for example, when
7 they're running a plate? How is that going to work?

8 MS. MARILYN MCLAREN: All of the police
9 agencies in the province have online access to vehicle
10 registration information. None of them for -- for many
11 years now have relied on the plates themselves or even
12 the -- the paper documentation. They always confirm the
13 validity of the vehicle registration, the validity of the
14 driver licence by using their online computer systems.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE EVERARD: So year to year,
19 and I'm not talking about the every five (5) years when
20 the person has to attend at the broker's office for their
21 picture and to -- to renew their insurance, but in the
22 intervening years when it's basically going to be done by
23 the mail or through the mail, what is the role of the
24 broker then to be paid during those intervening years?

25 MS. MARILYN MCLAREN: Well, I -- I guess,

1 you know, just to be clear, for -- for most people during
2 that five (5) year cycle the work that will be done
3 through the mail that you -- that you just referenced is
4 really the Corporation sending a -- a statement of
5 account, a notice really of what their -- their new
6 premium and so on will be.

7 Whether we continue to use traditional
8 mail, whether we'll be able to move in the next few years
9 to an e-mail system is -- is a possibility, something
10 that we would strive to look for -- to -- to look to do.
11 For the people who are on the monthly payment plan, it
12 ends with them looking at the notice and saying, Oh,
13 okay, that's it. There is no work to do.

14 For people who continue to pay on an
15 annual basis they will pay their next annual payment
16 probably many, many of them through online banking. If
17 they still want to get, you know, a pocket full of twenty
18 dollar (\$20) bills and go and visit their broker they can
19 certainly do that, but we expect that to be the minority
20 in most cases.

21 So the role of the broker at the twelve
22 (12) month point really ceases to exist other than to
23 accept cash or cheque payments from those who continue to
24 pay that way.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: So in a transaction
4 that you just described where the person is paying
5 through online or whatever means and they're not actually
6 making a trip to the broker's office, does a commission
7 still accrue in favour of the broker?

8 MS. MARILYN MCLAREN: Yes, it does.

9 MS. CANDACE EVERARD: And why is that?

10 MS. MARILYN MCLAREN: Because the brokers
11 have always been expected to do more than just process
12 the renewal as the renewal has -- has been in place for
13 all of these many years, very much similar to a -- a
14 private sector model. Brokers service the policy. We
15 know they answer tens of thousands of phone calls on our
16 behalf about questions people have about their Autopac,
17 insurance, registration, throughout the year.

18 We also know that in many case the -- the
19 payment that they receive to process some sort of a mid-
20 term change does not really fully cover their costs to
21 process those changes.

22 So we never -- when the commission was
23 5 percent and there was an annual renewal involved, we
24 never expected that they were fully earning that
25 5 percent during that, for the most part, ten (10) minute

1 transaction at the renewal. There was more work
2 involved. Much of that work does continue in a
3 streamlined concept. That's why we would continue to pay
4 them.

5 MS. CANDACE EVERARD: Just as an aside,
6 we've been speaking of paying online, paying monthly.
7 What about payment by credit card, is that still
8 possible?

9 MS. MARILYN MCLAREN: Yes, annual credit
10 card and monthly credit card, those are both options in
11 place, have been since 2000.

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE EVERARD: Ms. McLaren, you
16 mentioned that the popularity of the monthly payment plan
17 has increased. Roughly what percentage would we be
18 talking of basic policy holders that would pay by month?

19 MS. MARILYN MCLAREN: I believe there's
20 now more people on the monthly payment plan than the --
21 the decreasing number who continue to use the quarterly
22 payment plan. There's still a significant number of our
23 customers who just do pay it once a year when it comes
24 due.

25 And part of the -- the consideration

1 around that is there's a large number of vehicles that
2 aren't eligible for the -- for the time payments, for the
3 monthly payment plans. There is an incredible number of
4 low-value trailers that we've talked about in this forum
5 through the years.

6 So there's over a hundred thousand
7 (100,000) vehicles just if you look through, off-road
8 vehicles and low-value trailers, that are not eligible.
9 So that tends to -- to weight the distribution towards
10 the annual payment, as well.

11 But in terms of the -- the payment plan
12 that we have, tilted towards monthly over quarterly and a
13 growing number of people using the quarterly payments --
14 monthly payments, sorry.

15 MS. CANDACE EVERARD: Can you give me a
16 ballpark though on the percentage of people that are at
17 monthly? Like, is it like 10 percent, or a quarter?
18 Half?

19 MS. MARILYN MCLAREN: We'll look that up.
20 Excuse me just for a second.

21

22 (BRIEF PAUSE)

23

24 MS. MARILYN MCLAREN: Okay. There's
25 about 60 percent of the policies that are paid on an

1 annual basis. And remember that is skewed because of
2 more than a hundred thousand (100,000) that don't have a
3 choice of any other way. 30 percent -- close to
4 30 percent use the monthly and the quarterly has -- has
5 dropped down to less than 15 percent, about 13 percent.

6 MS. CANDACE EVERARD: So as it stands
7 then, about 60 percent of individuals attend at their
8 broker's office and pay annually?

9 MS. MARILYN MCLAREN: As it stands, 100
10 percent do because they need to get their new sticker and
11 so on and so forth. But in the new model easily
12 30 percent won't be. And some percentage of the
13 60 percent will continue to, but they don't have the
14 option today. I mean, many people, more every day, are
15 using online banking and other features like that. They
16 don't have that option today because of the need to go
17 and get the documentation.

18 MS. CANDACE EVERARD: So does the
19 Corporation have a sense of what percentage there will be
20 of those individuals who will for whatever reason still
21 choose to go visit the broker, pay the premium and get
22 some kind of a piece of paper in their hand?

23 MS. MARILYN MCLAREN: Pure speculation on
24 my part. At this point maybe 30 percent.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: With respect to the
4 idea that the premiums will need to be renewed every five
5 (5) years and the new driver's licence pictures taken
6 every five (5) years, does that mean at least for the
7 first while that every fifth year there's going to be a
8 bit of a hump in terms of the amount of work to be done
9 or is -- can this be staggered or --

10 MS. MARILYN MCLAREN: It's -- it's being
11 staggered. Yeah, it'll take us till the end of 2013 to
12 get the entire population onto their five (5) year cycle.

13 So some people will renew again in 2010,
14 some people will renew in two (2) years, three (3) years,
15 so there's an evolutionary process that will take until
16 2013.

17 One of the things that we did so
18 effectively in 1995 was smooth the workload and -- and we
19 won't do anything that creates little humps or -- or
20 peaks if there's any way to avoid it and we've continued
21 with exactly the same process this time out as -- as we
22 did when we staggered people off of the February date for
23 the first time.

24 MS. CANDACE EVERARD: Other than the
25 reduced broker commissions which I'll be coming to, are

1 there any cost consequences to the Corporation of this
2 initiative, the streamlined renewal process?

3 MS. MARILYN MCLAREN: There will be some
4 savings in postage. I think, you know, a few things
5 along those lines we have not fully scoped out all of
6 that to this point in time but there will be some other
7 much more minor efficiencies through this process.

8 MS. CANDACE EVERARD: And the postage
9 savings that you mentioned will be borne by or enjoyed by
10 Basic? Is that the expectation?

11 MS. MARILYN MCLAREN: Until such time as
12 we have -- until such time as we -- we might have a
13 different sort of expense allocation formulas, the
14 postage today is -- is shared by Basic and Extension and
15 I expect in that current model the savings would be
16 prorated, as well. Basic picks up the lion's share so
17 they would see the lion's share of the savings.

18 MS. CANDACE EVERARD: And I take it just
19 with respect to extension that the plan of attending once
20 only five (5) years that will apply the same for
21 Extension coverage as for Basic?

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

23 MS. CANDACE EVERARD: Okay. I'd ask you
24 to turn to Question 47 posed by the Board. This deals
25 with the broker arrangements.

1 The response at Sub A provides:

2 "An agreement was negotiated between
3 MPI and the Insurance Brokers
4 Association of Manitoba. There is no
5 contract in place between the two (2)
6 organizations."

7 What exactly does that mean? There's an
8 agreement but no contract?

9 MS. MARILYN MCLAREN: That's right. It's
10 -- yeah, it's an agreement.

11 MS. CANDACE EVERARD: So it's verbal?

12 MS. MARILYN MCLAREN: We have an
13 agreement with the Manitoba Chiropractic Association. It
14 -- it's not a contract.

15 MS. CANDACE EVERARD: I guess to me,
16 agreement and contract kind of mean the same thing. So
17 I'm just sort of struggling, and maybe it's just
18 semantics, but do you mean there's no written signed
19 contract or...?

20 MS. MARILYN MCLAREN: There is a written
21 signed agreement between the two (2) organizations. It
22 probably is semantics so I don't want to put too fine a
23 point on it.

24 You know, it's -- IBAM is an association
25 of brokers. We're more comfortable with the term

1 "agreement" just for that reason, but it's virtually one
2 and the same; it's a commitment to work together within
3 certain principles.

4 MS. CANDACE EVERARD: And the changes to
5 the agreement -- I'll -- I'll go with you and use your
6 word -- reflect -- and this is set out at the answer to
7 Sub A also that by 2012 the commission payable to brokers
8 will decrease to 2 1/2 percent and there's a table at Sub
9 C that sets out the declining scale; is that right?

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

11 MS. CANDACE EVERARD: Now, it's reflected
12 in Sub A, Sub B, and C, so that is 1-47(a), and I'm
13 looking at Sub B and C within that, that there will also
14 be a one (1) time increase in the flat fee compensation
15 for all commissionable transactions that will be adjusted
16 by CPI, the Consumer Price Index. Does this mean that
17 there's a one (1) time payment to brokers or what does
18 that refer to?

19 MS. MARILYN MCLAREN: The -- the flat
20 fees that have been part of the commission schedule since
21 1971 haven't changed for a long, long time so what --
22 what B and C together mean is that we increased the fees
23 and then specified a way to continue to increase them on
24 a regular annual basis so there won't be a need for that
25 kind of a delta again.

1 allocated between Basic and
2 Extension
3

4 CONTINUED BY MS. CANDACE EVERARD:

5 MS. CANDACE EVERARD: At 47(c), where the
6 table appears with respect to the percentage commissions
7 that will be rolled out, it's reflected just -- this is
8 the last sentence above the table -- that Extension
9 commissions are not germane to the application. Can you
10 elaborate on that beyond what's on the record?

11 MS. MARILYN MCLAREN: I'm not sure what I
12 would say to elaborate; it's pretty clear.

13 MS. CANDACE EVERARD: So there's --
14 there's nothing further that you want to add?

15 MS. MARILYN MCLAREN: No, no.

16 MS. CANDACE EVERARD: Is it the case that
17 the commissions ultimately paid by Extension are going to
18 be reflected in regulation?

19 MS. MARILYN MCLAREN: Yes, that's true.

20 MS. CANDACE EVERARD: But at this stage
21 the Corporation is not willing to give the Board an
22 indication of the numbers?

23 MS. MARILYN MCLAREN: There -- there
24 isn't a regulation at this point and so we're not
25 prepared to, yes.

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: I assume though
4 that ultimately the percentages reflected in the
5 Regulation will set out what is in the agreement.

6 Is that fair to say?

7 MS. MARILYN MCLAREN: I hope so.

8 MS. CANDACE EVERARD: And when will those
9 figures be available?

10 MS. MARILYN MCLAREN: I -- I expect no
11 later than a month or two (2), certainly before the June
12 filing.

13 MS. CANDACE EVERARD: So will it be
14 included in the June filing?

15 MS. MARILYN MCLAREN: I expect it will be
16 on the public record by then.

17 MS. CANDACE EVERARD: Mr. Chairman, I
18 just have about another page. Do you want me to keep
19 going or do you want me to resume in the morning?

20 THE CHAIRPERSON: Let us resume in the
21 morning. See you all tomorrow --

22 MS. CANDACE EVERARD: Thank you.

23 THE CHAIRPERSON: -- at 9:00. Thank you.

24

25 (MPI PANEL RETIRES)

1 --- Upon adjourning at 3:58 p.m.

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5 Certified correct,

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11 Cheryl Lavigne

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