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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 8, 2009

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APPEARANCES

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

2

3 THE CHAIRPERSON: Good morning, everyone.

4 Let's resume where we left off.

5 Ms. Everard...?

6 MS. CANDACE EVERARD: Thank you, Mr.

7 Chairman.

8 MR. KEVIN MCCULLOCH: Mr. Chairman, I
9 indicated to Ms. Everard that -- that Mr. Palmer has a
10 couple of responses to undertakings that he would like to
11 put on the record at this point.

12 THE CHAIRPERSON: Very good.

13

14 MPI PANEL, RESUMED:

15 MARILYN MCLAREN, Resumed

16 DONALD PALMER, Resumed

17

18 MR. DONALD PALMER: A couple that
19 probably can be termed as short snappers. We were asked
20 on Monday morning about the date of the Dynamic Capital
21 Adequacy Test that was filed at the last proceedings. It
22 was -- using data, as at February 28, 2007, the date of
23 the report was December 18th, of 2007. That was the last
24 one we filed.

25 The other one was a question that was

1 asked of Ms. McLaren yesterday afternoon, and that was
2 the distribution of time payment options for private
3 passenger vehicles. And for vehicles that are current --
4 or active as at March 1st of 2009, private passenger
5 vehicles, 52 percent in the province pay full, 32 percent
6 pay monthly, and 16 percent pay quarterly.

7 Now that's somewhat different in -- within
8 Winnipeg. The full payment option is 46 percent, monthly
9 payments is 36, and quarterly is 17. So the percentage
10 of taking those time payment options within Winnipeg is
11 certainly greater than outside of Winnipeg.

12

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: While they're
16 conferring, Mr. Palmer, there was something that came up
17 the other day that just rattled around the back of my
18 head. We were discussing the issue of the commingling of
19 investment assets and the different liability investment
20 term differences that may exist between, for example, PPI
21 dominated portfolios compared to a shorter term Extension
22 in SRE.

23 The fact that the assets are commingled
24 means, for example, that the earnings that are attributed
25 to Basic from investments -- correct me if I'm wrong;

1 this is just a matter of dialogue and understanding, okay
2 -- means that if the investment portfolio is set up, for
3 example, to hold cash for a reason, okay, that Basic
4 stood by itself would presumably be more long-term than
5 the overall portfolio.

6 That's correct is it not, given that it's
7 basically infinite life?

8 MR. DONALD PALMER: We also have an awful
9 lot of short term, short tail within Basic. Of our
10 claims going, I'm going off the top of my head a little
11 bit, but about 45 percent of our claims are -- are PIPP
12 claims and about 55 percent are shorter -- are physical
13 damage claims.

14 So there -- there are some differences, so
15 I don't know if there's any conclusions that can be made
16 from that.

17

18 (BRIEF PAUSE)

19

20 THE CHAIRPERSON: But if, you know, like,
21 for example, if you had higher cash holdings, which of
22 course, avoided the necessity to sell securities in a
23 distressed market, but you had the cash for a particular
24 reason that didn't have to do with Basic, it would, in a
25 sense, depress the overall yield of the overall

1 portfolio, would it not?

2 MR. DONALD PALMER: Very, very
3 marginally. Remember, in relative size of the
4 liabilities the -- the unpaid claims reserves and the
5 unearned premium reserves are much, much, much larger on
6 Basic than they are on Extension RSR -- SRE. So, if --
7 if we want to split hairs, I suppose you're right, but in
8 practical terms, there's really no impact.

9 The other thing that we've talked about at
10 the last hear -- hearings is pension plan. That's
11 another aspect that has longer duration, but again it's
12 much smaller in size than the rest of our claims reserve.

13 So would there be a slightly different
14 asset mix if Extension or SRE wasn't there? Possibly,
15 but only very, very, very marginally.

16 THE CHAIRPERSON: Okay, thank you.

17 Okay, Ms. Everard...?

18

19 (BRIEF PAUSE)

20

21 CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

22 MS. CANDACE EVERARD: Ms. McLaren, we
23 heard some evidence yesterday, with respect to the
24 Streamline Renewal Process and how that may affect things
25 going forward. And you gave evidence that where -- once

1 an individual has renewed a policy at the broker, they
2 will not necessarily have to attend at the broker for
3 five (5) years, unless there are changes. In that
4 intervening period, I believe your evidence was that
5 payments would just flow to the Corporation directly and
6 the broker would not necessarily be involved. This is
7 obviously subject to the person still choosing to go to
8 the broker if they wish.

9 I gather, then, that for those individuals
10 who choose not to go to a broker every year, but rather
11 to deal directly with the Corporation for payment, that
12 the Corporation will be, in effect, spending some of the
13 time with those individuals, in lieu of the broker.

14 Is that fair to say? In other words,
15 whatever the broker isn't doing in those intervening
16 year, with respect to getting payment, the Corporation
17 will be doing.

18 MS. MARILYN MCLAREN: Only if they choose
19 to show up in person at an MPI office instead of a
20 broker's office. There's no effort related to monthly
21 payments or online banking options. Those processes are
22 all automated, so there's no difference at all in effort.
23 If someone pays the Corporation an annual payment through
24 an online banking payment versus going to a broker and
25 physically giving them cash, the broker deposits it.

1 The Corporation receives the funds in an
2 effortless way, so to speak, on the Corporation's part in
3 both those scenarios because of the broker's action or
4 because of the person's action. There's no effort for
5 the Corporation.

6 MS. CANDACE EVERARD: So you don't
7 anticipate that the Corporation will have to have
8 additional staff or have additional resources committed
9 as a result of the Streamline Renewal Process?

10 MS. MARILYN MCLAREN: As a result of
11 people paying direct instead of at brokers, absolutely no
12 extra effort on the part of the Corporation.

13 MS. CANDACE EVERARD: Now, we've heard
14 about the Streamline Renewal Process in the context of
15 Basic, and I just want to ask one (1) question with
16 respect to the competitive lines.

17 Is it the Corporation's anticipation that
18 it will have an improved position or an edge in the
19 competitive market as a result of the Streamline Renewal
20 Process?

21 MS. MARILYN MCLAREN: No, no. I think
22 the converse, you know? If -- if we -- through our
23 processes, with respect to registration and Basic
24 insurance, remove the need to, you know, process the
25 paperwork, we could very well be more exposed to brokers

1 choosing to place that business elsewhere.

2 Much of -- if you think about other non-
3 Autopac transactions with independent insurance brokers
4 very little of that happens in person today. Brokers
5 market themselves for homeowners and -- and other kinds
6 of insurance through the mail, through the telephone,
7 through all kinds of other opportunities. If something -
8 - I know in my own homeowner coverage situation, if
9 something comes up they will email me, phone me, drop me
10 a letter; they don't ask me to come in; they don't deal
11 with that.

12 So I think we could be exposed to losing
13 market share if we're not careful about the relationship
14 with our customers and with brokers in a streamline
15 model.

16
17 (BRIEF PAUSE)

18
19 MS. CANDACE EVERARD: Ms. McLaren, if it
20 were the case that broker commissions were increasing on
21 the Extension side, would that be an incentive for
22 brokers to offer MPI products to customers?

23 MS. MARILYN MCLAREN: That would decrease
24 some of the risk that I just talked about. I think --
25 no, the -- the Corporation needs to figure out how to

1 maintain strong relationships with its Extension
2 customers and with its brokers, with respect to the
3 Extension products. That certainly might be one (1) way
4 to mitigate the risk for sure.

5 MS. CANDACE EVERARD: Thank you. I want
6 to get into some questions with the respect to the one
7 (1) piece licences. There was a question that the Board
8 posed in the written exchange, it was Number 48, dealing
9 with the one (1) piece licences, so I'd ask you to turn
10 to that and I do want to refer to it.

11 But perhaps before we get into that can
12 you just confirm, for the record, the distinction and
13 what this new one (1) piece driver's licence entails?

14 MS. MARILYN MCLAREN: The standard one
15 (1) part licence that will be introduced is simply -- for
16 the most part, simply a replacement of the two (2) part
17 Manitoba driver licence to a one (1) part document.

18 Many years ago Manitoba had a one (1) part
19 driver licence when there was no photo attached to it and
20 where -- were most jurisdictions with the introduction of
21 photo driver licences moved -- that was really the
22 impetus for many jurisdictions to move to multi-year
23 driver licences because a photo card is clearly more
24 expensive to produce than a paper document. We didn't do
25 that in Manitoba largely because of the premium on the

1 driver's licence and the need to continue to rate drivers
2 on an annual basis, just like we do vehicles.

3 So that's why the two (2) part system was
4 created and with the advantages through the streamlined
5 renewal environment and the advantages of Autopac online
6 and the integration we can have annual rating of drivers,
7 we can have annual rating of vehicle insurances as well
8 but still have a one (1) part, good-for-five (5) year
9 document.

10 So that's really all the one (1) part
11 licence is, is creating a one (1) piece document instead
12 of a two (2) piece document.

13 MS. CANDACE EVERARD: So the one (1) part
14 licence is distinct from the enhanced driver's licence?

15 MS. MARILYN MCLAREN: That's right.
16 People have to apply separately to have their new one (1)
17 part licence become an enhanced new one (1) part licence,
18 because of the citizenship requirements with respect to
19 enhanced it's a separate process. People cannot just
20 easily at -- at no extra effort or no extra cost opt into
21 an enhanced one; it is a separate application process.

22 MS. CANDACE EVERARD: Looking at the
23 answer to the question posed by the Board at Number 48,
24 it's reflected that the cost of the one (1) piece
25 licences are being charged 100 percent to DVL.

1 MS. MARILYN MCLAREN: Yes.

2 MS. CANDACE EVERARD: What is the
3 quantum, roughly, of the cost of this initiative?

4 MS. MARILYN MCLAREN: I don't remember
5 off the top of my head, and we don't have that
6 information here with us.

7 MS. CANDACE EVERARD: Can you tell us
8 what the cost is per licence, roughly?

9 MS. MARILYN MCLAREN: In an
10 implementation environment, once we're up and running we
11 expect it to be -- I think the cost to produce a driver
12 licence is probably somewhere between two (\$2) and four
13 dollars (\$4). I don't expect that's going to change
14 much.

15 It is more -- much -- and it's -- it's a
16 more expensive, higher tech card, but there are some
17 other efficiencies and -- and production efficiencies
18 that we -- we've been able to obtain. So it -- it's not
19 a significant difference.

20 MS. CANDACE EVERARD: And is there a
21 cost-sharing arrangement in place between the Corporation
22 and the province on this, given that this would appear to
23 be something other than a base cost to DVL?

24 MS. MARILYN MCLAREN: Well, the cost to
25 produce driver licences is something that the Corporation

1 assumes as part of its responsibilities for which the
2 government pays us the \$20.9 million.

3 MS. CANDACE EVERARD: So it's included,
4 in other words, in that -- in the \$21 million payment?

5 MS. MARILYN MCLAREN: That's right.

6 MS. CANDACE EVERARD: And are the one (1)
7 part licences being produced here or are they being
8 produced elsewhere?

9 MS. MARILYN MCLAREN: They will be
10 produced in Ontario.

11 MS. CANDACE EVERARD: Just speaking about
12 the enhanced licences for a moment. There have been
13 reports in the media which I'm sure you're aware of, with
14 respect to privacy concerns in other jurisdictions,
15 regarding the enhanced cards.

16 What is the Corporation's view of that and
17 what is its plan?

18 MS. MARILYN MCLAREN: The Corporation's
19 view is it needs to make sure that it complies with the
20 legislation, complies with the memorandums of agreement
21 between the two (2) countries and the Canadian Federal
22 Government and the Province of Manitoba, and needs to
23 comply with Manitoba legislation, with respect to FIPPA
24 and so on.

25 Where we sit, in terms of this enhanced

1 identity card, enhanced driver licence project in
2 Manitoba, is that the Ombudsman has come out saying that
3 they appreciate the consultation that's happened, they --
4 they appreciate the protection that's provided in the
5 Manitoba legislation, and specifically with some of the
6 concerns expressed by the Ombudsman in Saskatchewan, he
7 went on the record to say that he thought the legislation
8 in Saskatchewan should have more closely followed the
9 Manitoba legislation.

10 The Corporation's perspective is based on
11 comments from the Ombudsman and -- and those kinds of
12 processes were in really good shape.

13 MS. CANDACE EVERARD: So Saskatchewan's
14 decision to do away with these enhanced licences hasn't
15 influence the Corporation in any way?

16 MS. MARILYN MCLAREN: No, it hasn't at
17 all.

18 MS. CANDACE EVERARD: There was an
19 article in yesterday's paper that you probably saw, which
20 provided that only about a thousand Manitobans have
21 applied for the enhanced card to date.

22 Does that sound about right?

23 MS. MARILYN MCLAREN: I think it's closer
24 to fifteen hundred (1,500) now.

25 MS. CANDACE EVERARD: The article says

1 that, whether it's a thousand or fifteen hundred (1,500),
2 that the Corporation was initially expecting about a
3 hundred thousand.

4 Is that correct?

5 MS. MARILYN MCLAREN: We thought we -- we
6 may get that high, you know, between the launch and the
7 end of the summer. We started this program long before
8 people started to be concerned about the stability of
9 their employment, be concerned about the fact that the
10 highway between here and the US is closed at the moment.
11 There's been a lot of intervening factors that have
12 really dampened demand.

13 We've -- also started the process very
14 early to give Manitobans a chance to apply early. We
15 also knew that that was a stretch. That's a longshot.
16 We -- we have enough experience trying to get people to
17 voluntarily come forward and put immobilizers into their
18 vehicles to know that people don't plan really long in
19 advance.

20 I expect we're going to be scrambling like
21 crazy sometime between now and the end of the summer to -
22 - to meet the demand. People will be inclined to think
23 that they can decide on Wednesday that they're going to
24 go to the States for the weekend and come on down and get
25 a card. It's not going to be quite that simple.

1 the Corporation to produce the cards -- the enhanced
2 cards?

3 MR. KEVIN MCCULLOCH: At this point, Mr.
4 Chairman, I think it's worthwhile interjecting and -- and
5 asking whether we're going down a road that really
6 doesn't have much relationship to the DSR Hearing, the
7 issue that -- that has us here for these -- for these
8 Hearings? Issues relating to EDL and ECI and that whole
9 program certainly will form part of the General Rate
10 Application that will be filed -- on an information basis
11 it --it will be there, because I know there will be
12 questions as to how it will or will not impact the Basic
13 Program.

14 But for the purpose of these Hearings,
15 other than interesting information, I wonder if it's --
16 if it's really necessary to go into this area?

17 THE CHAIRPERSON: Well, you are
18 suggesting that the DSR is going to reduce the revenue
19 flow into the Corporation.

20 MR. KEVIN MCCULLOCH: True, but we don't
21 -- does that suggest that we should be looking at other
22 elements of the program that might increase revenue?
23 Surely, that would be more germane at the -- at the
24 General Rate Application.

25 THE CHAIRPERSON: I think we'd all agree

1 that there are a lot of topics that have been raised or
2 could be raised that could easily fall within a normal
3 GRA. But again, your DSR Application includes forecasts
4 of costs going into the future and things of that
5 particular nature. It didn't seem that complicated a
6 question to me.

7 Is it a complex answer? Does it deserve
8 this much attention right now? We understand what your
9 point is.

10 MR. KEVIN MCCULLOCH: Yeah, the issue was
11 not complexity, it was relevance. And if -- if the -- if
12 the direction of the Chair is that -- that you wish
13 responses, then, certainly, they'll be given.

14 THE CHAIRPERSON: Please.

15

16 CONTINUED BY MS. CANDACE EVERARD:

17 MS. CANDACE EVERARD: So the question
18 was: The cost to the Corporation of the enhanced pieces?

19 THE CHAIRPERSON: Ms. Everard, do you
20 mean the full cost -- the cost of just producing the card
21 or are you really getting at the business model, itself,
22 as to whether the revenues raised will meet the costs?

23 MS. CANDACE EVERARD: Essentially, that's
24 what I'm trying to get a -- a sense of, Mr. Chairman.
25 And -- and I'm not trying to be unfair to the panel in

1 any way. The -- the article, or one (1) of the news
2 articles that I read dealing with the Saskatchewan issue
3 and the fact that they've had these concerns and are
4 doing away with it, reflected that the costs there were
5 between fifty (\$50) and eighty dollars (\$80) per card.

6 That was -- that's what it was there.
7 I don't know if it's similar here or not and that's what
8 I'm trying to find out.

9 MS. MARILYN MCLAREN: Well, that context
10 is helpful. And -- and I think BC is charging sixty
11 dollars (\$60), or something like that, for the card.

12 You know, in every jurisdiction that --
13 that is proceeding with enhanced driver licences and
14 identity cards they're doing it clearly obviously through
15 the driver licence system. Different jurisdictions have
16 different infrastructure, different abilities to leverage
17 what they have in place, and -- and the systems and
18 processes that are available to them. That's why costs
19 vary. That's why the -- I believe it was the Premier of
20 Nova Scotia that recently came out and said: Just can't
21 do it. Really wanted to, thought we'd be able to, but
22 just can't do it.

23 Saskatchewan said: I don't know, it's
24 pretty confusing, in terms of dealing with all this
25 privacy stuff appropriately and correctly. It's going to

1 be more expensive. Don't think it's a good idea.

2 In Manitoba we have said that we can --
3 separate from startup costs, but we believe that Manitoba
4 Public Insurance can process applications and issue these
5 cards for the thirty dollar (\$30) fee that's charged.
6 The Corporation gets that thirty dollar (\$30) fee; that
7 was in the -- the regulation that was associated with
8 that. So in addition to the \$20.9 million we have new
9 revenue coming to pay the costs of this enhanced program.
10 Given the infrastructure that we've got we believe we can
11 do that for thirty dollars (\$30).

12 So we would be in a very different
13 situation in terms of our ability to support a program
14 like this that the province wanted to do if we were still
15 dealing with a crumbling thirty (30) year old driver
16 licence system like we were in, you know, the first half
17 of 2006. So it's very much based on what you can do from
18 all kinds of infrastructure and -- and system support
19 perspective. So we're going to charge thirty dollars
20 (\$30), as per the regulation, the Corporation gets that
21 thirty dollars (\$30), and we believe that'll cover our
22 costs.

23 MS. CANDACE EVERARD: Thank you. In
24 Answer 49, posed by the Board in the written exchange,
25 and in particular 49(c), we asked whether the Corporation

1 had discussed with government such as cost sharing the
2 possibility of offering the secure identity card program
3 to low-income people at no or low-cost option, and the
4 Corporation's answer reflected there was, "yes'.

5 Can you just give us a bit more
6 information about those discussions, just elaborate on
7 that "yes".

8 MS. MARILYN MCLAREN: Not really. I'm --
9 I'm not sure at this point exactly where that will shake
10 out. I'm not sure whether some of those final decisions
11 would be embedded in regulation. I can tell you that in
12 some jurisdictions people simply need to produce proof
13 that they are receiving income assistance and they get a
14 card for free. Some jurisdictions simply ask people to
15 declare that they cannot afford the twenty dollars (\$20)
16 and they'll get it for free.

17 So I don't -- I don't think anyone's
18 talking about a lower cost. I think it's either you pay
19 the twenty dollars (\$20) or it's free. And it -- it
20 really is up to the government to specify their comfort
21 level with the parameters around the free. My
22 expectation at that point is -- is we would track that.
23 I really don't think that there's going to be a -- a
24 large, large percentage of the people who apply for
25 identity cards that will not be paying for them. But

1 we'll -- we'll have a look at it as that proceeds.

2 THE CHAIRPERSON: These identity cards,
3 they're good for what, five (5) years?

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

5 THE CHAIRPERSON: This Board actually
6 recommended to government in the Government Cheque
7 Cashing Hearing that cards be made available to low-
8 income people so that they could get bank accounts and
9 things of this particular order.

10 If cards were made available to such
11 people, presumably the government would pick up the cost
12 then. Is that correct?

13 MS. MARILYN MCLAREN: And that's what I
14 meant. We'll just -- we'll watch this and, you know, I
15 mean I -- I don't think we're going to track and count
16 and try to collect, you know, a hundred -- the -- the
17 revenue for a hundred free cards. If it's significant,
18 certainly we would be expect -- we will expect to deal
19 with it the way it's suggested.

20

21 CONTINUED BY MS. CANDACE EVERARD:

22 MS. CANDACE EVERARD: I just have one (1)
23 or two (2) more questions. Again, coming back to an
24 article that was in the news recently; this is from April
25 the 3rd. It was an article about some initiatives that

1 the province is taking with respect to environmental
2 issues and getting vehicles older than 1995 off the road.
3 I'm sure you're familiar with it, Ms. McLaren, because
4 you -- your name is -- is mentioned and you're quoted.

5 What role does the Corporation feel that
6 it might be able to play with respect a) taking these
7 pre-1995 vehicles off the road and b) generally reducing
8 vehicle emissions?

9 MS. MARILYN MCLAREN: Well, we'll try to
10 tackle the easy part first. It would be fairly
11 straightforward for the Corporation to decide to mark
12 every pre-1995 vehicle that was damaged in a crash and
13 determined to be written off, rather than to mark that as
14 repairable, to just mark it as parts only. That's pretty
15 straightforward. We can do that. We wouldn't need
16 legislation to do that.

17 So that -- that's something -- that was
18 the -- the recommendation was that simple and that
19 straightforward from the Vehicle Standards Advisory
20 Board. Recent estimates is that potentially would cost
21 the Insurance Fund about a million dollars a year to do
22 that if we simply, you know, assume the costs of doing
23 that. Even though most older vehicles sold as repairable
24 rarely end up back on the road, most of those are used
25 for parts as well.

1 So we do though get a better price if it's
2 marked repairable versus marked parts only. So that's
3 where the million dollars would come from.

4 If there was some sort of direction
5 provided whereby we wouldn't even do that, we would take
6 them out of the stream, send them straight to the
7 crusher, that would be more costly because right now
8 there's absolutely no market value for metal.

9 As recently as the end of '07, even part
10 way through '08, we were getting as much as four hundred
11 dollars (\$400) or so per unit. And now there's no
12 market. It costs us to haul them out of there. Plus we
13 would be cutting off part of the stream of parts because
14 we rely heavily on those used parts.

15 There's close to a hundred thousand
16 (100,000) pre-1995 vehicles in this province registered.
17 There's about twelve thousand (12,000) of them written
18 off in a typical year and there's about another sixteen
19 thousand (16,000) that are damaged and repaired, put back
20 on the road.

21 So there's a lot of them out there and
22 anything we can do in our claims process will help
23 marginally. I would argue marginally. Everything else
24 left to its devices will take a long time to get those
25 vehicles off the road.

1 So I think, with respect to that
2 particular initiative of the government, I think they are
3 really focussing on the hundred thousand (100,000) and --
4 and we have a smaller role to play.

5 The question of what the Corporation can
6 do to reduce emissions, I think the thing that we clearly
7 obviously have the most direct control over is our own
8 operation. We probably more than any other organization
9 in the province have made really good use of the Hybrid
10 Rebate Program. For example, we directly purchased about
11 thirty (30) or forty (40) vehicles for use in the high
12 school Driver Ed. Program.

13 Years ago we used to be able to rely on
14 dealers to provide vehicles for use in the program and
15 then they would sell them slightly used. It's much more
16 difficult for them to do that. So we let a tender and
17 purchase like thirty (30) to forty (40) -- and we ended
18 up buying hybrids. So we've got a whole bunch of high
19 school driver ed. kids using hybrid vehicles now.

20 So we've dropped the emissions of our
21 fleet. We can do things like consider some of the ways
22 to deal with write-offs. That's something else we can
23 do.

24 I think there are a number of other
25 possibilities that really fall outside the Corporation's

1 scope and mandate and really would have to become part of
2 a broader government public policy.

3 MS. CANDACE EVERARD: Thank you, Mr.
4 Chairman. I don't have any further questions but Mr.
5 Saranchuk has a few.

6 THE CHAIRPERSON: Mr. Saranchuk...?
7

8 CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

9 MR. WALTER SARANCHUK: Thank you, sir.
10 Ms. McLaren, I'm intrigued by an answer that you gave to
11 a question posed by My Learned Friend, Ms. Everard.

12 Did you say that through introduction of
13 the Streamlined Renewal Process the Corporation runs the
14 risk of losing Extension business?

15 MS. MARILYN MCLAREN: I think that's
16 true, yes.

17 MR. WALTER SARANCHUK: Why?

18 MS. MARILYN MCLAREN: I think I explained
19 that to Your Learned Friend.

20 MR. WALTER SARANCHUK: Well --

21 MS. MARILYN MCLAREN: I think that --

22 MR. WALTER SARANCHUK: -- let me suggest
23 something to you. You've got a situation where the
24 Corporation has agreed to increase the commissions to the
25 agents, to the brokers, on the sale of Extension

1 insurance, you've got motorists, 90 percent of them on
2 the Basic side who have Extension insurance, who are now
3 going to be attending at a broker's every five (5) years
4 instead of one (1), and there's not going to be any
5 discussion about Extension insurance in that case, so
6 where's the risk?

7 And if there is a risk, why are you
8 introducing it? Why are introducing the Streamline
9 Renewal Process?

10 MS. MARILYN MCLAREN: Well, let me jump
11 to the end first. Why are we introducing Streamlined
12 Renewal Process? This is absolutely, along with DSR, one
13 of the very best things that the Corporation has been
14 able to do for its customers as an outcome of the merger.

15 The -- the things that we're able to do to
16 enhance service: To streamline the processes to make our
17 interaction with out customers make sense, and for us to
18 be there and for brokers to be there when people need us
19 and not be required to come in for low-value, unnecessary
20 work, is a significant responsibility of the Corporation,
21 and that is what Streamlined Renewals give us and that's
22 why we're introducing it.

23 MR. WALTER SARANCHUK: And let me suggest
24 to therefor, that the risk of losing Extension business
25 by introducing it is minimal in the extreme, and that,

1 indeed -- you can correct me if you don't agree -- that
2 the likelihood is that there will be more Extension
3 insurance sold as a result of the Streamlined Renewal
4 Process.

5 MS. MARILYN MCLAREN: I disagree. I
6 disagree that there will be more sold as a result of the
7 Streamlined Renewal Process.

8 MR. WALTER SARANCHUK: Do you have any
9 reason to disagree that the likelihood is that you will
10 gain Extension customers, as opposed to lose them?

11 MS. MARILYN MCLAREN: Well, Mr.
12 Saranchuk, you started this exchange with an interesting
13 linkage between let's assume we've increased the
14 commission on Extension business --

15 MR. WALTER SARANCHUK: You told --

16 MS. MARILYN MCLAREN: -- as --

17 MR. WALTER SARANCHUK: -- us that --

18 MS. MARILYN MCLAREN: -- part --

19 MR. WALTER SARANCHUK: -- at the last
20 hearing.

21 MS. MARILYN MCLAREN: -- of Streamlined
22 Renewals. We can talk about what is the im -- what is
23 the potential impact on Streamlined Renewals of our
24 Extension business -- and that has been the focus of my
25 exchange with Ms. Everard, and the earlier comments, and

1 my exchange with you -- the point is you look at things
2 from a business perspective, you decide what you need to
3 do that's in the best interests of your customers, and
4 you decide how to do it in a way that mitigates any risk
5 to the strength of that particular book of business.

6 So if you want to put them together and
7 say, I told you we're increasing Extension commissions
8 and we are streamlining renewals on the Extension
9 business, when you put the entire situation together,
10 there's certainly a low risk of losing Extension
11 business, which is why we put the program together the
12 way we did, which included a treatment of commissions.
13 So you can't look at the one (1) without the other and
14 say that because you raised commissions it's ridiculous
15 to say that you would lose business. The focus of the
16 earlier conversation was solely on the Streamlined
17 Process. Increased commissions is not part of the
18 Streamlined Process.

19 MR. WALTER SARANCHUK: I think you're
20 splitting hairs, but will leave it to others to decide.

21 The fact is though that there's been this
22 reticence on your part to acknowledge that somewhere in
23 the order of 90 percent of Basic customers purchase
24 Extension insurance. You started off by saying 80
25 percent yesterday. We heard at the last hearing it was

1 over 90 percent.

2 What's the reticence on your part? I
3 mean, don't you want more of the motorists to purchase
4 Extension insurance and acknowledge it as such?
5 Shouldn't it be -- wouldn't it be happier if it's 95
6 percent? Isn't that a goal?

7 MS. MARILYN MCLAREN: The goal is to
8 provide the product to people who really need it. If
9 there's any reticence it's related to continued
10 discussion of Extension details in these proceedings.

11 We are very proud of our Extension
12 program. We're very proud of the extent to which
13 Manitobans choose to deal with Manitoba Public Insurance,
14 even when they don't have to. And I believe the entire
15 context of how we are implementing Streamlined Renewals
16 for the Extension book of business, which includes a new
17 relationship with brokers on the Extension book of
18 business, mitigates any risk associated with that.

19 But, in the absence of an appropriate
20 relationship with the brokers, we would be at risk.
21 Wisely, appropriately, we have taken steps to avoid that
22 risk.

23 We think Streamlined Renewals are in
24 everybody's best interests, and we've proceeded on that
25 basis because it makes a tonne of sense. People will be

1 very supportive of it and -- and have demonstrated that
2 far, including the brokers. They have been amazingly
3 supportive in working closely with us to make sure a
4 fundamental change to what they have known as their
5 Autopac business for almost forty (40) years is going to
6 work effectively for them and for the customers that we
7 share.

8 MR. WALTER SARANCHUK: Don't get me
9 wrong, Ms. McLaren. I'm not suggesting for one moment
10 that the Corporation shouldn't be complimented for this
11 initiative. I'm just perplexed by your categorization of
12 the introduction as being one where there will be a
13 negative impact on the Extension business -- a risk of a
14 negative impact -- when, in a situation that, as far as I
15 know, is more often the case than not, someone comes in
16 for an Autopac renewal of their coverage and it's
17 automatic. They've got one hundred dollars (\$100)
18 deductible, \$2 million Exten -- \$2 million third-party
19 liability. Do you want to renew it, Mr. Saranchuk? Yes.
20 Here is the Visa -- whatever it is -- and the situation
21 is done with. I walk out the door.

22 Now, every five (5) years there's that
23 possibility of a discussion but -- about the Extension
24 insurance. There never is any discussion on the
25 Extension insurance now, and I would suggest that there's

1 even going to be less discussion once you have a renewal
2 of every five (5) years. And that's where I'm coming
3 from, that there is no risk that you're going to lose
4 business on the Extension side through this -- the -- the
5 Renewal Process that you're introducing.

6 But I guess we'll leave it for others to
7 decide, and I'll just ask you whether, indeed, you can
8 see that there is a possibility that the Corporation will
9 benefit on the Extension side through the introduction of
10 the Streamlined Renewal Process?

11 MS. MARILYN MCLAREN: No, I'm sorry, I'm
12 having trouble understanding where that benefit is. The
13 reason that we're streamlining the renewals, which --
14 thank you for your support of the concept -- is because
15 exactly what you said. People don't come to their broker
16 at the renewal and say: Oh, by the way, I do intend to
17 drive to work again this year. Oh, by the way, it -- it
18 is still, you know, the Ford Tempo that I'm driving.

19 They don't spend any time reconfirming the
20 components of the coverage that -- that is related to
21 Basic. They don't spend any time reconfirming the
22 coverage they selected. The important point in the
23 conversation with respect to getting the vehicle properly
24 identified, probably -- properly underwritten from a
25 Basic perspective, and also from an exten -- is when the

1 vehicle is first registered and insured to that owner.
2 That's why those intervening years are really the low
3 value, virtually useless interactions between you and
4 your broker.

5 Many of the Extension products that we
6 sell are not necessarily related to a registered insurer --
7 registered and Basic insured vehicle, so those are kind
8 of outside the discussion.

9 If you're suggesting that the people who
10 do buy their Extension from other insurers have chosen to
11 do so at the point of an Autopac renewal when the broker
12 convinced them to go and insure with someone else, I
13 would argue that that's not -- that's not when that tends
14 to happen. It happens off-cycle.

15 If someone approaches you and asks you to
16 consider them for your next homeowner, they don't do it
17 on your renewal; they don't even necessarily know when
18 that is. They approach you to move to a different
19 insurer or a different broker, off-cycle. So I don't
20 know that Streamline give us any sort of advantage at
21 all.

22 MR. WALTER SARANCHUK: So at that initial
23 approach when there's a discussion with a broker who
24 says, You can have this Extension coverage through MPI
25 and take advantage of the Streamlined Renewal Process;

1 it's an all-in-one (1). You don't think that that's an
2 advantage over saying to the customer, if you will:
3 Well, here is the Basic through MPI, but through Royal
4 you're going to have to take another approach. Through
5 Wawanesa you're going to have to take another approach.

6 Why would anybody go through Wawanesa or
7 Royal in that situation?

8 MS. MARILYN MCLAREN: Because that's not
9 how Wawanesa and Royal and brokers work. The rest of
10 the insurance business has been streamlined for decades,
11 so we're -- we're catching up. And that's -- that was
12 why -- one (1) of the reasons that the brokers found it
13 reasonable and -- and, you know, appropriate to talk with
14 us and deal with us on this basis; that -- that -- the
15 way you described it is not the way those other insurers
16 work.

17 People can tack on another, whatever,
18 twenty dollars (\$20) to the pre-authorized payment that
19 they give their broker and they can send twenty dollars
20 (\$20) of that off to Wawanesa if they want to. There's
21 no difference there. There's no advantage there, from
22 that perspective, on that first registration and
23 insurance process that you're talking about.

24 MR. WALTER SARANCHUK: How about
25 thereafter?

1 MS. MARILYN MCLAREN: Well, I -- I have
2 never had to go and see my broker to renew my house
3 insurance.

4 MR. WALTER SARANCHUK: But we're talking
5 auto --

6 MS. MARILYN MCLAREN: Well --

7 MR. WALTER SARANCHUK: -- and so in --
8 what I'm saying is -- and I'm not going to dwell on this
9 much longer -- what I'm saying is that it seems to me
10 that there's no question that Autopac, MPI, has the upper
11 hand, has a tremendous advantage in that you're deal --
12 and individual's dealing with one (1) insurer.

13 Do you deny that that's an advantage to a
14 motorist?

15 MS. MARILYN MCLAREN: We're -- we're
16 really proud of the efficient, effective processes that
17 we've built for customers and brokers. I'm -- I'm not
18 going to argue against anything other than it -- it is a
19 very straightforward, effective process, that benefits
20 our customers. And on the -- the front end of it
21 probably is marginally more effective for the reasons
22 that we've talked about in the last few minutes.

23 On the back-end side of it, on the claims
24 side of it, the only difference is that they would end up
25 getting two (2) cheques instead of one (1). All any

1 insurer does for someone who purchases -- purchases
2 Extension from them is they say, Show us your MPI
3 estimate sheets and we'll cut you a cheque. So again,
4 it's very straightforward, not a whole lot of difference.
5 Absolutely, ours is better, but it's not like the be-all-
6 end-all amazingly difficult, unwarranted process from any
7 other perspective.

8

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(BRIEF PAUSE)

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MR. WALTER SARANCHUK: Getting closer to
home, Ms. McLaren, you can confirm, can you not, that
this is not a General Rate Application? This DSR
Application is not in lieu of a General, or to be treated
as a General Rate Application, is it?

MS. MARILYN MCLAREN: No, this is a very
narrow, very specific application for rates to be charged
with a new DSR system. It is certainly not a GRA.

MR. WALTER SARANCHUK: How does it come
to be categorized as in lieu of a 2.9 percent rate
decrease?

MS. MARILYN MCLAREN: You know, I -- I
think what we've said is this calculates the same as a 2
percent decrease. We are applying for decreased driver
licence premiums that are the equivalent of a 2 percent

1 overall vehicle decrease.

2 MR. WALTER SARANCHUK: Yes, is it two
3 point nine (2.9) or -- I heard that figure somewhere --
4 or is 2 percent, or is it more than 2.9 percent?

5 MS. MARILYN MCLAREN: You know, there was
6 some discussion about the 2.6 percent rate decrease that
7 we applied for a couple of years ago, maybe that's where
8 the percentage came from, but in -- in general terms it's
9 about 2 percent.

10 MR. WALTER SARANCHUK: So you can
11 appreciate that, in the context of this Driver Safety
12 Rating Application, the Board, on being advised that
13 you're looking at effectively a rate decrease of 2
14 percent, by virtue of this Application, that the Board
15 can have some difficulty -- or it's possible that the
16 Board might have some difficulty in determining just how
17 to approach this, when there is no actuarial indicators -
18 - there are no actuary indicators to support this
19 effective rate decrease of 2 percent, that there is no
20 second round of interrogatories, there's no current
21 forecast as such, as would be the case on a normal
22 General Rate Application seeking a 2 percent reduction?

23 Can you appreciate that the Board might be
24 faced with some dilemma in that regard?

25

1 (BRIEF PAUSE)

2

3 MS. MARILYN MCLAREN: Given that it's not
4 a GRA, given that it is at stake here, so to speak,
5 overall total driver premium is less than 5 percent of
6 the Corporation's overall financial -- overall revenue, I
7 think it is certainly would qualify as different from a
8 GRA, absolutely. But we've already agreed to the fact
9 that it's not a GRA.

10 I think the confidence that the
11 Corporation has stated that it continues to have in its
12 forecast and its outlook financials that have been put
13 before this Board, should be adequate to give the Board
14 the confidence that it needs to rule on the Application
15 put before it.

16 If the Corporation came forward in a GRA
17 and effectively said -- We really want to apply for some
18 significantly different rates that impact significantly
19 on the \$800 million of overall revenue. Oh, and by the
20 way we've been busy and we just didn't update the
21 forecast this year and really haven't changed any of our
22 outlook financial information -- that would be
23 inappropriate and the Board would be expected to react to
24 something like that.

25 This is a limited process for a limited

1 purpose and we will be back here in six (6) months, in
2 two (2) months there will be another -- a full GRA
3 Application before this Board. This is a limited
4 exercise. The Corporation is confident that it has
5 proven the reasonableness and the fairness of the
6 Application it's put before the Board.

7 So while it is different from a GRA,
8 certainly we'll give you that, but we've confirmed that
9 at the very beginning.

10 MR. WALTER SARANCHUK: Thank you, Ms.
11 McLaren. Just on the point of the percentage, I'm
12 looking at SM-4, Exhibit 1-A, where it is reflected there
13 on page 1 of 2, that there is a 1 percent change in
14 vehicle premiums, that is a reduction, and a 2.6 percent
15 reduction in -- overall, with a 31 percent reduction in
16 drivers premium, so that the overall change, as I
17 understand it, is not 2 percent but rather 2.6 percent.

18 MS. MARILYN MCLAREN: That -- that's the
19 Application. Thanks for clarifying the record.

20 MR. WALTER SARANCHUK: Thank you. Given
21 your answer to the last question that I posed, the one
22 prior, Ms. McLaren, despite this DSR Application, can the
23 Corporation confirm that the upcoming GRA will not be
24 significantly changed, in terms of content or level of
25 disclosure versus the prior General Rate Applications?

1 MS. MARILYN MCLAREN: Absolutely, we can
2 confirm that, yes.

3 MR. WALTER SARANCHUK: Thank you. I'd
4 ask you to turn to the Response to the Corporation to
5 Interrogatory Number 6 of the Public Utilities Board,
6 please. And that essentially relates to the changes in
7 the schedule of the demerits as proposed, compared to
8 what we have in the current system.

9 Is that correct?

10 MS. MARILYN MCLAREN: Yes, that's
11 correct.

12 MR. WALTER SARANCHUK: And I just have a
13 couple of questions. Perhaps it would be best if I could
14 ask you to read in the response to that Interrogatory,
15 which said:

16 "Please provide a schedule which
17 compares the demerit schedule that
18 currently exists with that proposed in
19 the regulation, and explain the major
20 changes to the schedule."

21 MS. MARILYN MCLAREN:

22 "The attached spreadsheet has one (1)
23 tab, Changed Demerits, that shows the
24 difference in demerit counts between
25 the current regulation and the new

1 regulation, and provides a brief
2 explanation for the difference.
3 The second tab, Removed From DSR, lists
4 all convictions that currently have
5 demerits but are not included as input
6 factors in the DSR Program. These
7 convictions are either not considered
8 to be indicators of safe driving or
9 there is not enough data available to
10 create a link between the behaviour and
11 driver risk."

12 MR. WALTER SARANCHUK: Thank you. And
13 now, with reference to that last answer -- and I'm
14 looking at the second page -- that's pages 2 and 3,
15 actually -- to the response -- turning to page 3, when we
16 note that the offence for parking on a roadway, under
17 Section 222(1), of the Highway Traffic Act, which carried
18 two (2) demerit points, is no longer to be considered for
19 demerit rating.

20 Can you explain why not, and why that
21 would not be reflective of unsafe driving?

22 MS. MARILYN MCLAREN: Well, I would just
23 refer you back to the answer that I just read into the
24 record, because it really is related to both the fact
25 that it -- it doesn't necessarily mean -- I mean, there -

1 public acceptance as opposed to a lack of data?

2 MS. MARILYN MCLAREN: I think where we
3 can show that there truly is a predictive value to a
4 conviction, the public buys that. As, you know -- the --
5 the part of this that -- the part of all of this that
6 makes the most sense and is, very honestly, nothing other
7 than -- than gratifying from the man -- Corporation's
8 management's perspective, is how often public
9 acceptability and actuarial science and -- and
10 perspectives fully align.

11 Public will buy it if we say: You know
12 what? People who do that have a 10 percent more chance
13 of causing a crash. They'll say, Okay, fine, I guess I
14 understand why you count it.

15 If we can't tell them that it doesn't make
16 sense. It doesn't make sense from the actuarial
17 perspective, it doesn't make sense from the public
18 acceptability perspective. And for that -- for all of
19 those reasons, it just does not make sense to continue --
20 you know, the other piece of this is a piece that we've
21 talked about with respect to enforcement, and if there is
22 enhanced enforcement, it's quite likely to be on all of
23 the things that are continuing to be part of the Driver
24 Safety Rating Demerit Schedule, not -- not these
25 peripheral kinds of convictions that remain.

1 MR. WALTER SARANCHUK: Yes. And I won't
2 belabour the point except that there are a couple of
3 instances that jump out, I think, at -- at one, in trying
4 to rationalize why these offences would no longer be
5 warranting demerits.

6 I'm looking at for example the offence
7 under Section 171(a) of the -- 1(a) of the Highway
8 Traffic Act, Defacing or Altering of VIN Number, of
9 vehicle identification number, which carried four (4)
10 demerits before. And the second one from the bottom 2 --
11 222(2) of the Highway Traffic Act, Parking to Obstruct
12 Other Vehicles, also carrying four (4) demerits.

13 I can appreciate your answer, in respect
14 of, say, the -- the lesser conviction where it carried
15 two (2) demerits, but when we're talking about four (4)
16 demerits under the old system, and no longer being
17 considered under the new system, I think the question is
18 why? And is it the same answer that you just gave?

19 MS. MARILYN MCLAREN: With the additional
20 answer that I guess I should have included at the
21 beginning: Because that's what the government has
22 decided, that's what is in the regulation. You know,
23 it's very hard to have these one-off conversations about
24 a particular item. You know, I mean the -- the last --
25 second-last one, Parking to Obstruct, you know, someone

1 might leave their car because they want to block entrance
2 to a driveway. You know, I mean that's an anger
3 management issue, that's not a road safety issue.

4 There are all kinds of convictions under
5 the Criminal Code as well as the HTA, with respect to
6 fraudulent use of VINs.

7 So I think there's certainly no -- no
8 absence of opportunities for us to appropriately charge
9 DSR-related demerits for these kinds of convictions.
10 These really are more minor convictions that are not
11 appropriate from our insurance rating perspective, and
12 the government accepted that advice.

13 MR. WALTER SARANCHUK: Yes, so when you
14 say that it wasn't included or -- by the government,
15 effectively the government followed your recommendation?
16 I mean, the initiative had to have been taken up by the
17 Corporation, wasn't it?

18 MS. MARILYN MCLAREN: This -- yes, the --
19 the list of what to remove came from the Corporation; the
20 government accepted it, yes.

21 MR. WALTER SARANCHUK: Thank you. The
22 other question -- another question that I have relates to
23 the Corporation's answer to the Public Utilities Board
24 Interrogatory Number 12 in the First Round, or I guess
25 the only round. And I will not -- I'll try not to

1 belabour the point but again, there is this question of
2 the difference between the final result at the end of the
3 outlook period with the DSR, and without the DSR, and \$50
4 million there, or whatever the net is after applying
5 forty-five (45) on the commission benefit side to the 90
6 million. And the comment in answer to the question posed
7 in Interrogatory Number 12 that there is no draw as such
8 on the RSR.

9 I think that that was touched on earlier
10 yesterday, but how do you categorize that distinction
11 then, Mr. Palmer? I mean, when one looks at the
12 documentation as filed, you see a \$50 million quote,
13 "hit," end of quote.

14 How do you categorize that?

15 MR. DONALD PALMER: It's a result of a
16 decrease in rates, those -- those rate decreases targeted
17 at safe drivers. No difference than in 2007 we applied
18 and -- for and received a 2.6 percent rate decrease,
19 average rate decrease, and if you had run the financials
20 out for a number of years, would have shown a difference
21 probably approximately \$50 million because the numbers
22 are close, that that rate decrease causes a hit to the
23 RSR.

24 The RSR is less if you charge less
25 premium, absolutely. But it's -- it's -- still is a rate

1 decrease -- than we otherwise would have likely applied
2 for in the GRA. And in -- the RSR, for the outlook
3 period with DSR, is well within the range that has been
4 set by this Board.

5 MS. MARILYN MCLAREN: That really has to
6 be the context that we focus on, Mr. Saranchuk, because
7 notwithstanding questions through the IR process and
8 questions yesterday in cross-examination, the Corporation
9 has a -- an internal target for the RSR. The Corporation
10 has stated on the record that for rate making purposes it
11 is working within the target established by this Board.
12 So that's where we find ourselves.

13 So the fact that we are clearly
14 confidently prepared to live with after I guess the first
15 year an RSR of \$108 million, has to be taken in the
16 context of the RSR target established by this Board. If
17 you truly expect us to look at these financials and --
18 and place weight on language about drawing down the RSR,
19 the natural conclusion to my mind is that the RSR would -
20 - would otherwise have gotten to that higher amount.

21 So if this Board has -- has adopted a
22 different view as to what the upper limit of the RSR
23 should be, if this Board is very uncomfortable with
24 reducing driver premiums and not reducing vehicle
25 premiums, we'll -- we'll find out those things when we

1 see the order coming out of these proceedings. But
2 clearly the Corporation's going forward going into this
3 Application Process is that the dis -- the decrease in
4 driver premium is -- is for legitimate reasons that we've
5 put on the record and that we've asked the Board to
6 consider and -- and approve, and that the RSR target is -
7 - as this Board has stated it is.

8 MR. WALTER SARANCHUK: Thank you, Ms.
9 McLaren. I'm looking as well at the answer by the
10 Corporation to Interrogatory PUB Number 21, where
11 essentially the answer was the -- as you just have said,
12 quote:

13 "The RSR levels throughout the -- or
14 through the forecast period are well
15 within the range prescribed by the
16 PUB." End of quote.

17 MPI doesn't agree with the PUB RSR target,
18 does it?

19 MS. MARILYN MCLAREN: That would be the
20 only reason that we would have our own internal RSR
21 target. The very same target we have -- we argued for
22 acceptance by this Board, the Board chose not to, we've -
23 - have accepted that for the last two (2) or three (3)
24 applications coming out of that.

25 MR. WALTER SARANCHUK: So if you don't

1 agree with the target, why are you using it as a
2 benchmark?

3 MS. MARILYN MCLAREN: Because clearly
4 establishing the size of the RSR within the context of
5 setting rates, determining rate rebates, or anything
6 else, is within this Board's authority.

7 I guess I could reiterate everything I
8 said two (2) minutes ago before you asked me that
9 question, but why are we working with the Board
10 established RSR target? Because it's part of the
11 regulatory process. The Board has the authority to
12 establish that target and we're working with it.

13 MR. WALTER SARANCHUK: So I take it then
14 you will now not have any significant concerns that the
15 future financial strength of the Basic insurance plan
16 will be compromised.

17 MS. MARILYN MCLAREN: That sounds much
18 like the question that was asked of Mr. Palmer at some
19 point yesterday.

20 Within the context that we have to work
21 with, DSR will do nothing to compromise the financial
22 position of the Corporation. However, the Corporation
23 continues to believe that an RSR of about \$100 million or
24 so, is inadequate to provide the kind of rate stability
25 that Manitobans expect us to provide. That's a different

1 conversation for a different day.

2 The Corporation is hopeful that we will
3 find a way to resolve this divide between this Board and
4 the Corporation, but at the present time the Corporation
5 is working with the target established by this Board that
6 it has the authority to provide. And I -- I really --
7 I'm not prepared to let what might be the intention
8 behind that statement or question stand without the
9 context. Yes, we believe \$108 million is inadequate to
10 provide the kind of strength to the program that
11 Manitobans deserve. DSR does nothing to compromise that,
12 does nothing to help that. The only thing that will help
13 that is a higher RSR target established by this Board.

14 MR. WALTER SARANCHUK: So in your next
15 annual report, well, you won't -- I take it you won't be
16 saying that the Corporation's ability to provide
17 Manitobans with continued rate stability has been
18 weakened by both the PUB and the MPI?

19 MS. MARILYN MCLAREN: Again, we're
20 dealing with the world as we find it. We are dealing
21 within the context of the authority of this Board. And
22 I'm not exactly sure what the annual report will say; it
23 hasn't been written yet.

24 MR. WALTER SARANCHUK: Is reducing the
25 number of accidents the primary goal of the Corporation?

1 MS. MARILYN MCLAREN: The primary goal of
2 the Corporation is to protect Manitobans from the risk of
3 accidents on the roadway. Part of that is helping to
4 reduce it. I think there is always going to be some
5 number of accidents on the roadway.

6 So if I had to say: What is our primary
7 goal? Our primary goal is to continue to provide very
8 high quality coverage with some -- backed up by -- by
9 phenomenal service, ready access to those services, at a
10 price that really makes sense and is lower tha -- than
11 what most other people can provide anywhere near a
12 comparable product for.

13 MR. WALTER SARANCHUK: But these
14 initiatives, for example, the Driver Safety Rating, that
15 has to be, would you not agree, directed towards the goal
16 of reducing accidents and claims costs?

17 MS. MARILYN MCLAREN: Well, as we've
18 said, we're certainly hopeful that that will be the
19 outcome. We have no legitimate means to decide when or
20 how much of that might ever happen in the future. We
21 think this gives us a much, much better chance of
22 achieving that than what we've got today.

23 So there's a huge difference between hope
24 and creating a program that increases the likelihood and
25 really, truly establishing something as -- as a

1 measurable goal. So clearly, this falls into that
2 category, for sure. That's why one (1) of the strategies
3 in the Corporate Strategic Plan related to road safety
4 and reducing risk is -- is related to DSR.

5 MR. WALTER SARANCHUK: So this DSR
6 program that you're asking the Board to approve is based
7 on your hope that it will reduce accidents?

8 MS. MARILYN MCLAREN: No, the program's
9 based on the objectives that were established, which
10 means better rewarding safe drivers, providing better
11 incentives for high-risk drivers to improve their
12 behaviour; and to provide a system that makes more sense,
13 that people can understand, and therefore better have --
14 have a better chance of influencing their behaviour.

15 MR. WALTER SARANCHUK: But if it's not to
16 reduce claims costs in the final analysis, why are you
17 introducing it?

18 MS. MARILYN MCLAREN: Because whether it
19 reduces claims costs or not, it will achieve the three
20 (3) objectives that have been established. The worst
21 case scenario here is we'll have a better relationship
22 between the risk presented and the rate we charge. We'll
23 have something that's more understandable, therefore more
24 supportable. And we will have something that reduces
25 many of the irritants that the public has today. Those

1 will be measurable outcomes of this program.

2

3

(BRIEF PAUSE)

4

5

MR. WALTER SARANCHUK: Given the fact
6 that there's to be a \$90 million decrease in premiums,
7 isn't the worst case scenario, rather, that you're going
8 to have to increase rates down the road to make up that?

9

MS. MARILYN MCLAREN: No.

10

MR. WALTER SARANCHUK: Why not?

11

MS. MARILYN MCLAREN: A good chunk of
12 that reduction in revenue is going to be offset by a
13 reduction in expenses through the reduction and broker
14 commissions achievable through the negotiated agreement
15 related to Streamlined Renewals. The other part of that
16 reduction is related to the fact that without a higher
17 RSR target established by this Board, revenue has to
18 decrease.

19

MR. WALTER SARANCHUK: I have a question
20 of you, Mr. Palmer, and it is as follows:

21

Why in the midst of a recession that has
22 depressed equity values and reduced investment income
23 prospects would the DSR design not be revenue neutral?

24

MR. DONALD PALMER: On a going forward
25 basis our projections haven't changed. So there are --

1 we have project -- projected for net income for the
2 outlook period.

3 So we haven't finished our revenue or
4 claims forecasting as yet, but certainly there are ups
5 and downs within that. We have some preliminary results.
6 There will likely be a forecast of less investment income
7 on a going forward basis, but for the reasons that I
8 described yesterday, there will likely be lower claims
9 cost too.

10 So we're not looking at anything that
11 would materially change the bottom line. We're not
12 looking at this point in rate increases for the GRA.

13 So from that -- that perspective -- and --
14 and I guess the other -- the other part of it when we are
15 looking at a G -- a GRA that would otherwise in the
16 absence of DSR would be looking at a rate decrease, it's
17 best to reward the safer drivers -- as part of the goals
18 of this program to reward safer drivers with lower rates.
19 That was one of the goals.

20 So that's what we have done, that's what
21 we're presenting. It's certainly hard to go to the
22 public with -- they've been -- their demand is that safer
23 drivers should pay less and higher risk drivers should
24 pay more. That has clearly been the message from the
25 motorists of Manitoba to us, anecdotally -- anecdotally,

1 as well as through survey results that precede any of the
2 surveying that we did specifically for DSR.

3 So in this Application, we saw the
4 opportunity from our forecasts that there would be a
5 lower rate in any event, so our position is that it's
6 best to provide lower rates to those safe drivers.

7 MR. WALTER SARANCHUK: And I just have
8 one (1) follow-up question before what I think will be a
9 break.

10 And let me ask you, sir, doesn't the lack
11 of revenue neutrality of a phase-in in essence represent
12 budgeting for a loss, which is a process that has long
13 been condemned by Intervenors without objection by MPI?

14 MR. DONALD PALMER: For the policy year
15 '10/'11 and '11/'12, we are not budgeting for a loss.
16 The outlook shows a net income in '10/'11 of a negative
17 \$8.3 million and a income of \$9.5 million.

18 So from that standpoint the -- the bulk of
19 this Rate Application, which -- which is looking at that
20 '10/'11, '11/'12 period we're not budgeting for a loss.
21 There's a very small stub period in the '09/'10 year that
22 is showing a projected small loss of \$6.3 million; that's
23 for largely for reasons other than the introduction of
24 the DSR. We don't have control over the '09/'10 rates
25 because they're already set.

1 So from that standpoint this Application
2 does not compromise our goal that we are not budgeting
3 for a loss.

4 MR. WALTER SARANCHUK: But you are
5 relying on your old forecasts?

6 MS. MARILYN MCLAREN: Actualized in the
7 nine (9) -- '08/'09 year with three (3) months of actuals
8 and one (1) month of forecast, with consideration of the
9 information that we have to work with inside the
10 Corporation, with significant information that has
11 enabled this panel to tell the Board and other
12 participants that it is confident there has been no
13 deterioration in the overall forecast.

14 That doesn't mean we're working with old
15 forecasts; it means we have not presented new forecasts
16 in this process. It doesn't mean that's all the
17 Corporation has to work with and it doesn't mean there
18 was nothing behind the Corporation's statement that it is
19 confident the Corporation's financial position has not
20 deteriorated from the time that forecast was prepared.

21 MR. WALTER SARANCHUK: Thank you.

22 THE CHAIRPERSON: Thanks. Okay, we'll
23 have our break now. We'll see you back in fifteen (15)
24 minutes. Thank you.

25

1 --- Upon recessing at 10:25 a.m.

2 --- Upon resuming at 10:48 a.m.

3

4 THE CHAIRPERSON: Okay, folks. I
5 understand that Ms. Everard and Mr. Saranchuk, the Board
6 counsel, are concluded in their cross-examination of the
7 panel so we'll be moving on to CAC/MSOS, and Mr. Williams
8 and Ms. Bowman.

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Just before switching
13 over to our first Intervenor for their cross-examination
14 I've just got a couple of questions from the panel.

15 The proposal, obviously, for the DSR if
16 accepted would change the landscape, so to speak, and
17 we're wondering about the continuation of the practice of
18 allowing the claim buybacks and what the rationale for
19 allowing them to continue. It seems contradictory to the
20 concept of the DSR, just in a preliminary thinking on it,
21 not to say our minds are closed to the thought, but I'm
22 just wondering what your thoughts are on this claim
23 buyback business.

24 We understand the financial implications
25 of it of course; I mean your costs are covered off. But

1 the real point we're getting at is it does seem again
2 contradictory to the principles of the DSR.

3 MS. MARILYN MCLAREN: Agreed. I would
4 agree with that. We took the position internally for
5 many years that we would continue with the claim buyback
6 until we could be in -- in a -- such a position that we
7 could be very assured that people fully understood the
8 financial consequences, the downstream financial
9 consequens -- consequences of filing a claim before they
10 filed it.

11 Couldn't do that in the system we have
12 today. It was too convoluted and too many potential
13 impacts that you just really could not foresee. So it
14 was always our position. All else being equal, this
15 would have been the time to stop it.

16 What -- what we've learned, and I believe,
17 in no small part, what has allowed us to be successful in
18 introducing significant change to our customers is to
19 really be very tactical with respect to what do you
20 really need to change as part of the big implementation,
21 and what do you not. And this was just determined to be
22 not the best time to revisit the claims buyback.

23 We had a lot of discussion internally. I
24 think we will have a discussion again in the future. But
25 it's not as simple as it looks. And it -- this is how

1 some of it plays out. We had a lot of discussion of --
2 frontline staff and, you know, working-level, junior-
3 level business analysts, who -- who dealt with some of
4 the people who handle claims buybacks for customers.

5 What we found is that many of the buybacks
6 that happen are people who are leaving the province and
7 can't get insurance unless they buy it back. They cannot
8 get insurance unless they get that claim -- or a couple
9 of claims off the record. It doesn't necessarily mean
10 how -- you know, like we've had examples of people buying
11 back five (\$5,000) and ten thousand dollar (\$10,000)
12 claims. So they -- 'cause they can't get insurance
13 without it. Sometimes they can't afford the insurance
14 without buying back a claim. So they'll -- those are the
15 people who really tend to use it.

16 But then you have to ask yourself, Okay,
17 well, is it reasonable to put them in a situation where
18 they can't get insurance when they leave? Gee, maybe
19 they'll stay. Maybe if we should -- you can't think like
20 that, that's not good public policy. So, then, if you're
21 going to provide that for people in that situation, how
22 do you tell your own citizens, I'm not going to let yo
23 buy it back 'cause you're going to be in Manitoba next
24 year and you're going to be one of the people who
25 purchase insurance from us.

1 It's a very marginal option for people.
2 Very few use it. We expect that even fewer ongoing
3 Manitobans will use it. We're going to track things like
4 that, and we will continue to pay attention to it, but it
5 really became an issue of equity. We really believe
6 there's legitimate reasons for people leaving to need to
7 do it. If they need to do it, how do you tell others
8 they can't?

9 It's really a personal decision when to
10 use your insurance and when not to. If they had all the
11 information at the front-end, which they will in -- much
12 better now in the future, they may chose not to file the
13 claims. We can't stop them from doing that. But once
14 they get it, it's hard to say: Well, you know, you had a
15 choice to file it, but if you filed it and then change
16 your mind, I won't let you change your mind. Oh, but if
17 you leave Manitoba, I can let you change your mind.

18 So it gets a little complicated, but we
19 will be paying attention to it and revisiting it.

20 THE CHAIRPERSON: You said a lot in a few
21 words; a lot to ponder on that issue, that's for sure. I
22 mean, you can imagine a situation where it would seem
23 particularly perplexing if a person did it more than once
24 -- like, twice or three times -- and it just became a way
25 of life, of dealing with problems. But anyway, I

1 appreciate your answer.

2 The second -- just a general question,
3 again related to the DSR. I imagine the DSR provides the
4 opportunity, at least in the future, if ever the
5 opportunity for a rebate ever arose again, to apply it
6 differently than across the board.

7 Would you agree?

8 MS. MARILYN MCLAREN: Yeah, definitely.
9 We -- we would -- we would think long and hard about
10 exactly how we would bring forward an application for a
11 rebate in the future.

12 THE CHAIRPERSON: Third sort of follow-up
13 question, and I understand that this is a jurisdictional
14 issue, but it is difficult for the Board sometimes
15 because we are driven by an effort to try and determine
16 the public interest and represent interest as those
17 particular kinds, so I have to ask the question.

18 The DSR is basically represented as a step
19 if not integrated approach, okay, to incenting good
20 driving behaviour, if you want, but you have also
21 indicated that when it comes to an Extension policy, it
22 does not go into the Extension side. So it raises the
23 question that you could have a situation where, on the
24 Extension side, the good drivers, if you want, are going
25 to be carrying the poorer ones, much as has been the

1 situation on the Basic side.

2 Is that not the case?

3 MS. MARILYN MCLAREN: The --

4 THE CHAIRPERSON: Why wouldn't you
5 integrate it all the way through?

6 MS. MARILYN MCLAREN: Well it really
7 comes down to the simplistic rating criteria for
8 Extension policies of which ours is exactly the same as
9 anybody else who -- who deals with Extension in this
10 province. There's one (1) question in terms of deciding
11 what kind of a rate somebody gets on their Extension
12 whether they buy it from the Royal or -- or anybody else:
13 What's your Basic Autopac discount? And then you get the
14 same discount on Extension.

15 You know, the actual discount might be
16 different for other insurers but there's only one (1)
17 question. We all just ask the question: What's your
18 Basic Autopac discount? And then you get an Extension
19 discount based on your answer to that question.

20 THE CHAIRPERSON: So if you don't have a
21 discount there's obviously no discount on the Extension?

22 MS. MARILYN MCLAREN: Exactly. And they
23 --

24 THE CHAIRPERSON: And if you're being
25 surcharged?

1 MS. MARILYN MCLAREN: They pay the base
2 rate.

3 THE CHAIRPERSON: That's it for now.
4 Thank you very much.

5 For CAC/MSOS, welcome, Mr. Williams, Ms.
6 Bowman.

7 And thank you, Ms. Everard again, and Mr.
8 Saranchuk.

9

10 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: Thank you, Mr.
12 Chairman and good morning Board Member Evans. Ms.
13 Desorcy's with us as well today, and I'll add my thank
14 you to the Board counsel and Board advisors.

15 While I haven't been in the hearing room
16 all the time, Mr. Chairman, I have been listening
17 intently in the Intervenor room so we'll be tre -- on the
18 mic system, so certainly we'll be trying to avoid
19 duplication except where necessary to lead to a different
20 point or to assist my client.

21 And I can also indicate that thanks to the
22 extensive cross-examination of Board counsel as well as
23 the -- the colourful examination of Mr. Saranchuk this
24 morning, there's a number of areas that we won't need to
25 go into, in terms of -- is a great -- in terms of as much

1 details we would have otherwise.

2 Ms. McLaren, in my opening statement I
3 used a -- a colourful phrase of one of my client's, Ms.
4 Weihs, double-dinging or triple-dinging. You've
5 converted that into double or triple-dipping so just --
6 so just you, you know, whichever that's not a big issue
7 for me.

8 But -- but I want to explore that theme
9 for a little bit and I -- I do want to talk about the
10 consequences of an at-fault accident under the Bonus-
11 Malus System. And I -- I realize that Mr. Palmer has had
12 some of that discussion with Ms. Everard, so we'll try
13 not to walk too far down it but I -- I will have a bit of
14 a different take on it.

15 And perhaps just to assist the discussion,
16 if you can turn to PUB Information Request 1-4, and
17 there's a number of attachments to that and I'll refer
18 you to the document; it looks like an MPI brochure
19 entitled, "Claims: Who's At Fault?". It's dated
20 September 2, '03. And in particular to pages 8 through 10
21 of that document.

22 Do you see that, Mr. Palmer? Excuse me,
23 for those still shuffling, that's kind of in the middle
24 of the attachment to PUB-1-4. It's the brochure, "Who's
25 At Fault?" specifically page 8.

1 MR. DONALD PALMER: And the top of the
2 page says, "If You're at Fault".

3 MR. BYRON WILLIAMS: Thank you for that
4 assistance, Mr. Palmer. I want to -- and -- and you did
5 discuss four (4) possible consequences from a -- MPI rate
6 from an at-fault accident I believe with Ms. Everard on -
7 - on Monday.

8 And without asking you to repeat, you'll
9 confirm you recall that discussion, sir?

10 MR. DONALD PALMER: Yes.

11 MR. BYRON WILLIAMS: And I'm -- I'm just
12 going to present a -- a fact scenario to you, more for
13 context so don't -- don't be too nitpicky with it. I was
14 going to use Ms. Everard as -- as an example, given her
15 occasional speeding ticket, but I believe that I'm
16 probably the highest risk driver in the room so -- so
17 let's go with Mr. Williams.

18 Mr. Palmer, or Ms. McLaren, it doesn't
19 really matter, let's assume I have an at-fault accident
20 four (4) years ago and we'll call that the -- the first
21 accident. And then on the way into work this morning I
22 had another accident which we'll call the second
23 accident, four (4) years later.

24 Do you have that so far?

25 MR. DONALD PALMER: I'm with you.

1 MR. BYRON WILLIAMS: And again, I don't
2 think you need to take notes on this one, it's more for
3 context, but I see you reaching for a pen.

4 Again, let's assume that this second
5 accident is again my fault, 100 percent, because I ran a
6 -- a red light, notwithstanding what Ms. Everard calls
7 the intersection safety camera or red-light camera there.

8 Okay, you're with me, Mr. Palmer?

9 MR. DONALD PALMER: Yes.

10 MR. BYRON WILLIAMS: Now, just looking at
11 your -- your brochure, I won't get -- I won't get back,
12 if I'm 100 percent at fault, I won't get back any of my
13 deductible, is that right, sir?

14 MR. DONALD PALMER: That's a
15 characterization that I'm not really comfortable with, in
16 terms of getting back. It -- a deductible is a co-
17 insurance that -- it's the amount that you're responsible
18 to pay, as opposed to what MPI will pay.

19 MR. BYRON WILLIAMS: In terms of my co-
20 insurance, I will not be using the language of MPI in
21 this brochure -- I won't be getting any of that back
22 though if I'm 100 percent at fault, fair enough?

23 MR. DONALD PALMER: You'll have to pay
24 that amount, yeah to have your car repaired, yes.

25 MR. BYRON WILLIAMS: Okay. But of course

1 deductibles aren't -- aren't the subject of this
2 proceeding. Let's just assume, and it may not work that
3 well for my example, but to -- to the extent that I was
4 eligible for a vehicle discount whether 5, 10, 15, or
5 20 percent, that's another thing that I -- I -- I'm -- a
6 potential consequence of this accident is that I would
7 lose my vehicle discount?

8 Is that fair, sir?

9 MR. DONALD PALMER: In the description as
10 you have given it to me when you had another accident
11 four (4) years ago, and one (1) today, if you were
12 getting a discount today and had all the other
13 eligibility criteria you would lose that -- that
14 discount, yes.

15 MR. BYRON WILLIAMS: Okay. And that --
16 that's one (1) consequence. And in terms of realizing
17 that, in -- in terms of what I pay, I would see that
18 consequence when I went in to renew my application.

19 Is that right, sir?

20 MR. DONALD PALMER: Yes. For the next
21 number of years, depending on claims-free and -- and that
22 discount level would immediately dis -- disappear and
23 then increase if you had changed your ways and become a
24 safer driver and not had accidents, you would get a
25 higher discount each subsequent year.

1 MR. BYRON WILLIAMS: Fair enough. We're
2 still on the old Bonus -- Bonus-Malus program, and just
3 turning to the top of page 9, and this will be a smaller
4 hit but -- and it may be a leap to assume that I was
5 receiving a driver licence merit discount, but I'd lose
6 that as well. That would be a consequence of -- of this
7 at-fault accident, or a potential consequence, sir?

8 MR. DONALD PALMER: If that was an
9 accident reported to the police and a traffic accident
10 report was filed, then you would lose one (1) merit based
11 on that at-fault accident, so you would lose a discount
12 of five dollars (\$5), presumably.

13 MR. BYRON WILLIAMS: And again, I -- I
14 would pay that when I went in to renew my registration,
15 sir, correct?

16 MR. DONALD PALMER: Yes, your driver's
17 licence. And -- and since the driver's licence and the
18 vehicle insurance are now renewed at the same time, that
19 would be true, yes.

20 MR. BYRON WILLIAMS: And given a -- a
21 second at-fault accident in the last forty-eight (48)
22 months, how much of an accident surcharge might I face?

23 MR. DONALD PALMER: If there was more
24 than one (1) in a thirty-six (36) month time period, then
25 it would be four hundred dollars (\$400) in the -- as

1 you've described it, it would be two hundred dollars
2 (\$200).

3 MR. BYRON WILLIAMS: So that --

4 MR. DONALD PALMER: And --

5 MR. BYRON WILLIAMS: Go ahead, Mr.
6 Palmer.

7

8 (BRIEF PAUSE)

9

10 MR. DONALD PALMER: And now we're getting
11 into the complexities of the old program because it
12 depends whether you're the registered owner or not. So -
13 - but for sake of argument let's say it's two hundred
14 dollars (\$200).

15 MR. BYRON WILLIAMS: Okay. And so this
16 is the third potential consequence. And -- and would
17 that be what MPI calls a Charge II?

18 Is that correct, Mr. Palmer?

19 MR. DONALD PALMER: The accident
20 surcharge is a Charge II, yes.

21 MR. BYRON WILLIAMS: And would I pay that
22 as well when I went in to renew my registration, sir? Or
23 when do I pay that?

24 MR. DONALD PALMER: It's with the
25 renewal, yes.

1 MR. BYRON WILLIAMS: In terms of an at-
2 fault accident from MPI's perspective, or excuse me, from
3 the -- the ratepayer's perspective, in terms of the rates
4 they pay are there any immediate financial consequences
5 any further in -- in terms of that, sir?

6 MR. DONALD PALMER: Specifically, the
7 deductible, the loss of discount, the Charge II, the --
8 the loss of driver premium discount. I think that's all
9 of them.

10 MR. BYRON WILLIAMS: Mr. -- Mr. Palmer, I
11 was imprecise. What I was asking is -- is this: I get
12 in an accident today, whatever today is, leaving aside
13 the deductible which you've indicated is a co-insurance
14 issue am I out of pocket within the -- the -- and leaving
15 aside the issue of renewing my licence and registration -
16 - am I out of pocket anything immediately, sir?

17 MR. DONALD PALMER: There are other
18 questions: Did you get fined? Because you're at fault,
19 do you have to rent a car? Do you have to have alternate
20 transportation?

21 There are a number of other financial
22 consequences that aren't really related to MPI, in terms
23 of coverage, but there certainly could be other financial
24 consequences to be out of pocket.

25 MR. BYRON WILLIAMS: Okay. Thank you for

1 that.

2 As I understand it, under the current
3 Bonus- Malus System, at-fault accidents, per se, are not
4 currently assigned demerits.

5 Is that right? Leaving aside my specific
6 example, Mr. Palmer; we'll come to that in a second.

7 Let's say there's an at-fault accident and
8 there's no conviction for anything else, am I correct in
9 suggesting to you that those, per se, are not assigned
10 demerits?

11 MR. DONALD PALMER: Not quite. If there
12 was a traffic accident report, there is two (2) demerits
13 that would be assigned to -- to be used to use up one (1)
14 merit. However, and again introducing another complexity
15 into the current system, those accident demerits aren't
16 used for your Charge I charges on your driver's licence,
17 so even though you may have accident demerits, they're
18 not accumulated for your Charge I charges.

19 MR. BYRON WILLIAMS: Thank you for adding
20 that layer of complexity, Mr. Palmer.

21 Going back to my fact situation, I'm
22 assigned -- excuse me, I run through a red light, I'm
23 convicted of that, then there's demerits assigned to that
24 which would affect my Charge I premium.

25 Is that right, sir?

1 MR. DONALD PALMER: For going through the
2 red light, yes.

3 MS. MARILYN MCLAREN: But only if you
4 already had four (4) demerits; that would be -- that
5 would get you into the Charge I demerit additional
6 premiums. If you had merits, or if you only had two (2)
7 it wouldn't affect you.

8 MR. BYRON WILLIAMS: And that's because
9 it pushes me over six (6) demerits, is that right?

10 MS. MARILYN MCLAREN: Six (6) or more,
11 yes.

12 MR. BYRON WILLIAMS: And that impact on
13 my driver's premium is what you call a Charge -- Charge I
14 impact.

15 Is that right?

16 MR. DONALD PALMER: That's correct.

17 MR. BYRON WILLIAMS: And again, that's a
18 consequence that I would -- I would face when I went in
19 to renew my licence and registration, correct?

20 MR. DONALD PALMER: That's correct.

21 MR. BYRON WILLIAMS: Just for the benefit
22 of the clients, my clients, you'll agree with me that
23 we've identified four (4) consequences being -- potential
24 consequences from an at-fault accident: 1) being the
25 loss of the vehicle discount, 2) being the loss of the

1 small merit discount on that on the driver's licence
2 premium, 3) being the Charge I impact, and 4) being the
3 Charge II impact.

4 Would that be fair, sir?

5 MR. DONALD PALMER: And the deductible
6 that you had described earlier.

7 MR. BYRON WILLIAMS: But you told me that
8 was on the insurance, correct?

9 MR. DONALD PALMER: Yeah, sure.

10 MR. BYRON WILLIAMS: Turning to DSR, in
11 terms of consequences, can I be confident saying that the
12 one (1) that will be removed of those (4) will be the
13 Charge II, or accident surcharge, sir?

14 MR. DONALD PALMER: Because we have one
15 (1) scale that combines accidents and convictions, you
16 will be moving up the same scale. So I wouldn't say it's
17 necessarily removed. There is a consequence of that
18 accident that will affect your pri -- additional driver
19 premium or your discount -- your vehicle discount.

20 MR. BYRON WILLIAMS: Is there one (1)
21 less consequence or not, Mr. Palmer?

22 Not -- I'm not speaking in terms of the
23 value, sir. We'll get -- get to that. But in terms of
24 the -- you've talked about convolution, you've talked
25 about a -- a myriad of impacts. I -- I'm going to

1 suggest to you that as a result of moving to DSR, I might
2 lose my vehicle discount, I might lose my -- my five (5)
3 bucks or ten (10) bucks on my vehicle -- or my licence
4 premium, I might suffer, as well, a -- an increase in my
5 premium if I'm in the demerit range, but there's --
6 there's one (1) less consequence numerically.

7 MR. DONALD PALMER: Yes, I -- I will
8 agree with that.

9 MR. BYRON WILLIAMS: In terms of the
10 demerit point premium -- I'm not -- will you continue to
11 call those Charge Is, under the -- the new system?

12 MR. DONALD PALMER: No. We -- will call
13 that "Additional Driver Premium" if you're in the demerit
14 range.

15 MR. BYRON WILLIAMS: And the impact of
16 moving to DSR, ultimately, if -- if we're looking out to
17 March of 2013, is that I might be able to -- I -- I might
18 be hit by the additional driver premium if things go as
19 they're set out in -- in the schedule, if I'm at one (1)
20 demerit point instead of six (6).

21 Would that be fair?

22 MR. DONALD PALMER: Yes.

23 MR. BYRON WILLIAMS: And, ultimately --
24 again, going out to March 2013, the penalties will be
25 enhanced using the quadruple digit capability of the --

1 of the new system.

2 Would that be fair, sir?

3 MR. DONALD PALMER: That's fair.

4 MR. BYRON WILLIAMS: And there will be
5 potential re -- under DSR, there will still be potential
6 reductions from the base premium of forty-five (45) if I
7 have a relatively good driving record, and, in fact,
8 those will be enhanced, correct?

9 MR. DONALD PALMER: That's correct, down
10 to zero driver premium for -- if you're at the upper
11 range of the merit scale.

12 MR. BYRON WILLIAMS: And in fact, over
13 time it's expected that drivers who are also vehicle
14 owners near the top end of the merit scale, will receive
15 somewhat enhanced vehicle discounts, if all goes
16 according to schedule, sir.

17 MR. DONALD PALMER: That's correct.

18 MR. BYRON WILLIAMS: They'd be about 20
19 percent higher than today if currently at the top end of
20 the scale? About right?

21 MR. DONALD PALMER: A 20 percent
22 additional discount. I think it's probably more precise
23 to say that from the total, their discount would increase
24 or could increase, if all goes to plan, from 25 percent
25 to 30 percent.

1 MR. BYRON WILLIAMS: And that would be an
2 additional 20 -- 20 percent, compared to what someone at
3 the top range would experience today, sir.

4 MR. DONALD PALMER: Compared -- thirty
5 (30) is 25 percent higher than twenty-five (25), yes. 20
6 percent higher.

7 MR. BYRON WILLIAMS: You were shaking my
8 confidence for a second, Mr. Palmer.

9 Ms. McLaren -- and you've had a chance to
10 talk about the merits of the program with Ms. Everard and
11 you'll get a chance again today, but I'm going to try and
12 summarize some of them, of the DSR merits, and I'm going
13 to ask you, you know, whether or not you agree with me,
14 and unless you don't agree with me, I'm -- I'm hope --
15 I'm hoping that I'm not inviting a -- a long response.
16 We'll see.

17 One (1) potential advantage of this new
18 system is, not speaking total value of the -- penalty-
19 wise, but just in terms of complexity, if I have an
20 accident instead of four (4) potential dings or
21 consequences, I'd be down to -- to three (3), correct?

22 MS. MARILYN MCLAREN: Yes. The way
23 you've articulated it, yes.

24 MR. BYRON WILLIAMS: And certainly, again
25 without asking you to elaborate, you would argue that a

1 key benefit would also flow in terms of the clarity.
2 With all conce -- potential consequences flowing from
3 one's relative position on the merit/demerit scale, would
4 that -- that's -- that's an advantage?

5 MS. MARILYN MCLAREN: Yes.

6 MR. BYRON WILLIAMS: And again, you would
7 argue that there's an -- another positive consequence in
8 terms of an improved measure of risks as a -- as a result
9 of the DSR, correct?

10 MS. MARILYN MCLAREN: Yes.

11 MR. BYRON WILLIAMS: And for those unlike
12 me, and perhaps Ms. Everard, who are relatively low-risk
13 drivers, the enhanced potential vehicle discount is
14 another potential advantage over time?

15 MS. MARILYN MCLAREN: Yes.

16 MR. BYRON WILLIAMS: And again from the
17 perspective of additional driver premiums for demerits,
18 another potential positive con -- consequence from the
19 corporate Corporation's perspective is increased premiums
20 consequences for relatively high-risk drivers.

21 Would that be fair?

22 MS. MARILYN MCLAREN: Yes.

23

24

(BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: Would it be fair to
2 say that in terms of my likelihood of getting demerits
3 that would affect my additional demerit premiums, would
4 it be fair to say under DSR that I have an increased
5 likelihood of receiving a -- additional demerit-point
6 premiums in that previously at-fault accidents, which
7 were not subject to a police report would not have
8 counted towards the demerits for that purpose?

9 MS. MARILYN MCLAREN: Yes, that would be
10 true.

11 MR. BYRON WILLIAMS: So I have a somewhat
12 higher possibility of getting increased demerits.

13 Would that be fair?

14 MS. MARILYN MCLAREN: Yes, along with a
15 complete elimination of the possibility of getting
16 charged two (2) accident surcharges.

17 MR. BYRON WILLIAMS: Mr. Palmer, in your
18 view, is there some mathematical or statistical
19 relationship between the likelihood of getting a
20 conviction and the likelihood of being involved in an at-
21 fault accident?

22 MR. DONALD PALMER: Yes. And through
23 conversations that I had with Ms. Everard in the last
24 couple of days, we've established that one is predictive
25 of -- of the other, yes.

1 MR. BYRON WILLIAMS: So there's a
2 positive correlation between convictions and at-fault
3 accidents?

4 MR. DONALD PALMER: Yes.

5 MR. BYRON WILLIAMS: I wonder if the MPI
6 panel can turn their attention to CAC/MSOS Exhibit Number
7 3. The title of that is "Driver Premium Variance
8 Analysis".

9 Have I asked these to be marked as
10 exhibits, Mr. Chairman? If not, I apologize. Let -- let
11 me back up a step please.

12 Mr. Chairman -- and I apologize for this,
13 I should have done this at the outset -- I have -- I
14 presented three (3) documents to the MPI panel, and I
15 think with their consent to you on the Board, one (1) of
16 them is a one (1) page document titled "Driver Premiums
17 Variance Analysis," which I'll hopefully confirm was an
18 element of the 2009 Rate Application, and I'd ask that
19 that be marked as CAC/MSOS Exhibit Number 3.

20 THE CHAIRPERSON: Very good.

21

22 --- EXHIBIT NO. CAC/MSOS-3:

23 Document entitled, "Driver
24 Premiums Variance Analysis"

25

1 MR. BYRON WILLIAMS: The second is
2 actually an excerpt from the record, but given PUB
3 tradition, I'll ask that it be marked as Exhibit 4, and
4 that is the -- a two (2) page attachment. At the top of
5 page 1 you should see Attachment C, page 3, Example 6.

6 THE CHAIRPERSON: Okay.

7

8 --- EXHIBIT NO. CAC/MSOS-4:

9 Excerpt from the record, at
10 the top of which reads,
11 "Attachment C, page 3,
12 Example 6"

13

14 THE CHAIRPERSON: Okay.

15 MR. BYRON WILLIAMS: And the third is
16 again another two (2) page document titled, "Data From
17 Table," page 3, SM-5, simple mathematical calculations
18 performed by the CAC team, and I'll ask that that be
19 marked as Exhibit 5.

20 THE CHAIRPERSON: Very good. Thank you.

21

22 --- EXHIBIT NO. CAC/MSOS-5:

23 Document entitled, "Data From
24 Table"

25

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Ms. -- and again,
3 Ms. McLaren and Mr. Palmer, I -- I don't care who it goes
4 to, I love you both. The -- I'm not getting any nods in
5 accord from the other -- other side.

6 And I'll refer you to CAC/MSOS Exhibit
7 Number 3, titled "Driver Premium Variance Analysis," and
8 you'll agree, subject to check, that this is simply a --
9 an excerpt from the 2009 Rate Application Statement of
10 Operation Schedule 2 to -- TI-13, sir?

11 MR. DONALD PALMER: Yes, I recognize it.

12 MR. BYRON WILLIAMS: And I -- I wanted to
13 spend a couple more minutes learning a bit more about
14 Charge I premiums and Charge II accident surcharges, as
15 they currently are.

16 I'll direct your attention to the -- the -
17 - the columns titled "March 1st '09 to February 28 '10,"
18 and you'll agree that that -- this is the projections
19 provided during the 2009 Rate Application, correct?

20 MR. DONALD PALMER: Yes.

21 MR. BYRON WILLIAMS: And again I realize
22 that there's been some updates for the forecast, but I'm
23 primarily looking at these for illustrative or
24 directional purposes.

25 Do you understand that, Mr. Palmer?

1 MR. DONALD PALMER: Yes, I do.

2 MR. BYRON WILLIAMS: And going to --
3 under "Premiums," you'll see the figure thirty-six
4 million two hundred and fifty-three thousand
5 (\$36,253,000).

6 Sir, do you see that?

7 MR. DONALD PALMER: Yes, I do.

8 MR. BYRON WILLIAMS: And that's base
9 driver -- the total driver premium projected for the
10 '09/'10 year.

11 Is that correct, sir?

12 MR. DONALD PALMER: That's correct.

13 MR. BYRON WILLIAMS: And you'll agree
14 with me that there are three (3) elements to this,
15 starting with the Basic premiums of \$22.25 million?

16 Is that correct, sir?

17 MR. DONALD PALMER: Yes.

18 MR. BYRON WILLIAMS: And secondly, you'll
19 see a smaller figure, second line, of Charge I Demerit
20 Point Premiums, as they are now called, one (1) point --
21 around \$1 million, sir.

22 Is that right?

23 MR. DONALD PALMER: Yes.

24 MR. BYRON WILLIAMS: And this is quite a
25 -- quite a small figure, and you'll see just to the left

1 of the figure, the number of transactions which appears
2 to be about thirty-seven hundred (3,700).

3 Is that right, sir?

4 MR. DONALD PALMER: Yes.

5 MR. BYRON WILLIAMS: Do transactions
6 equal drivers, more or less, Mr. Palmer?

7 MR. DONALD PALMER: Give or take, yes.

8 MR. BYRON WILLIAMS: There may be some
9 people who have a couple of transactions in a year, but
10 it's a rough proxy sir?

11 MR. DONALD PALMER: It's -- it's a proxy
12 of -- of volume, so, sure, for a sake of argument we're
13 okay with that.

14 MR. BYRON WILLIAMS: And these would be
15 drivers forecast to be over six (6) demerits.

16 Would that be right, sir?

17 MR. DONALD PALMER: Yes.

18 MR. BYRON WILLIAMS: So that's a pretty
19 small population on an annual basis?

20 MR. DONALD PALMER: It is.

21 MR. BYRON WILLIAMS: Going to the third
22 line, Charge II Accident Surcharges, the figure's around
23 \$13 million projected for the '09/'10 year, sir?

24 MR. DONALD PALMER: Yes.

25 MR. BYRON WILLIAMS: And again we see

1 around forty-seven thousand (47,000) transactions, would
2 -- would that roughly equate to around forty-seven
3 thousand (47,000) drivers who are subject to these
4 surcharges?"

5 MR. DONALD PALMER: Again, give or take,
6 but sure.

7 MR. BYRON WILLIAMS: And we see that the
8 average surcharge for these drivers is around two hundred
9 and seventy-four dollars (\$274) in the third column to
10 the right, sir?

11 MR. DONALD PALMER: Yes.

12 MR. BYRON WILLIAMS: And you'll agree,
13 subject to check, that spread over the entire population
14 of drivers that will probably might amount to sixteen
15 (\$16) or seventeen dollars (\$17) a driver.

16 Would that be correct, subject to check,
17 sir?

18 MR. DONALD PALMER: Subject to check,
19 sure.

20 MR. BYRON WILLIAMS: Mr. Palmer, I just
21 did a rough calculation and got sixteen (16) basically by
22 dividing 12.9 million by the Basic transactions?

23 So that's in the ballpark anyway, sir?

24 MR. DONALD PALMER: It's in the ballpark.
25 If memory serves me, were -- a number of actual drivers

1 were seven hundred thousand seven hundred and fifty
2 (700,750), so -- but close enough.

3 MR. BYRON WILLIAMS: Okay. And it might
4 in fact be in the range of seven hundred and seventy
5 thousand (770,000), something like that, Mr. Palmer?

6 MR. DONALD PALMER: Yes.

7 MR. BYRON WILLIAMS: Would it be fair to
8 say -- and let's -- whatever figure you use, Mr. Palmer,
9 you'll just be -- it would be fair to say that the -- the
10 number of drivers subject to accident surcharges amounts
11 to maybe 6 or 7 percent of the total population of
12 drivers?

13 Would that be fair?

14 MR. DONALD PALMER: Yes.

15 MR. BYRON WILLIAMS: And you would expect
16 that kind of population, 6 or 7 percent, if Bonus-Malus
17 stayed in place, to be roughly the amount in 2010/2011,
18 2011/'12.

19 Would that be fair, sir?

20 MR. DONALD PALMER: Sure, that -- that is
21 roughly equivalent to the claim -- at-fault claims
22 frequency in the previous year, so yes I -- I would agree
23 with that.

24 MR. BYRON WILLIAMS: Would you expect the
25 population of -- of drivers being involved in at-fault

1 accidents in 2009/'10, such that they were subject to an
2 accident surcharge, would you expect that population to
3 be disproportionately comprised of drivers recently
4 involved in an at-fault accident or conviction, as
5 compared to their representation in the general
6 population, sir?

7 Do you want me to repeat that?

8 MR. DONALD PALMER: The -- the reason
9 that we get at -- are -- Charge IIs, accident surcharge,
10 is the fact that they have been previously in an accident
11 in the last year, so I think what you've described is
12 self-evident.

13 MR. BYRON WILLIAMS: And I just want to
14 be clear: Drivers in the accident surcharge population,
15 they're disproportionately comprised of those who've had
16 recent at-fault accidents.

17 Would that be fair, sir?

18 MR. DONALD PALMER: I would say 100
19 percent of those people have had an accident in the last
20 year.

21 MR. BYRON WILLIAMS: Well, I guess we'll
22 come to a -- a definition of higher risk drivers in a --
23 in a little bit, but would the population of drivers
24 subject to an accident surcharge, be disproportionately
25 comprised of higher risk drivers, sir?

1 MR. DONALD PALMER: There are a large
2 number of those drivers who have been without an accident
3 for a very long period of time that get a two hundred
4 dollar (\$200) surcharge because that's sort of in lieu of
5 losing their discount.

6 So are those -- has our study shown that
7 those drivers are higher risk than other long, long-term
8 drivers who don't have an accident? Yes. Are they
9 higher risk than other people who are in the population
10 who have not had an accident in the last year? Likely
11 not. It depends on your comparator.

12 MR. BYRON WILLIAMS: Well, let me try --
13 let me try and actually ask the same question.

14 Would the population of the drivers
15 subject to Charge II accident surcharges be
16 disproportionately comprised of high-risk drivers, as
17 compared to the percentage of high-risk drivers in the
18 general population?

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Mr. Palmer, if you
23 just followed the logic -- if -- if drivers who are
24 claims-free and conviction-free are more likely not to be
25 involved in accidents, wouldn't it follow that drivers

1 experiencing these at-fault accidents are
2 disproportionately comprised of high-risk drivers?

3 MR. DONALD PALMER: Yes.

4 MR. BYRON WILLIAMS: Does the Corporation
5 actually have an analysis of the relative risk of the
6 expected population of drivers in the accident surcharge
7 category?

8 MR. DONALD PALMER: Yes. We do foreca --
9 as part of our revenue forecast, and -- and you're
10 talking about the -- under the existing program? Yes, we
11 do a forecast of the number of Charge IIs that we will
12 get, yes.

13 MR. BYRON WILLIAMS: My question was
14 inaccurate and I apologize. That was my fault, not
15 your's.

16 Does the Corporation have data on the
17 repres -- on basically the -- in any given year, the
18 composition of those experiencing accident surcharges
19 from the perspective of how many are claims, how many are
20 high risk, how many, you know -- or from the perspective
21 of merit, something like that, sir?

22 MR. DONALD PALMER: Under the old
23 program, we didn't necessarily do that kind of an
24 analysis. With our modelling for the Driver Safety
25 Rating Program, that's exactly the -- the analysis that

1 we did to ensure that any plan that we were proposing was
2 reflective of -- of risk.

3 So -- so the answer -- I think the answer
4 to your question is, yes, we have done -- in preparation
5 for the design of the program and in preparation for
6 these Hearings, we have done that analysis. And that
7 really forms the basis of -- of the -- the graph that I
8 was so proudly displaying over the last couple of days.

9 MR. BYRON WILLIAMS: Okay. I may come
10 back to that.

11 If DSR is implemented as of November 2009,
12 we can be confident that there will be not a lot less,
13 but there will be somewhat -- somewhat fewer accident
14 surcharge transaction in 2009/'10 than projected, and
15 less premium revenue from accident surcharges as well.

16 Would that be fair, sir?

17 MR. DONALD PALMER: Yes.

18 MR. BYRON WILLIAMS: And I'm sure it's on
19 the record and that I've dismissed it, but could you
20 point me to where on the record I could find that
21 information, looking both at the number of tran --
22 expected fewer transactions and the value of those fewer
23 transactions.

24

25 (BRIEF PAUSE)

1 MR. DONALD PALMER: In -- in '09/'10
2 we're collecting the same accident surcharges we
3 otherwise would have, because when they come up to that
4 renewal, they are responsible for the accident surcharge
5 that they would have otherwise paid.

6 MR. BYRON WILLIAMS: So the impact will
7 first be felt in 2010/2011 and not fully felt till
8 2011/2012.

9 Is that correct, sir?

10 MR. DONALD PALMER: That -- that's
11 correct, yes.

12 MR. BYRON WILLIAMS: And I know where the
13 information is for 2011/'12. Can you advise me in terms
14 of 2010/2011, where I can find the information related to
15 the reduced number of transactions and value, sir?

16 MR. DONALD PALMER: We don't specifically
17 have the transaction count. The -- the number of -- or
18 the dollars of Charge II is -- might be contained or
19 buried within the driver premium, but we will -- we will
20 dig it out for you, if -- if you require that.

21 MR. BYRON WILLIAMS: You will undertake
22 to do that for me, Mr. Palmer?

23 MR. DONALD PALMER: Yes, I will.

24

25 --- UNDERTAKING NO. 6: MPI to provide information

1 related to the 2010/2011
2 reduced number of
3 transactions and value

4

5 CONTINUED BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: And roughly we could
7 back-out the number of transactions from the -- the
8 figure of sixteen (\$16) or seventeen dollars (\$17) over
9 the driver population.

10 would that be fair?

11 MR. DONALD PALMER: No, I think you're
12 mixing things there. We will -- from the two hundred and
13 seventy dollar (\$270) -- yes, two hundred and seventy-
14 three dollars (\$273).

15 MR. BYRON WILLIAMS: My apologies. And
16 in 2011/'12, the Corporation would be expecting about \$13
17 million less in revenues related to surcharges, correct?

18 MR. DONALD PALMER: Roughly, yes.

19 MR. BYRON WILLIAMS: Just a general
20 question to assist my clients, Mr. Palmer. obviously my
21 scenario that I presented to you was a car-on-car
22 accident. I'm presuming, and in fact I'm certain of
23 this, the Corporation tracks accident data in the sense
24 of how many car-on-car collisions, how many single
25 vehicle collisions, how many car-pedestrian, car-moped,

1 car-motorcycle, and other key categories.

2 Would that be fair, sir?

3 MR. DONALD PALMER: Yes, we do.

4 MR. BYRON WILLIAMS: Would it be fair to
5 say that most accidents are car-on-car, sir?

6 MR. DONALD PALMER: Yes.

7 MR. BYRON WILLIAMS: Given their relative
8 percentage of the population, would it be fair to say
9 that a significant majority of accidents are car-on-car?

10 MR. DONALD PALMER: Yes, I would agree
11 with that.

12 MR. BYRON WILLIAMS: Is that information
13 difficult to access, Mr. Palmer, for any specific year?

14 MR. DONALD PALMER: We -- we have filed
15 that in the -- in the past so we could probably track it
16 down. I -- I know that Mr. -- Mr. Oakes has been very
17 interested in the comparison of multi-vehicle versus
18 single vehicle collisions.

19 I don't recall, in those tables, if we had
20 other collisions with pedestrians with bicycles, so they
21 may be excluded, but if we want to just talk about single
22 vehicle versus multi-vehicle we can -- we can get that.

23 MR. BYRON WILLIAMS: So you can undertake
24 to do that without having to do a new run or anything
25 like that, Mr. Palmer?

1 MR. DONALD PALMER: We would likely just
2 present something that was presented at the last hearing
3 or maybe the hearing before.

4 MR. KEVIN MCCULLOCH: I was going to ask
5 for some clarification perhaps. Is there a timeframe
6 that you're looking at for that information?

7 MR. BYRON WILLIAMS: For the most recent
8 year for which data is available. And thank you for that
9 clarification, Mr. McCulloch.

10

11 --- UNDERTAKING NO. 7: MPI to provide accident data
12 for single vehicle versus
13 multi-vehicle accidents for
14 the most recent year

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: Again, not wanting
18 to repeat too much of the -- the discussion over the past
19 couple of days, but clearly both in its written evidence
20 and in its oral evidence, the Corporation has made the
21 point that in terms of the actuarial basis of the new
22 system you've clearly established that past convictions
23 and at-fault accidents are predictive of future claim
24 frequency, correct?

25

 MR. DONALD PALMER: Yes.

1 MR. BYRON WILLIAMS: And in terms of the
2 goals of the -- of the new DSR you've expressly
3 identified two (2) of these goals, one (1) being to
4 better encourage poor drivers to improve their driving
5 behaviour, and another being the ability -- strengthening
6 the ability to reward the safest drivers.

7 Would that be fair?

8 MR. DONALD PALMER: Yes.

9 MR. BYRON WILLIAMS: In general terms you
10 want to reward those who go claims and conviction free
11 and better discourage high-risk behaviour.

12 Would that be fair?

13 MR. DONALD PALMER: That's fair, sure.

14 MR. BYRON WILLIAMS: I want to talk to
15 you about definitions for a moment. Would you accept,
16 subject to check, that at various times, in terms of the
17 written evidence and oral evidence in this Hearing,
18 there's reference to poor drivers, good drivers, safest
19 drivers, high-risk drivers, moderate-risk drivers, and
20 low-risk drivers?

21 Would you accept that, Mr. Palmer?

22 MR. DONALD PALMER: I'd have to check the
23 transcripts. There are those various descriptions. I've
24 tried to refer to safer drivers and higher-risk drivers.
25 There may be other terms that have crept in from time to

1 time.

2 MR. BYRON WILLIAMS: And -- and just to
3 go back to that, but if I went to SM-1, page 1, for
4 example -- you don't need to go there unless you really
5 don't trust me -- but I'd see:

6 "...better encourage poor drivers to
7 improve their driving behaviour and
8 strengthen the ability to reward the
9 safest drivers."

10 You'll accept that, subject to check?

11 MR. DONALD PALMER: Yes.

12 MR. BYRON WILLIAMS: So I'm interested in
13 some definitions to put a little more precision on those
14 terms. So let's start with "poor drivers".

15 I note -- again, you can check me if you
16 wish -- that at SM-5, page 31, there's a description of,
17 "a poor driver is someone with demerits," which I took to
18 be one (1) or more demerits.

19 Is that the Corporation's definition of
20 poor drivers?

21

22 (BRIEF PAUSE)

23

24 MR. DONALD PALMER: That -- that was an
25 example. The word "poor" was in quotation marks, with an

1 assumption, maybe not a definition.

2 MR. BYRON WILLIAMS: Fair enough, Mr.
3 Palmer. Just in term -- oh, go ahead, sorry.

4 MR. DONALD PALMER: And I'll -- and I'll
5 just read it into the record.

6 "Assume 'poor' [quotation marks] means
7 a driver with demerits."

8 So I wouldn't say that was a corporate
9 definition, it was just an assumption to make a point by
10 example.

11 MR. BYRON WILLIAMS: Okay, fair enough.
12 If I was looking for clarity in terms of who you want to
13 encourage to improve their driving behaviour using the
14 word "poor," does the Corporation have a definition, sir?
15

16 MR. DONALD PALMER: No. I -- I would say
17 that through the driver safety rating we're encouraging
18 all drivers to be better drivers, certainly, the ones
19 that cause accidents with both -- both in terms of
20 financial consequences and other consequences of injury.
21 The likelihood of those who have exhibited driving --
22 higher risk driving behaviour in the past, is those that
23 we're most likely to -- targeting. That's probably where
24 we would get the most benefit from.

25 But I would say that the purpose of DSR

1 would be encouraging everybody and with -- maybe the
2 higher financial consequences or betterment for us would
3 be for those higher risk drivers.

4 MS. MARILYN MCLAREN: And maybe just a
5 little more specific articulation of who it is we're
6 concerned about. I don't know that that's really the
7 intention of your question, but if we talk about who are
8 we really concerned about, we're talking about the people
9 who have been driving for many years -- I would say well
10 over five (5) years -- and they're -- they continue to
11 turn around at maybe two (2) merits or below that.

12 So the people we're concerned about, the
13 people need to improve their driving behaviour, are the
14 people who, after many years of driving, can't get up to
15 five (5), can't get beyond that. They continue to --
16 maybe their minus two (2), maybe they're plus two (2),
17 maybe they go to minus ten (10), but they have a
18 consistent history of minor convictions with a few
19 accidents and medium or major convictions thrown in.

20 That's our -- that would be our working
21 definition of who we're concerned about.

22 MR. BYRON WILLIAMS: Just so I -- and --
23 and thank you. I'm going to come back to both of you on
24 your -- your responses. Tag teams make it a little -- it
25 helps clarity-wise, but it makes it hard to follow-up.

1 But going to your response first, Ms.
2 McLaren, and again, understanding it's a working
3 definition then, you're not primarily focussed in terms
4 of those down at minus fifteen (15) or -- or minus twenty
5 (20). You -- you consider the most mileage to be made,
6 in terms of encouraging better behaviour, to be not the
7 worst drivers, but the ones who are kind of on the -- in
8 the middle or the -- the margin.

9 MS. MARILYN MCLEAN: Well, I said, two
10 (2) merits and down. So, I mean, I'm certainly not going
11 to suggest we're not concerned about the people down at
12 minus fifteen (15) and below. But there are a lot of
13 other -- you know, the Driver Improvement and Control
14 Program, licence sanctions, licence suspensions --
15 there's a lot of other activity focussed on people who
16 are seriously into the demerit point schedule.

17 My point really is -- in terms of the
18 long-term driving history is -- is what we're looking at.
19 Someone who's been driving for a year or two (2) and has
20 two (2) demerits because they had one (1) minor
21 conviction, I wouldn't categorize them as someone that
22 we're concerned about and -- and trying to get them to
23 improve. The vast majority of -- of new drivers do
24 become safe drivers and do improve.

25 So the focus of attention is really right

1 from plus two (2) down to minus twenty (20), I would say.

2 MR. BYRON WILLIAMS: Mr. Palmer, just --
3 just in terms of your -- your language, and I think you --
4 - you talked about the -- and if I've misstated you,
5 you'll -- will review the transcript -- but the most
6 benefit those with the highest financial consequences.

7 And you seem to speak both of frequency
8 and severity, is that right, sir?

9 MR. DONALD PALMER: I would be talking in
10 averages, so I guess both frequency and severity would --
11 would -- we -- the goal would always be frequency. And
12 again, we've touched on this a little bit in -- in my
13 discussions with Ms. Everard, that that's the actions
14 that we're trying to guard against. Severity tends to be
15 more luck, bad luck likely, than the action that caused
16 the accident in the first place.

17 So in general a program like this would be
18 more concerned with the frequency of accidents. And the
19 severity of accidents, it comes as a consequence of luck,
20 often.

21 MR. BYRON WILLIAMS: Did I mis-hear you
22 when -- when you said "severity" in your first answer,
23 Mr. Palmer?

24 MR. DONALD PALMER: Severity would --
25 would go into the financial consequences, absolutely.

1 But in terms of the program and what we're focussing on,
2 is more frequency.

3 MR. BYRON WILLIAMS: And -- and we'll
4 come back to this a bit later, but severity may be a -- a
5 consequence of bad luck, it -- it may -- may also be a
6 consequence of reckless action, could it not? For
7 example, driving at reckless speeds or other activities
8 like that, sir?

9 MR. DONALD PALMER: The frequency, I
10 would say that extreme -- extremely unsafe driving ra --
11 behaviour, driving at a 150 K or more, likely would
12 produce a higher severity accident. I will grant you
13 that. It doesn't necessarily mean that it's the
14 determining factor. There are many high-speed collisions
15 that people walk away from too.

16 So I don't know that there's -- that --
17 there's maybe some linkage there, but it's, again it
18 would be frequency more that we're targeting.

19 MR. BYRON WILLIAMS: I understand your
20 distinction. Just -- just so I'm clear though, you'll
21 acknowledge that severity is not always just a -- a
22 function of bad luck, sir?

23 MR. DONALD PALMER: I'll grant you that,
24 yes.

25 MR. BYRON WILLIAMS: And -- and just

1 going back to the corporate objectives, there was...

2

3

(BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: Thank you. I think
6 I have a better idea of where the Corporation's coming
7 from, in terms of poor drivers.

8 The -- the Corporation use language again
9 in -- in -- in its objectives of the safest driver.
10 Would I be correct in presuming by the safest driver the
11 Corporation means someone who's been claims and
12 convictions-free for more than ten (10) years or is there
13 a working definition that the Corporation has?

14 MR. DONALD PALMER: That's generally what
15 we've been talking about, in terms of -- of the
16 elimination of the driver premium that we've set are for
17 the safest drivers, those are at eight (8), nine (9) or
18 ten (10) new merits. So that again is -- would be
19 indicative of -- of long term conviction and accident
20 free.

21

22

(BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: So if I was looking
25 at someone who'd had at-fault accidents for two (2) or

1 three (3) years in a row, that definitely would not be a
2 safest driver.

3 Would that be fair, sir?

4 MR. DONALD PALMER: That would be fair.

5 MR. BYRON WILLIAMS: Conversely if I look
6 at someone who's gone five (5), six (6) years without an
7 accident, without a conviction, that someone who's
8 starting to creep up into that safest driver range.

9 Would that be fair?

10 MR. DONALD PALMER: Yes.

11 MR. BYRON WILLIAMS: Just -- and I
12 apologize if I'm being a bit repetitive. Going back to
13 the -- the two (2) objectives of the program we discussed
14 earlier, could I state them as enhanced consequencers --
15 enhanced consequencers for drivers engaged in higher risk
16 behaviour, and enhanced rewards for drivers engaged in
17 lower risk behaviour?

18 Would that be fair?

19 MR. DONALD PALMER: That's fair.

20 MR. BYRON WILLIAMS: And without asking
21 you to elaborate at this point in time, would it be fair
22 to say that a driver engaged in lower risk behaviour in
23 the DSR era could expect to be more generously rewarded
24 than a driver engaged in lower risk behaviour in the
25 Bonus-Malus era?

1 MR. DONALD PALMER: That's one of the
2 stated goals of the program, yes.

3 MR. BYRON WILLIAMS: Mr. Chairman, I'll -
4 - I'll come back to this point after lunch.

5 But, Mr. Palmer, and I -- this is more a
6 kind of a cleanup for me. I do want to come back to
7 those terms that I've seen elsewhere in the record of low
8 risk drivers, moderate risk drivers and high risk
9 drivers. And if I could I'll direct your attention to
10 the -- it's in the initial Application -- there's a
11 Prairie Research Associate Survey, dated September 18th,
12 2007, and I believe it's Tab 2.

13 MR. DONALD PALMER: And what can be
14 characterized further as good luck, I turned right there.

15 MR. BYRON WILLIAMS: Very good, Mr.
16 Palmer. In particular I'll direct your attention to the
17 Executive Summary, Roman Numeral I, and I see other
18 people leafing through for it. So we'll -- we'll wait a
19 couple of seconds.

20 That's Tab 2 of the Opinion Research, I
21 believe. It should be towards the back of the
22 Application and it's a PRA Survey, September 18th, 2007.
23 Mr. Palmer it should be right near the front of it if
24 you're -- Roman Numeral Number I.

25 Or, excuse me, little 'I', I apologize.

1 MR. DONALD PALMER: Little 'I,' I've got
2 it.

3 MR. BYRON WILLIAMS: I don't know where I
4 can look. Anyways, Mr. Palmer, if we look at the
5 subheading on this page, "Profile of Driver Types,"
6 you'll see a reference to low risk drivers and a
7 suggestion that there are four hundred and sixty-four
8 thousand (464,000) approximately low risk drivers in
9 Manitoba. Moderate risk drivers, suggesting that there's
10 a hundred thousand (100,000) -- almost a hundred and two
11 thousand (102,000) moderate risk drivers. And high risk
12 drivers, around twenty -- twenty-eight hundred (2800)
13 high risk drivers.

14 Do you see those references, sir?

15 MR. DONALD PALMER: Yes, I see them.

16 MR. BYRON WILLIAMS: Now is -- these
17 terms are presented in the PRA Prairie Research
18 Associates Survey, are these MPI terms or are they
19 Prairie Research Associates terms, sir?

20

21 (BRIEF PAUSE)

22

23 MR. DONALD PALMER: They were MPI terms
24 that were defined specifically for the Prairie Research
25 Associates Survey.

1 We did want to stratify the results of the
2 survey into categories, so those low risk, medium risk,
3 high risk were somewhat arbitrary. So we -- we wanted to
4 stratify the sample in such a way and that's what we --
5 we chose.

6 So I wouldn't say that these are
7 overarching definitions of the Corporation. I would say
8 they were definitions specifically for the purpose of
9 stratification of the PRA samples.

10 MR. BYRON WILLIAMS: And understanding
11 that they were specifically for the purposes of the -- of
12 the sampling, can you give me a -- a rough working
13 definition that was used for each of these terms, sir?

14 MR. DONALD PALMER: It's in the first
15 paragraph of the executive summary --

16 MR. BYRON WILLIAMS: Okay, then --

17 MR. DONALD PALMER: -- and I will -- I
18 will read it in, if you --

19 MR. BYRON WILLIAMS: No, that's fine. If
20 that's the -- the definition that you're -- you're using.
21 What -- what I would be seeking is some guidance in terms
22 of the differentiation between moderate-risk and high-
23 risk drivers. You've -- and you'll -- you're suggesting
24 that a slim majority of moderate risks report they've had
25 an at-fault accident within a certain time period, as

1 compared to the majority of high-risk drivers.

2 What's the key differentiation between
3 those -- those two (2) terms, sir?

4 MR. DONALD PALMER: Moderate risk and
5 high risk?

6 MR. BYRON WILLIAMS: Yeah.

7 MR. DONALD PALMER: Moderate risk are
8 those with one (1) or fewer merits and no more than five
9 (5) demerits. And high-risk drivers are those with six
10 (6) demerits or more on their licence. It's in the first
11 paragraph under "Methodology".

12 MR. BYRON WILLIAMS: Thank you, sir. One
13 (1) final question, and I apologize for -- for this but,
14 just my rough count is suggesting that there were about
15 five hundred and seventy-one thousand (571,000) low,
16 moderate, and high-risk drivers identified for this
17 survey.

18 Would -- would you accept that figure,
19 subject to -- to check, Mr. Palmer?

20 MR. DONALD PALMER: That would be the sum
21 of the four sixty four (464), the one-o-two (102), and
22 the two point eight (2.8).

23 MR. BYRON WILLIAMS: Yes, and just going
24 back to our discussion earlier, it's fair to say that MPI
25 certainly has over seven hundred thousand (700,000)

1 drivers?

2 Would that be fair, sir? Perhaps closer
3 to eight hundred thousand (800,000)?

4 MR. DONALD PALMER: Yes, between seven
5 fifty (750) and eight (8) I think.

6 MR. BYRON WILLIAMS: And -- and just
7 again, what would the other hundred and thirty (130) to
8 two hundred and thirty thousand (230,000) be categorized
9 as?

10 MR. DONALD PALMER: I don't know where
11 those two hundred and thirty thousand (230,000) drivers
12 are. I'll double-check it.

13 MR. BYRON WILLIAMS: Okay. I don't
14 really require an undertaking on that. Thank you, Mr.
15 Palmer.

16 Mr. Chairman, the time being twelve
17 o'clock...

18 THE CHAIRPERSON: Very good. Let's come
19 back at 1:15. Thank you.

20 The reason, by the way, for coming back
21 for 1:15 is we're going to have shut down about ten (10)
22 to 4:00 because of another commitment.

23

24 --- Upon recessing at 11:58 a.m.

25 --- Upon resuming at 1:21 p.m.

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THE CHAIRPERSON: Okay, welcome back everyone.

Mr. McCulloch...?

MR. KEVIN MCCULLOCH: Yes, Mr. Chairman. There are two (2) responses to undertakings that I would like to file as exhibits at this point. The first one relates to the alternatives considered by MPI for placement of new Manitobans into the DSR system, and the comment on why those alternatives were considered overly punitive and too complex in the mind of the Corporation. That will go in, I believe, as MPI Exhibit number 7.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. MPI-7: Response to Undertaking 3

MR. KEVIN MCCULLOCH: The second undertaking relates to the definition of inactive driver and I would ask that that be filed as MPI Exhibit Number 8.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. MPI-8: Definition of inactive driver

THE CHAIRPERSON: Mr. Williams, Ms.

1 Bowman...?

2 MR. BYRON WILLIAMS: Yes, thank you and
3 good afternoon.

4

5 CONTINUED BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: Just in terms of
7 where we are in the CAC/MSOS game plan, Mr. Chairman,
8 Board Member Evans, I've probably got five (5) or six (6)
9 areas tha -- that I -- I have yet to cover. Three (3) or
10 four (4) of them are fairly short.

11 So I'm going to try and get through three
12 (3) or four (4) of them today, hand over to my colleague,
13 Ms. Bowman, who probably will -- will carry on and -- for
14 a half an hour or so, and then hopefully I'll get to
15 Issue Number 5 to start but not finished. So I think
16 we'll have a bit of carry-over into Tuesday for an hour
17 and a half to two (2) hours perhaps, okay.

18 In terms of the -- I wonder if the MPI
19 panel can direct their minds to CAC/MSOS Exhibit Number
20 4, please.

21 MR. DONALD PALMER: I have it.

22 MR. BYRON WILLIAMS: And, Mr. -- Mr.
23 Palmer, you'll agree with me that these are frankly
24 selected excerpts from two (2) Information Requests, just
25 two (2) examples, one (1) being from CAC/MSOS/MPI-1-8,

1 the other being from PUB-1-46, sir?

2 MR. DONALD PALMER: Yes.

3 MR. BYRON WILLIAMS: And I make that
4 point simply to say there's other scenarios that -- that
5 -- that one could -- could draw but the -- these are two
6 (2) that I -- I just want to run through with the -- the
7 Board.

8 And so the first page of CAC/MSOS Exhibit
9 Number 4, essentially what we're doing here, I'll ask you
10 to confirm, is a -- a comparison of the relative results
11 for a driver and vehicle owner under the current program
12 and driver safety rating, five (5) years out under
13 certain assumptions.

14 Is that fair, sir?

15 MR. DONALD PALMER: That's correct.

16 MR. BYRON WILLIAMS: And the assumptions
17 are a) that this driver has one (1) merit and one (1)
18 accident in the year before transition, b) that he or she
19 owns a vehicle, and c) that this driver has an at-fault
20 claim in the first and second year under the -- the new --
21 -- well, in the first and second year of this -- this
22 example.

23 Is that correct, sir?

24 MR. DONALD PALMER: That's correct.

25 MR. BYRON WILLIAMS: And the left-hand

1 columns char -- or categorizes the results for this
2 driver under the current program while the right-hand
3 column categorizes the results for this driver on the --
4 under the driver safety rating.

5 Is that right, sir?

6 MR. DONALD PALMER: That's correct.

7 MR. BYRON WILLIAMS: And if we -- we'll
8 jump to the bottom line. First, in -- in terms of this
9 specific driver the consequences after five (5) years
10 under the current program, the Bonus-Malus program, are
11 six thousand four hundred and twenty-five dollars
12 (\$6,425).

13 Is that right, sir?

14 MR. DONALD PALMER: That would be his
15 total premium that he paid over that five (5) year
16 period, yes.

17 MR. BYRON WILLIAMS: Okay. And the
18 consequences, or in your language total premium, un --
19 under DSR is -- is lower by about five hundred and
20 twenty-five dollars (\$525), being five thousand eight
21 hundred and ninety dollars (\$5,890).

22 Would that be correct, sir?

23 MR. DONALD PALMER: That's correct.

24 MR. BYRON WILLIAMS: Okay. And
25 essentially just going back, this is a driver who a year

1 before the transition has an accident and then at-fault
2 claims in the first and second years, correct?

3 MR. DONALD PALMER: That's correct.

4 MR. BYRON WILLIAMS: Okay. And in terms
5 of when -- when we look at the differences between his
6 treatment under the current -- or Bonus-Malus program
7 versus Driver Safety Rating, essentially in terms of the
8 current program the -- the two (2) key years, or Year 2
9 where he pays an accident surcharge of four hundred
10 dollars (\$400), and Year 3 where he pays an accident
11 surcharge of eight hundred dollars (\$800) for a total of
12 twelve hundred dollars (\$1,200).

13 Would that be right, sir?

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

15 MR. BYRON WILLIAMS: And under this
16 program at -- at least in the transition years -- he's
17 relatively better off under Driver Safety Rating because
18 the driver premium in years 2 through 5 does not recover
19 the same amount as is recovered in years 2 and 3 under
20 the accident surcharge under the old program.

21 Is that right, sir?

22 MR. DONALD PALMER: That would be
23 accurate, yes.

24 MR. BYRON WILLIAMS: Just to turn you to
25 the second page of this exhibit, and this is a partial

1 excerpt from Example 4, from PUB/MPI-1-46.

2 You'll agree with that, Mr. Palmer?

3 MR. DONALD PALMER: Yes.

4 MR. BYRON WILLIAMS: And you've chatted
5 with Ms. Everard about this exhibit extensively so I
6 don't want to -- to travel too far down it, but I'll
7 suggest to you that essentially what this Information
8 Request does is compare the consequences under the Bonus-
9 Malus program or current system and DSR, for a vehicle
10 owner who is essentially placed on the scale at zero.

11 Is that right, sir? And then I'll get to
12 the other information.

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

14 MR. BYRON WILLIAMS: And then this
15 particular vehicle owner goes seven (7) additional years
16 without a conviction or an at-fault accident.

17 Would that be fair, sir?

18 MR. DONALD PALMER: Yes.

19 MR. BYRON WILLIAMS: Would it be fair to
20 say that over this seven (7) year period this particular
21 driver and vehicle owner, under the -- under the current
22 system, will pay about seven hundred (700) -- excuse me,
23 seven thousand four hundred and seventy dollars (\$7,470),
24 as compared to seven thousand seven hundred and forty
25 dollars (\$7,740) under DSR.

1 Would that be correct, sir?

2 MR. DONALD PALMER: That's correct.

3 MR. BYRON WILLIAMS: So essentially a two
4 hundred and seventy dollar (\$270) difference over that
5 seven (7) year period, sir?

6 MR. DONALD PALMER: Yes.

7 MR. BYRON WILLIAMS: With the driver
8 going seven (7) years claims and conviction free being
9 about two hundred and seventy dollars (\$270) better off
10 in -- in this scenario under -- under the current system.

11 Would that be fair?

12 MR. DONALD PALMER: And just let me put
13 this into a little bit of context. And maybe not so much
14 this one but some of the other examples that we were
15 looking at and -- just -- just also for the record not --
16 again, not in this example but in some of the other
17 examples in PUB-1-46, we did notice an error in some of
18 the examples. So we will be refileing that later on in
19 the Hearing.

20 But the context is very important to --
21 under the current system we have implied that there would
22 be no change to the discounts or to the demerit premiums.
23 Where -- the example in the DSR System, we are -- in the
24 DSR System we are showing that there is rate changes
25 going on into the next four (4) or five (5) years. So

1 it's not completely an apples to apples comparison
2 because one shows rate changes and one shows there is no
3 rate changes.

4 MR. BYRON WILLIAMS: And -- and that's
5 helpful, Mr. Palmer. And let me just follow-up on that
6 point for just one second, if I might.

7 You've indicated that you've not shown
8 discount changes or driver premium changes on -- on the
9 current, or Bonus-Malus System, just so I have that
10 point, sir, correct?

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

13 MR. BYRON WILLIAMS: And certainly
14 directionally if you were looking to make changes to the
15 discounts under the current, or Bonus-Malus System, would
16 it be fair to say you'd be unlikely to reduce the vehicle
17 discount for -- for someone under that system?

18 Manitobans have told you they want better
19 rewards --

20 MR. DONALD PALMER: Oh, so --

21 MR. BYRON WILLIAMS: -- so you -- you
22 would not, in any case, reduce the discount for the
23 driver under the Bonus-Malus Program, someone who's gone
24 seven (7) years claims free.

25 MR. DONALD PALMER: That's likely true.

1 MR. BYRON WILLIAMS: So in -- in fact,
2 the example, just for context, probably understates the
3 relatively improved position for this particular
4 individual under the current system, as opposed to the
5 DSR system.

6 Would that be fair?

7 MR. DONALD PALMER: For this particular
8 example, that would be true.

9 One (1) other -- and -- and the trusty
10 back row quickly went through this example and there one
11 (1) slight error in it. Under the current system, in
12 Year 7, the vehicle premium should be nine hundred
13 dollars (\$900), not eight forty (840).

14 MR. BYRON WILLIAMS: It wouldn't take
15 away from the conclusion that, even under this example,
16 this driver would be better off, sir, under the current
17 system?

18 MR. DONALD PALMER: The conclusion is the
19 same.

20 MR. BYRON WILLIAMS: Okay.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: While my client, Ms.
25 Desorcy, is still here and busily multitasking away in

1 the -- the back row, Mr. Palmer, I have one (1) of your
2 short snappers for you. I wonder if you can turn to your
3 Corporation's response to PUB-1-2(b), please.

4

5

(BRIEF PAUSE)

6

7

MR. DONALD PALMER: I have it.

8

MR. BYRON WILLIAMS: And just in terms of
9 this -- the response to PUB -- PUB-1-2(b), it's a table
10 that appears on both one -- page 1 and page 2. I'm going
11 to ask you to -- to turn to page 2, and I'm going to try
12 a very rough description of what this table captures and
13 you'll correct me if I -- if I -- if I've got it wrong.

14

In the extreme left-hand column, Mr.
15 Palmer, you've got the merits and demerits for the -- the
16 driver, as they currently are under the current system.

17

Would that be fair?

18

MR. DONALD PALMER: Yes.

19

MR. BYRON WILLIAMS: If we move one (1)
20 column over, you go to the number of claims-free years.

21

Would that be right?

22

MR. DONALD PALMER: Yes.

23

MR. BYRON WILLIAMS: And then, again, to
24 where their projected DSR level is.

25

Would that be right sir?

1 MR. DONALD PALMER: Under the -- or under
2 the transition plan, as defined in regulation, yes.

3 MR. BYRON WILLIAMS: Yes, thank you for
4 that, and that's a helpful clarification. And, again, I
5 won't dwell on it.

6 Then it -- it -- it's -- what it provides
7 in the remaining columns, the next two (2), a comparative
8 look at how they do under the old driver premium versus
9 the DSR driver premium, and again, under the old vehicle
10 premium discount versus the DSR premium discount.

11 Those are the next four (4) columns, sir?

12 MR. DONALD PALMER: Yes.

13 MR. BYRON WILLIAMS: And then you've got
14 a percentage of drivers and a -- and a number of columns
15 in the extreme right-hand column, sir?

16 MR. DONALD PALMER: Number of drivers
17 that is, yes.

18 MR. BYRON WILLIAMS: Okay, I misspoke. I
19 apologize for that.

20 Just going towards the -- the bottom of
21 the page, and really this is more to help out my clients
22 than anything else, you'll see under the Number 1,
23 there's one (1), two (2), three (3), four (4), five (5),
24 six (6) lines with zeros in them, in the extreme left-
25 hand side, Mr. Palmer.

1 Do you see that? I'm on the merit side,
2 page 2, where all the zeros are. Do you see that, sir?

3 MR. DONALD PALMER: Yes, I see it.

4 MR. BYRON WILLIAMS: And -- and I'm
5 really interested in the -- in the first five (5) zeros.
6 Those are -- as I understand it, those are individuals
7 who, under the current system, are at zero merits and
8 they're moving to the -- to the side of the angels in
9 terms of the DSR level, in that they'll all have positive
10 merits.

11 Is that right, sir?

12 MR. DONALD PALMER: That's correct.

13 MR. BYRON WILLIAMS: And, as a
14 consequence, some will -- as you can see with these
15 columns, some will pay more in terms of driver premium,
16 some will pay less. But for five (5) of these columns,
17 they'll all receive a vehicle premium discount when
18 previously they had not.

19

20 Would that be fair, sir?

21 MR. DONALD PALMER: That's correct.

22 MR. BYRON WILLIAMS: And just going to
23 the right-hand side of this table, I'm going to suggest
24 to you that if you -- you total that -- that -- those
25 five (5) columns, starting with the twenty-two thousand

1 two hundred and twelve (22,212) and finishing with the
2 twenty-five thousand four hundred and thirty-three
3 (25,433) you get to about eighty thousand (80,000)
4 drivers; it might be just a touch less, seventy-nine
5 thousand (79,000) or so, sir.

6 Would you accept that, subject to check?

7 MR. DONALD PALMER: Sure.

8 MR. BYRON WILLIAMS: My math has been
9 pretty good today.

10 And these are essentially eighty thousand
11 (80,000) who under the old system would have had zero
12 merits but will be moving -- and -- and no vehicle
13 discount, and they'll be moving to a vehicle discount.

14 Would that be fair?

15 MR. DONALD PALMER: That's fair.

16 MR. BYRON WILLIAMS: And, Mr. Palmer, it
17 may be impossible to generalize -- what my clients are
18 trying to understand is who are they? Who are these clie
19 -- individuals?

20 MR. DONALD PALMER: This is -- and -- and
21 you've pointed out one (1) of the challenges with the
22 transition scale that -- that we had. And these would be
23 people that Ms. McLaren was talking about, who can't
24 necessarily get a merit. So they've been claims free.
25 So I'm specifically looking at zero merits five (5) years

1 you quite properly start at the top of that column with
2 the about twenty-two thousand (22,000) at zero merits and
3 five (5) years claim free. Let's go down to the bottom
4 of that column, the twenty-five thousand (25,000) or so
5 drivers with zero merits and one (1) year claims free.
6 Tell me a bit more about those drivers, Mr. Palmer.

7 MR. DONALD PALMER: It would be the --

8 MR. BYRON WILLIAMS: Are they a hair
9 breadth's away -- breadth away from getting 25 -- 25
10 percent discount? I just want to understand your -- your
11 point.

12 MR. DONALD PALMER: No, they -- they
13 would be a hair's breadth away from getting a 5 percent
14 discount.

15 MR. BYRON WILLIAMS: And so when -- when
16 the Corporation is -- is looking at these individuals --
17 well, let's take those twenty-five thousand (25,000) at
18 zero and -- and one (1). Is it -- is it the -- the Corp
19 -- zero being merits and -- and one (1) year claims free
20 -- is it the Corporation's position that if they wouldn't
21 have been moved into the -- that -- that if they would
22 not have moved them into the one (1) level for DSR that
23 they would effectively be taking money out of their
24 pocket, in terms of a -- a discount that they would have
25 otherwise got under the old system? I'm just trying to

1 understand.

2 MR. DONALD PALMER: If we hadn't put them
3 at DSR Level 1 then, yes, it's very possible that they
4 would have been disadvantaged under the DSR system,
5 compared to where they would have been in another year or
6 so.

7 Now, the -- the ones that are in zero
8 merits and one (1) year claims free, those could also be
9 new drivers, so haven't had a licence for two (2) years
10 in order to gain that precious first merit.

11 So -- so they have a accident-free year in
12 that first year but still do not have a merit, so don't
13 get credit for -- for a discount.

14 MR. BYRON WILLIAMS: I'll have to think
15 about that but thank you, thank you very much for that,
16 Mr. Palmer.

17 Ms. McLaren, just going over to you and
18 you did have some fascinating discussion with Mr.
19 Saranchuk about some of these points this morning, so --
20 so, again, I'll try not to -- I'll try not to -- to -- to
21 go where Mr. Saranchuk is although I may a little bit.
22 But would I be correct in suggesting to you that there's
23 no particular magic in having the driver safety rating
24 application approved for November 1st, 2009 as compared
25 to December 1st, 2009 or February 1st, 2010?

1 Would I be correct in that?

2 MS. MARILYN MCLAREN: Not quite sure what
3 you mean, in terms of magic.

4 MR. BYRON WILLIAMS: Is there any
5 insurance or insurance program reason why November 1st,
6 2009 has to be the particular date for -- for
7 implementation?

8 MS. MARILYN MCLAREN: No, there isn't.

9 MR. BYRON WILLIAMS: And -- and just so -
10 - so, for example, if the Board was concerned about,
11 let's say, a \$6 million negative -- or I won't put words
12 -- a negative consequence in the '09 tenure, there's no
13 particular reason why implementation couldn't be for
14 March 1st, 2010, for example?

15 Am I right on that, Ma'am?

16 MS. MARILYN MCLAREN: From a straight
17 operational perspective, pushing out the implementation
18 would likely affect some other initiatives within the
19 Corporation.

20 It would also require some administrative support from
21 the government where the regulations have already been
22 passed with a specific date.

23 But in terms of is there any particular
24 impact of changing the date on this Application in a --
25 in a discreet standalone sense, no, there isn't.

1 MR. BYRON WILLIAMS: Also just from a --
2 I want to follow this a little farther along and maybe
3 I'm helping you here. From -- let's say from a
4 communication perspective, would the Corporation have any
5 concerns about bringing in DSR on the same day as new
6 rates came in?

7 Would that -- would that be a -- a concern
8 in terms of separating DSR from kind of the impacts of
9 clear or -- or otherwise?

10 MS. MARILYN MCLAREN: That would
11 complicate it a bit. But I guess that is really only
12 true for that four (4) month so-called stub period, the
13 November, December, January, February. Everyone after
14 that will see DSR for the first time with new vehicle
15 rates, as well.

16 MR. BYRON WILLIAMS: So going back to my
17 initial question. There's nothing really magic in that
18 November 1st, 2009 date, fair enough?

19 MS. MARILYN MCLAREN: Well and -- and I -
20 - I said in response to a question from Ms. Everard, we
21 may need to delay that date a certain amount and we're --
22 we're having a hard look at that right now. So there's -
23 - from that perspective and that use there's nothing
24 magic about November 1.

25 MR. BYRON WILLIAMS: Now, Ms. McLaren, my

1 client is here. I want to talk to you a little about
2 some -- the issue of a targeted rate decrease and some
3 revenue impacts, and my client is here so there -- and --
4 and I want to make sure that I understand the
5 Corporation's evidence so I'm going to try and restate a
6 few points, I won't take too long, but in terms of what I
7 understand the evidence has been to date. And if I've
8 misstated them, you'll correct me. If I've got it right,
9 hopefully you won't feel the need to elaborate too much.

10 But it would be fair to say that at
11 various times MPI has characterized its DSR proposal as a
12 targeted rate decrease? That's fair?

13 MS. MARILYN MCLAREN: Yes.

14 MR. BYRON WILLIAMS: And if I wanted --
15 and you don't need to go there, because I think you've
16 gone there at least twice before -- if you went to PUB-1-
17 12 you -- you might see language such as "a targeted rate
18 decrease for safe drivers".

19 Would that be fair?

20 MS. MARILYN MCLAREN: That's right. And
21 that's part of the basis of this application, because
22 there are some transition costs because of the transition
23 placement, and there's also the project costs; both of
24 that are much smaller than the targeted applied for rate
25 decrease for drivers at Steps 8, 9, and 10.

1 MR. BYRON WILLIAMS: And you use the
2 word, "transition," and I'll get to that in -- in just a
3 second.

4 Of course -- and this is more to help my
5 client -- you're only seeking approval for rates, which
6 would, in terms of the -- the premiums, driver premiums,
7 which would take effect November 1st, 2009, and that
8 would run for -- till the end of the 2010/2011 year in
9 this specific regard?

10 MS. MARILYN MCLAREN: Driver premiums and
11 vehicle discounts.

12 MR. BYRON WILLIAMS: Excuse me, I forgot
13 to include that.

14 You certainly do anticipate seeking
15 further changes for DSR rates, effective March 1st, 2011;
16 March 1st, 2012; March 1st 2013. Fair enough?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: So what we're seeing
19 in the 2009/2011 years, is -- is merely a -- Stage 1 of a
20 proposed transition. Fair enough?

21 MS. MARILYN MCLAREN: Transition has been
22 used in the context of these Hearings as to how do we get
23 from today's world into the DSR world, so I'm not sure
24 that we would call subsequent potential rate changes
25 transition. I think we need to talk about -- and

1 clearly, through the conversation we've had the last few
2 days, it's complicated with all kinds of intended and
3 unintended consequences. Moving to a fundamentally new
4 system that we plan to do in this next period of time,
5 that's the transition.

6 MR. BYRON WILLIAMS: And the output of
7 the fundamentally new system as you've described it, as
8 compared to what we're -- we're seeing that you're
9 specifically applying for in this Rate Application,
10 farther down the line, whether it's 2011, 2012, or 2013,
11 you're contemplating enhanced vehicle discounts, more
12 levels on the merit side, and higher premiums on the
13 demerit side, in terms of driver premiums, correct?

14 MS. MARILYN MCLAREN: Yes, exactly.

15 MR. BYRON WILLIAMS: That'll come later?

16 MS. MARILYN MCLAREN: We hope so. We
17 expect so. And certainly not in this application.

18 MR. BYRON WILLIAMS: But in approving
19 this rate, the regulator should understand that it's
20 looking at only part of the more holistic package.

21 Would that be fair?

22 MS. MARILYN MCLAREN: Well, it is asked
23 to approve rates for a specific period in time. And we
24 have also included outlook and projections like we do in
25 a -- in a normal -- in a GRA. So we have said this is

1 what we expect to happen, all else being equal; not
2 dissimilar to what we do in a GRA, where there are large
3 net income projected into the outlook period, we say, you
4 know, probably a 2 percent decrease; probably a 3 percent
5 decrease. So it's not dissimilar from that, but it is
6 very much a -- a focussed application for a time-bounded
7 period.

8 MR. BYRON WILLIAMS: Except for -- it's
9 not only been asked to approve rates; essentially, it's
10 been asked to approve a concept, is it not?

11 MS. MARILYN MCLAREN: The DSR concept, is
12 that what you mean? Or a different concept?

13 MR. BYRON WILLIAMS: Absolutely. A DSR
14 concept which three (3) or four (4) years down the line
15 will have enhanced vehicle discounts, more levels on the
16 merit side, and higher premiums on the demerit side. So
17 while you're expressly asking it to approve a rate,
18 really you're asking it to improve -- approve a
19 conceptual design that you've presented to the government
20 and now to the Board.

21 MS. MARILYN MCLAREN: The conceptual
22 design has been approved by the government. It's real,
23 it's there. I'm not sure if -- I'm not sure what the
24 next would be if this Board decided it was somehow so
25 unacceptable that -- that it would want the government to

1 change its mind.

2 But the concept is really -- in the
3 regulation, approved by the government, which is very
4 consistent with what has happened since 1971, since we've
5 been in the regulatory process. All the rules around who
6 gets demerits, how much demerits, how do they move, how
7 do they wear off their demerits, all of that has always
8 been tightly held within the government's jurisdiction;
9 it is this time as well.

10 We're here to sort of introduce the
11 concept, to explain the concept, talk about a lot of
12 things to improve understanding of the concept, but the
13 concept is in the regulation now.

14 MR. BYRON WILLIAMS: And we -- we won't
15 belabour this point, but it is conceivable, is it not,
16 that the -- the Public Utilities Board -- and I'm not --
17 certainly not suggesting my clients would suggest this,
18 but I'm trying to understand conceptually -- Public
19 Utilities Board could say that the concept and the rates
20 that flow out from it, they're unjust and unreasonable.

21 That's con -- that's conceivable? You may
22 not get your approval, that's what I'm suggesting.

23 MS. MARILYN MCLAREN: Well, we may not
24 get the approval of the rates that we've applied for.
25 That certainly has happened at other times and other

1 situations. That's quite different from saying that
2 somehow the entire concept is unfair and unreasonable. I
3 -- I don't have any sense that we're going there.

4 MR. BYRON WILLIAMS: I'll come back to
5 that.

6 If -- and -- and I -- I accept this point,
7 and Ms. Everard couldn't confirm this with you -- if --
8 if the -- the -- if -- if we look out 2013 and '14 and if
9 everything goes as planned, we're looking at
10 approximately \$110/ \$111 million dollars less, in terms
11 of revenues over that -- that period.

12 Would that be fair?

13 MS. MARILYN MCLAREN: Subject to check,
14 sure.

15 MR. BYRON WILLIAMS: And again, Ms.
16 Everard has canvassed this. It'd be fair to say that
17 while you look at -- by 2013/'14, by that year you're
18 expecting reduced broker commissions to act as an -- a
19 rough offset to the -- to the reduced premiums by that
20 year?

21 Is that fair?

22 MS. MARILYN MCLAREN: Yes.

23 MR. BYRON WILLIAMS: But you'll ack --
24 you've acknowledged and you would acknowledge again that
25 broker commissions will not come close to matching DSR

1 premium reductions in 2010/'11 and 2011/'12.

2 That would be fair?

3 MS. MARILYN MCLAREN: Yes.

4 MR. BYRON WILLIAMS: And that leads us to
5 your discussion with Mr. Saranchuk, I guess, this
6 morning, that -- but the Corporation's evidence, in -- in
7 terms of that -- that point is that you likely would've
8 applied for an overall rate reductions taking the net
9 income closer to break even, but your position is that
10 DSR and streamline renewal programs ought not to be
11 introduced with an across-the-board decrease, but by
12 rewarding the longest term safe -- safe drivers.

13 Is that fair?

14 MS. MARILYN MCLAREN: Yes.

15 MR. BYRON WILLIAMS: And so in essence --
16 and if I'm misstating you, you'll correct me -- but the
17 target rate reduction proposed for 2010/'11 stands in
18 lieu of what would otherwise be an across-the-board rate
19 reduction, which you would normally seek via General Rate
20 Application.

21 Would that be fair?

22 MR. DONALD PALMER: No, that would not be
23 fair. We have never, in my recollection, ever applied
24 for an across-the-board rate reduction. We always do it
25 within the context of actuarially-sound classification

1 rates. So there's up -- always ups and downs.

2 And if we can -- can use the words that
3 we've used, "targeted," always -- and I'll use the
4 example of a couple years ago when we had a 2.6 percent
5 rate decrease, it was targeted. There are certain
6 classifications that got more than a 2.6 percent rate
7 decrease, and there's certain classifications that may
8 have got a rate decrease less than 2.6, and in some cases
9 would have gotten a rate increase.

10 So the across-the-board has never been
11 applied for.

12 MR. BYRON WILLIAMS: So you've -- in --
13 in terms of a targeted rate decrease, based on my many
14 years before the Board, would it be fair to say that
15 those are traditionally sought through a General Rate
16 Application?

17 MR. DONALD PALMER: Yes.

18 MR. BYRON WILLIAMS: And again I'm just
19 going off of my memory, it's not as long as Mr.
20 Saranchuk's, or probably Mr. McCulloch's, but to your
21 recollection has there been a targeted rate reduction
22 sought outside the context of a General Rate Application?

23 MR. DONALD PALMER: No, and in -- in
24 fact, in my recollection, this is the only special
25 hearing that -- that the MPI has had an application for.

1 We had one (1) other special hearing, but that was called
2 for by the Public Utilities Board themself.

3 MR. BYRON WILLIAMS: Now, just turning in
4 a -- we're waiting with bated breath, but in -- soon
5 we'll -- we can expect to see a Rate Application of
6 Manitoba Public Insurance for the 2010/2011 insurance
7 year, in -- in it's more familiar form in the context of
8 a General Rate Application.

9 Would that be fair?

10 MR. DONALD PALMER: Yes.

11 MR. BYRON WILLIAMS: And the
12 Corporation's indicated that it will not be seeking, as I
13 understand it, a -- a rate increase flowing from -- from
14 that General Rate Application?

15 MR. DONALD PALMER: We are not quite
16 finished our forecasting. As to the content of what that
17 General Rate Application will show, in terms of exact
18 rates or -- or rate changes, it's certainly our
19 expectation, as I sit her today, that we will not be
20 seeking a rate increase.

21 MR. BYRON WILLIAMS: I wonder if you'd
22 accept that -- that a rate increase flowing from a
23 general rate application in the same fiscal year that you
24 are introducing targeted rate reductions through the DSR,
25 might be counterproductive.

1 Would you accept that, Mr. Palmer?

2 MR. DONALD PALMER: I don't know that
3 "counterproductive" is necessarily the right word.
4 Again, if we were looking at a targeted rate increase --
5 and that's would it would be; that -- that wouldn't undo
6 the fact that safer drivers should pay less. So again, a
7 -- an overall increase of -- of 1 percent would also --
8 would have many people paying less and many people paying
9 more. So to say that one would undo the other, I
10 wouldn't necessarily agree with that.

11 MR. BYRON WILLIAMS: You won't go that
12 far, but if I'm a -- a good driver and I get a modest
13 five (5) buck reduction on my driver's premium and I end
14 up paying -- due to my good driving behaviour, and then I
15 end up pay -- paying five (5) -- five (5) or ten (10)
16 bucks more elsewhere, you're muting the signal of your
17 targeted rate reduction, in terms of the DSR.

18 Would that be fair?

19 MR. DONALD PALMER: That would be fair.

20 MR. BYRON WILLIAMS: Would have the
21 potential to confuse ratepayers.

22 MS. MARILYN MCLAREN: That I'm not so
23 sure about, Mr. Williams. You know, the components of
24 the classification are discreet and people, for the most
25 part, understand them to be discreet.

1 Back in the day, we were introducing the
2 steps on the discount scale; people would have moved from
3 a 10 percent discount to a 15 percent discount and seen
4 their vehicle pre -- premium increase. The extent to
5 which we've been able to tell people that, after ten (10)
6 years of only one (1) overall rate increase in Manitoba,
7 if they see their vehicle premium increase, it's for the
8 sole reason that their particular vehicle category, which
9 includes other vehicles as much like theirs as we can put
10 together, had much increased risk compared to the other
11 vehicles. That's why their rate needs to go up; they get
12 that, they understand it, and it's a separate issue.

13 The point of this, really, is that, as we
14 have said a number of times, we are confident -- by the
15 emerging data, the emerging evidence that we've seen --
16 we are confident that our forecasts are not
17 deteriorating. And it's on that basis that we bring
18 forward this Application.

19 If we had a doubt that we would, in -- in
20 any way, shape, or form, ask for a reduction here and
21 then turn around and ask for an increase, we wouldn't be
22 doing it.

23 MR. BYRON WILLIAMS: You recall, Ms.
24 McLaren, in -- in this context, and similar discussion, I
25 believe it was yesterday -- it might have been Monday, I

1 can't remember anymore -- you indicated that you had to
2 be assure of the dependability of your forecast before
3 you brought this -- this Rate Application before this
4 Board.

5 Is that fair?

6 MS. MARILYN MCLAREN: Yes.

7 MR. BYRON WILLIAMS: And you just said
8 you had to have no doubt. Isn't it the fact though that
9 the only way the Public Utilities Board can be assured of
10 the dependability of your forecast is through a -- a
11 General Rate Application?

12 MS. MARILYN MCLAREN: We formally change
13 the forecast and outlook once a year. And that's done in
14 or about late-April/early-May, and the PUB sees it for
15 the first time in June. That is when they have the most
16 up-to-date information available to them, yes.

17 MR. BYRON WILLIAMS: And they have an
18 opportunity to test the dependability of your forecasts
19 through -- through Information Requests.

20 Is that fair? Two (2) rounds.

21 MS. MARILYN MCLAREN: Absolutely.

22 MR. BYRON WILLIAMS: And they have the
23 opportunity to consider whether your forecast of certain
24 revenues and costs are reliable.

25 Would that be fair?

1 MS. MARILYN MCLAREN: I'm sorry, can you
2 repeat that?

3 MR. BYRON WILLIAMS: They have the
4 opportunity in the General Rate Application, to test
5 whether your forecast of costs and revenues are reliable?

6 MS. MARILYN MCLAREN: Well, they get to
7 test on whether or not they have been reliable --
8 retrospective, hindsight. We spend a fair bit of time
9 each year at these proceedings asking for explanations of
10 variances between what we said a year ago and what
11 actually happened. That's where the reliability can be
12 tested. In terms of the forecast themselves, I think
13 it's more a matter of reasonableness.

14 MR. BYRON WILLIAMS: In terms of the
15 dependability or reasonableness of the forecast, they
16 really have no other mechanism, outside the General Rate
17 Application, to test.

18 Would that be fair?

19

20 (BRIEF PAUSE)

21

22 MS. MARILYN MCLAREN: I certainly
23 wouldn't argue with that. The forecasts that we're
24 working with here are exactly such forecasts that have
25 been through that process, that were found to be adequate

1 to support the '09 Rate Application. We're now asking to
2 use those forecasts again for a tiny little bit of
3 revenue, compared to the scope of the overall GRA revenue
4 that's at stake, just about 5 percent of that overall
5 revenue.

6 And that's -- that's what it is we're
7 talking about here. That's the information that was put
8 in the Application when it was filed in January. That's
9 the information that was used through the IR process.

10 According to a schedule established by the
11 PUB, which included one (1) round of Information
12 Requests, we're here doing what we all agreed to do at
13 the Pre-Hearing conference, subsequent to the filing of
14 the Rate Application in January. Nothing you've said is
15 untrue but I'm not sure what else we can do to provide
16 some sort of context in this process.

17 MR. BYRON WILLIAMS: And that may be
18 exactly the point, Mr. McLaren, that one might have to
19 wait for the full context of a General Rate Application
20 to -- to be assured that this is a good thing for the
21 long term fiscal health of the Corporation.

22 Do you accept that that's not
23 unreasonable?

24 MS. MARILYN MCLAREN: If that's your
25 client's position and if the PUB decides to adopt that

1 position, I certainly would have preferred that that had
2 been reached months ago. We all knew that this is what
3 we were going to do and now we're doing it.

4 So, you know, I mean think given the
5 context that we have, there's any number of options
6 available. You know, the -- the transition is as it is.
7 The decreases to the people at eight (8), nine (9), and
8 ten (10, maybe the PUB won't accept those, maybe they
9 won't approve those. Maybe those people will find
10 themselves paying the same rate they're paying today for
11 their driver licence premium.

12 There are options available other than to
13 go through this entire process and suggest that, Gosh,
14 maybe we shouldn't have.

15 MR. BYRON WILLIAMS: I won't belabor this
16 point, but just when we -- when the -- the PUB suggested
17 this process, it would be fair to say that it was not
18 clear that the Corporation would be bringing in this
19 Application in a manner that was not revenue neutral in
20 the short term?

21 MS. MARILYN MCLAREN: The -- when the
22 proposed timetable was discussed that would have been
23 true. After the Application was filed that was -- there
24 was full knowledge of that. At the Pre-Hearing
25 Conference there was full knowledge of that, everyone

1 providing their IRs and us providing the answers. There
2 was full knowledge of that.

3 MR. BYRON WILLIAMS: Thank you. Just --
4 I may turn things over to My Friend, Ms. Bowman.

5 And, Mr. Chairman, I have -- just for your
6 guidance, I probably have four (4) areas to yet go
7 through; two (2) of them are quite -- three (3) of them
8 are fairly short -- I actually have five (5) -- two (2)
9 of them are a bit longer. So I'll let Ms. Bowman take
10 over for a little bit and we'll see where I -- where I
11 finish up.

12

13 (BRIEF PAUSE)

14

15 CROSS-EXAMINATION BY MS. MYFANWY BOWMAN:

16 MS. MYFANWY BOWMAN: Thank you. I --
17 I have a few odds and ends. My questions will be a lot
18 shorter than they would have been otherwise, thanks to
19 the thorough questioning by Ms. Everard, Mr. Saranchuk,
20 and the Board. So you'll be spared a number of things
21 that I wanted to ask you about.

22 To follow-up on some questions that were
23 asked about the situation of new drivers to Manitoba, can
24 you give us a sense of how many there are per year. Just
25 a ballpark would be fine.

1 MR. DONALD PALMER: First, I would ask if
2 Ms. Bowman could move just a little closer to the mic
3 because my back row who I am looking for for the answer
4 to that question didn't hear the question.

5 MS. MYFANWY BOWMAN: I apologize. Is
6 that better?

7 We had -- had heard some questions and
8 answers earlier about drivers coming into Manitoba from
9 other places and some of the issues that arose there, and
10 I wonder if the Corporation can give us a sense of how
11 many drivers we're talking about in a given year.

12

13 (BRIEF PAUSE)

14

15 MR. DONALD PALMER: We don't have it
16 right at our fingertips but we'll get it for you.

17 MS. MYFANWY BOWMAN: Thank you.

18

19 --- UNDERTAKING NO. 8: MPI to indicate the amount of
20 drivers in a given year
21 coming into Manitoba from
22 other places

23

24 CONTINUED BY MS. MYFANWY BOWMAN:

25 MS. MYFANWY BOWMAN: And I may get the

1 same answer here, but there were some questions also
2 about buying back claims, and I'm wondering if the
3 Corporation give -- can give us a sense of how often that
4 happens?

5

6 (BRIEF PAUSE)

7

8 MS. MARILYN MCLAREN: We'll see if we can
9 come up with that as well. The -- the total number of
10 claim buybacks is about twenty-five hundred (2,500) a
11 year, but that's heavily weighted towards fleet buybacks,
12 whereas -- I mean, that's just a constant, standard part
13 of the fleet program administration, where fleets are
14 managing their -- their rebates or surcharges through
15 this process. The ones where individuals would actually
16 come forward and do that would be smaller than that
17 number by a long shot.

18 And I don't know how precise you want us
19 to be with respect to people coming to Manitoba. I can
20 tell you about every year there's about thirty-five
21 thousand (35,000) new drivers. Fifteen thousand (15,000)
22 of them or so come through the high school driver ed
23 program. There's probably perhaps close to that number
24 again new drivers to -- in Manitoba, so maybe ten
25 thousand (10,000) people coming to Manitoba and

1 exchanging a driver licence. Probably not -- it's
2 probably in the ballpark of ten thousand (10,000) or so.

3 If that's good enough, we can leave it at
4 that. If you want something --

5 MS. MYFANWY BOWMAN: I think that's fine.
6 Thank you.

7 MS. MARILYN MCLAREN: Okay, good.

8 MS. MYFANWY BOWMAN: So it's about ten
9 thousand (10,000).

10

11 (BRIEF PAUSE)

12

13 MS. MYFANWY BOWMAN: There were a number
14 of Information Requests dealing with the issue of
15 transferring vehicles within families, so that a driver
16 with more merits can insure the -- the vehicle and
17 therefore benefit from the discount.

18 Have -- am I correctly describing that or
19 is there more to -- to that issue than -- than the way
20 I'm describing it?

21 MS. MARILYN MCLAREN: No, there isn't a
22 lot more to it. We -- we can't really control who owns a
23 vehicle, so if -- and many vehicles are owned in a family
24 situation and it's up to the owners to decide who should
25 be the registered owner, which is the language that we

1 use in the legislation, with respect to who is
2 accountable for registration purposes and whose record is
3 used for rating.

4 THE CHAIRPERSON: Just to interject, one
5 (1) other factor in that, is the fact that I think in
6 Manitoba there's no tax on a transfer within the family.

7 That's correct, isn't it?

8 MR. DONALD PALMER: No sales tax.

9 THE CHAIRPERSON: So there is no tax
10 consequences for transferring within the family unit,
11 where perhaps, in some other jurisdictions there may be
12 tax?

13 MS. MARILYN MCLAREN: There may be but
14 that's a pretty standard exclusion as I understand it, in
15 terms of the provincial retail sales tax world.

16 MR. DONALD PALMER: One -- one other
17 clarification, Ms. Bowman. You talk about transfers.
18 They may just not be transfers. Just depending on who in
19 the family unit registers the vehicle there may not be a
20 transfer involved?

21

22 CONTINUED BY MS. MYFANWY BOWMAN:

23 MS. MYFANWY BOWMAN: You've anticipated
24 my next question. So in fact it doesn't even need to
25 involve the paperwork. They can simply choose as between

1 the -- the X-number of adults in this family, this is the
2 person who's going to register the vehicle.

3 MR. DONALD PALMER: At the -- at the time
4 they acquire that vehicle, yes.

5 MS. MARILYN MCLAREN: But again, to
6 clarify. There's a small percentage, very small
7 percentage, of vehicles in the system, where there is
8 more than one (1) owner. Most people don't bother. They
9 -- they understand, I guess, that, you know, the asset is
10 -- is jointly owned and they don't worry about processing
11 that documentation through the vehicle registration
12 insurance system.

13 So in those cases if there's two (2)
14 owners, they can decide who's going to be the registered
15 owner in a given year, but that's a mi -- minority of
16 case.

17 MS. MYFANWY BOWMAN: And the reason that
18 this issue becomes a concern at times, is where you've
19 got one (1) driver who is a comparatively high-risk
20 driver and the other driver is a comparatively low-risk
21 driver, and so by having the low-risk driver insure the
22 vehicle, the high-risk driver is avoiding sort of the --
23 the loss of discount and all those kinds of things that
24 would go with being a high-risk driver.

25 That's why the issue is a concern, am I

1 right?

2 MR. DONALD PALMER: That's why it's
3 brought up, yes.

4 THE CHAIRPERSON: Is there a lot of
5 transfers?

6 MS. MARILYN MCLAREN: No, particularly
7 since we changed the merit discount program to have the
8 two hundred dollar (\$200) first accident surcharge,
9 instead of losing the discounts. That -- that cut down
10 on any activity in that area, so there's not the same
11 downside.

12 THE CHAIRPERSON: It might be useful, if
13 you wouldn't mind, as an undertaking, to let us know how
14 many transfers there were, say, last year?

15 MS. MARILYN MCLAREN: Between individuals
16 living at the same physical address? Is that the kind of
17 --

18 THE CHAIRPERSON: Yes.

19 MS. MARILYN MCLAREN: We -- we'll do our
20 best to have a look at something like that.

21 THE CHAIRPERSON: Thank you.

22

23 --- UNDERTAKING NO. 9: MPI to indicate how many
24 vehicle transfers there were
25 last year between individuals

1 living at the same physical
2 address

3

4 MS. MYFANWY BOWMAN: Mr. Chairman, you
5 anticipated me yet again.

6 THE CHAIRPERSON: I am backing further
7 away from the mic, so Ms. Bowman is quite safe now.

8

9 (BRIEF PAUSE)

10

11 CONTINUED BY MS. MYFANWY BOWMAN:

12 MS. MYFANWY BOWMAN: I'm going to ask you
13 to look at CAC Interrogatory Number 1(a) and it's the
14 attachment to that, which is an excerpt from the 2007
15 Rate Application; it's the AI.19 section.

16 MR. DONALD PALMER: I have it.

17 MS. MYFANWY BOWMAN: Now, and as I
18 understand it, this section is dealing with the Driver
19 Safety Rating Program that was at that point anticipated.
20 And this section, I'm looking at page 8, deals with a
21 business case for a Driver Safety Rating Program.

22 MR. DONALD PALMER: Yes.

23 MS. MYFANWY BOWMAN: And if we look at
24 paragraph B, which talks about rating and equities, and
25 the fact that this new program is designed to resolve a

1 number of issues and concerns that were found with the
2 old program, B is dealing with the rat -- with one (1) of
3 those concerns being rating and equities.

4 Is that right?

5 MR. DONALD PALMER: Yes.

6 MS. MYFANWY BOWMAN: And one (1) of the
7 scenarios described under that heading is in fact the
8 situation we just talked about, where a higher-risk
9 driver can avoid some of the consequences of that driving
10 behaviour by getting their spouse or -- or relative
11 within their family to insure the vehicle?

12 MR. DONALD PALMER: Yes.

13 MS. MYFANWY BOWMAN: And dropping down on
14 the next page, which is page 9, to paragraph E, it
15 indicates:

16 "That while these instances of
17 manipulation represent a small
18 percentage of the overall customer
19 base, they're prevalent enough to
20 damage the credibility of the
21 Corporation and its policies."

22 Is that right?

23 MR. DONALD PALMER: Sorry, I -- where is
24 that quote?

25 MS. MYFANWY BOWMAN: I turned to page --

1 the next page, which is page 9.

2 MS. MARILYN MCLAREN: Yes.

3 MS. MYFANWY BOWMAN: Letter E.

4 MR. DONALD PALMER: Yes.

5 MS. MYFANWY BOWMAN: It is however the
6 case that -- that this kind of manipulation will still be
7 possible under the DSR Program, is that right?

8 MR. DONALD PALMER: It is possible. We
9 have changed the program with -- and going into the
10 future with penalties that come in sooner; that -- that
11 transfer will not be eliminated but the effect will be
12 lessened because of those surcharges coming in at lower
13 levels of -- of lower demerit levels.

14 And I know we're going -- going to get
15 into this at some point in time, so I may as well dive
16 right in. At the time that we wrote this business case
17 and -- and that was one of the things we -- we looked at,
18 but that was one of the real challenges in the design of
19 the -- the Driver Safety Rating Program, was how to
20 recoup a loss of revenue from vehicle discounts. And I
21 know that the CMMG, in their proposal, asked -- had
22 looked more toward that kind of a model. We did address
23 that in one of the Information Requests. PUB-38, I
24 think.

25 And when we looked at that loss of vehicle

1 discount revenue and -- and spreading it around on driver
2 premium and the quantum of -- of spreading that premium
3 around, we came to the conclusion that you just can't get
4 there from here; that we had a promise of offering lower
5 rates to safer drivers; that loss of \$30 million, if you
6 spread that to all drivers, is somewhat in excess of
7 forty dollars (\$40) a driver.

8 So here we are unveiling this wonderful
9 new Driver Safety Rating Program and we say to the safest
10 drivers who have been claim-free for ten (10) plus years,
11 who have never had a speeding ticket in their entire
12 life, we say, Congratulations, we've got this brand new
13 enhanced Driver Safety Rating Program, it's going to cost
14 you an extra forty (\$40) bucks. Obviously it's a non-
15 starter.

16 So then you ramp it up and you say well if
17 we don't charge them, we have to charge someone else.
18 Well -- and thankfully our biggest group of -- of drivers
19 are those safe ones who have had not -- not had claims
20 and not had convictions over some long period of time so
21 you start with much, much larger increases.

22 And again, you say to a new driver: We've
23 got this enhanced program. By the way I know you used to
24 be able to -- to get your licence and -- and prove to us
25 you're a safe driver, and the insurance cost of that is

1 forty-five (45) bucks, now it's going to be two fifty
2 (250). Have a couple of teen age drivers in a household
3 that becomes five hundred dollars (\$500). Again it --
4 it's really a non-starter from a affordability
5 perspective.

6 In addition to that, one (1) thing that --
7 that the loss of discount does, is it does provide a
8 differential for the higher risk drivers, depending on
9 type of vehicle. For example, an -- an -- an insurance
10 rate for the type of vehicle -- clear rates for pri --
11 private passenger vehicles and the insurance -- the MPI
12 rates for other non-clear vehicles, such as motorcycles,
13 do have a very large component of accident benefits, or
14 injury rates, built into them.

15 So, a higher risk driver in a vehicle
16 that's prone to injuries, like a -- say a sports car
17 convertible, there is a higher differential risk for that
18 vehicle if a -- if an unsafe driver is driving it,
19 compared to a -- a flat extra charge. The same thing
20 could be applied to motorcycle -- a -- a motorcycle; a
21 bigger differential because the risk of injury is so much
22 greater. About -- between 80 and 100 percent of
23 motorcycle claims are injuries.

24 So again, somehow you have to address that
25 and how do you get at it? Well, you get at it through

1 the vehicle rates and -- that you're charging anyway.

2 You could have different types of
3 licences. We have classifications now -- I don't know
4 that I'd start wanting to have a -- a Class 5A licence
5 that allows you to drive a convertible as opposed to not.
6 That's a non-starter.

7 We do have motorcycle licences, but
8 there's many Manitobans who, at one time, have a
9 motorcycle licence, do not currently own a motorcycle.
10 Do you charge them more? Probably not.

11 So -- so all of these things added up to
12 saying, you know, that -- that concept of -- of not being
13 able to tran -- transfer vehicles, there's more downsides
14 to changing that that we just can't solve the business
15 problems associated with that.

16 So that -- that was the -- the rationale.
17 And -- and this business case that was written three (3)
18 years ago, we -- as we sat around and we tried to solve
19 the problem, and the business -- the business rules that
20 you have to come up with were just prohibitive.

21 MS. MARILYN MCLAREN: A little further to
22 that point, and maybe most -- the most important point,
23 is we spent a great deal of time learning about the
24 patterns of ownership and the patterns of merit
25 discounts, surcharges on the other side of things.

1 And you know, the -- the reality is, is
2 that, with respect to that Point E -- and the somewhat
3 pejorative language that -- that we used in this
4 document, where the only family member with a merit
5 happens to own all the vehicles in the household, calling
6 that "manipulation," we came to learn that there are many
7 circumstances where the -- where our customers believe it
8 is absolutely real ownership, and an absolutely
9 legitimate situation, with respect to the ownership
10 status of those vehicles, whether they are providing
11 vehicles for, you know, their -- their children to go to
12 university, to -- maybe they'll pay it back some day,
13 maybe they won't, whatever it is, we came to learn
14 significantly that what we would consider some instances
15 of manipulation, were outweighed by what our customers
16 considered as legitimate, rightful ownership arrangements
17 among families.

18 That's just really not ours to mess with
19 and we left it alone. We -- we truly had to make a
20 decision that is beyond -- beyond the scope of any sort
21 of reasonable rationale rating system ,to try to -- to
22 try to deal with what might be, in a small number of
23 cases, that kind of manipulation.

24 We chose to deal with it by having a
25 demerit scale and by putting demerits in place for

1 accidents where the impact is felt sooner. It is. And
2 as long as we're confident that people can continue to
3 own vehicles and continue to let licensed drivers use
4 them without penalty, but we can collect on a
5 personalized individual basis on the driver licence side
6 of the equation. We believe that's one of the best
7 advantages of the program since '71. We believe it needs
8 to continue. We believe we've improved our ability to do
9 that and therefore reduce any manipulation or inequity
10 that way.

11 And that's where we ended up, with a
12 significant min -- testing and scenarios, with respect to
13 different family situations of good drivers, and so on,
14 and so forth. And in every one, people were being
15 unreasonably charged more than they should have been,
16 according to anything close to the risk and rate relation
17 ship that the program we ended up with gave us.

18 So the program we ended up with, with many
19 of the same rules intact, but a different cohesive method
20 of -- of rating them, so much of this all comes back to
21 this graph on page 12 of SM-5, where we talk about the
22 very transition plan that has some awkward outcomes as
23 you go from today to tomorrow, in every case provides a
24 better relationship on the very Day 1, between the rate
25 we're charging and the risk they present. That in itself

1 tells us there's not a lot of a problem here.

2 And if we have a better alignment of the
3 rates along that scale then we've made a significant
4 improvement that not only negates the -- the opportunity,
5 but also the -- the advantages of messing, so-called,
6 with the system.

7 MS. MYFANWY BOWMAN: So if I'm
8 understanding your answers, it sounds like the
9 Corporation's thinking on this issue has changed
10 significantly over the last couple of years.

11 MS. MARILYN MCLAREN: That's right.

12 MS. MYFANWY BOWMAN: And from your
13 perspective, this is not a big issue at this point in
14 time?

15 MS. MARILYN MCLAREN: No, I think we've
16 ended up in a much better place, than the way we were
17 thinking three (3) years ago.

18 MS. MYFANWY BOWMAN: And just to make
19 sure that I understood Mr. Palmer's answer -- and this is
20 something you said a few minutes ago so I'm hoping that I
21 -- I am remembering it correctly -- but I think what you
22 said when you were starting to talk about this issue was
23 that because the demerits -- and the demerit sort of the
24 -- the increased driver premiums kick in earlier than
25 they did before, that that should help to address that.

1 But in fact what we're talking about here
2 in fact is vehicle discounts. So that's kind of a
3 separate issue, is it not?

4 MR. DONALD PALMER: No, I don't think it
5 is because they -- under the new program, previously they
6 could avoid any penalties. If they were around the two
7 (2) or four (4) demerit level, they couldn't get a
8 vehicle discount, granted, but wouldn't have to pay any
9 additional premium, and again could continue to -- go a
10 year, lose some demerits and then embark in high -- high
11 risk behavior again with speeding tickets and whatnot,
12 and never ever pay any kind of a -- a surcharge. As we
13 go down the ensuing years they won't be able to do that
14 anymore.

15 MS. MYFANWY BOWMAN: That doesn't really
16 deal with -- with the vehicle premium and the discount.

17 MR. DONALD PALMER: No, but it deals with
18 the fact that -- that we are charging for their higher
19 risk.

20 MS. MYFANWY BOWMAN: Yeah, I understand
21 that. I just wanted to make sure I understood your
22 answer. Thank you.

23 I'm going to ask you to look at the PUB's
24 Information Request Number 46, please.

25 MR. DONALD PALMER: I have it.

1 MS. MYFANWY BOWMAN: And I'm looking
2 specifically at the attachment. Yes, we're here again.

3

4 (BRIEF PAUSE)

5

6 MR. DONALD PALMER: I -- I might ask your
7 indulgence until after the -- after the break, or maybe
8 sooner than that.

9 MS. MYFANWY BOWMAN: You're going to make
10 me redo my math, aren't you?

11

12 (BRIEF PAUSE)

13

14 MR. KEVIN MCCULLOCH: Mr. Chairman, it
15 might be a good time at this point, to file the corrected
16 version of PUB/MPI-1-46.

17 In -- in previous testimony, I believe Mr.
18 Palmer indicated that there was some charges that had
19 been missed from some of the examples, and if Ms. Bowman
20 is going to want to ask questions on that, she may as
21 well be working from the -- the correct version.

22 So, by my count, that would be MPI Exhibit
23 Number 9.

24 THE CHAIRPERSON: Very good, sir.

25

1 --- EXHIBIT NO. MPI-9: Corrected version of PUB/MPI-
2 1-46
3

4 THE CHAIRPERSON: Ms. Bowman, would it
5 help you if we took our afternoon break right now so you
6 had a chance to look at this new schedule that's coming?

7 MS. MYFANWY BOWMAN: I think it would
8 help all of you, because if you have to wait while I do
9 the math, you're going to be very unhappy.

10 THE CHAIRPERSON: Okay.

11 MR. KEVIN MCCULLOCH: Well, if we're
12 going to take the break, then there's one (1) other item
13 I wanted to file prior to the break, and that is the
14 Quarterly Financial Report. That would now be put
15 forward as MPI Exhibit Number 10.

16 THE CHAIRPERSON: Thank you.
17

18 --- EXHIBIT NO. MPI-10: Quarterly financial report
19

20 THE CHAIRPERSON: Is fifteen (15) minutes
21 sufficient time, Ms. Bowman?

22 MS. MYFANWY BOWMAN: I'll do my very
23 best, thank you. Perhaps twenty (20)?

24 THE CHAIRPERSON: Twenty (20).

25 MS. MYFANWY BOWMAN: Thank you.

1 --- Upon recessing at 2:32 p.m.

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

3

4 THE CHAIRPERSON: If you don't mind, Ms.

5 Bowman, Mr. McCulloch, apparently has something to say.

6 Mr. McCulloch...?

7 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman,
8 obviously having just filed the fourth Quarterly
9 Financial Report, just prior to the break, we -- we fully
10 anticipate that there will be questions when we resume
11 next Tuesday. However, at this point, there are a couple
12 of items in -- disclosed in this report that Mr. Palmer
13 would wish to make some comment on.

14 THE CHAIRPERSON: Very good. Okay, Mr.
15 Palmer. Remember, there's a lot of non-accountants here
16 as well, and non-actuaries as well.

17 MR. DONALD PALMER: I -- I would be one
18 of those non-accountants.

19 A -- a couple of highlights from the
20 fourth-quarter unaudited corporate statement.

21 First of all, on page 2, in the statement
22 of operations for the twelve (12) months ended February
23 28th of 2009 we have had a positive net income of \$7.3
24 million. The -- one (1) of the major variances, of
25 course, is the investment income for the twelve (12)

1 months dropped from \$125 million last year to \$4.6
2 million this year so that's certainly indicative of the
3 change in the market that -- that we've seen.

4 THE CHAIRPERSON: Looks like my RRSP
5 except it is positive.

6 MR. DONALD PALMER: So that's certainly--

7 THE CHAIRPERSON: Not in the quantum, by
8 the way.

9 MR. DONALD PALMER: -- certainly
10 something that I -- I wanted to highlight.

11 In terms of the bottom line for Basic
12 insurance, which is the subject of -- of these hearings,
13 we do not have a -- a complete split of Basic, but you
14 will notice that, on page 3, there is a statement of the
15 Rate Stabilization Reserve. The net loss for Basic was
16 \$7.4 million; however, that does not take into effect the
17 transfer from the Immobilizer Incentive Fund of \$15.9
18 million. So the net income for rate-making purposes
19 would be about \$8.6 million.

20 The -- the other thing that I'd like to
21 talk to -- and again, this has to do with the real loss
22 of investment income and the fact that we still have a --
23 a positive bottom line, we did see a -- a reduction in --
24 in claims cost from what we had expected that -- and we
25 have talked about that at -- in some detail,

1 comprehensive losses being less and -- and personal
2 injury protection plan losses being less. So those
3 certainly combine to the fact that almost offset the --
4 the losses that we've seen in investment income.

5 Our revenue, our premium revenue, was
6 pretty much on budget in most cases. So -- so those are
7 the -- the highlights. I'm -- I'm sure that we'll talk
8 about some of those in greater detail next week.

9 THE CHAIRPERSON: Thank you, Mr. Palmer.
10 Okay, Ms. Bowman. Thank you for your
11 patience.

12

13 CONTINUED BY MS. MYFANWY BOWMAN:

14 MS. MYFANWY BOWMAN: Thank you, sir. I'm
15 going to ask you then to look at the revised version of
16 PUB-1-46, the attachment.

17

18 (BRIEF PAUSE)

19

20 MR. DONALD PALMER: I have it.

21 MS. MYFANWY BOWMAN: Now, as I understand
22 this, it's a series of scenarios involving different
23 drivers at different DSR levels and demonstrating what
24 happens for them in terms of -- of vehicle and driver
25 premiums both if they have seven (7) years of clean

1 driving as compared to one (1) at-fault claim and one (1)
2 conviction in year 1 and then six (6) years of clean
3 driving, both under the Bonus-Malus System and under DSR;
4 is that -- have I correctly characterized that?

5 MR. DONALD PALMER: Yes, and -- and
6 you're looking at the revised schedules that we filed
7 just before the break and I will highlight what those
8 revisions were. In -- under the current system in -- in
9 some of the examples we didn't -- had not added in the
10 forty-five dollar (\$45) Basic driver premium; it was only
11 the Charge I demerit surcharges that we had included in
12 the table so that was the reason for the refiling.

13 MS. MYFANWY BOWMAN: And these tables do
14 not include the charge to accident surcharges, is that
15 right? Or do they?

16

17 (BRIEF PAUSE)

18

19 MR. DONALD PALMER: The assumption is
20 that there aren't any Charge IIs, because those would be
21 on a retrospective basis. So the way that the examples
22 have been built we have assumed that going in there was
23 not a -- a Charge II.

24 MS. MYFANWY BOWMAN: Thank you. Now, if
25 we look at Example Number 1, this is the driver who

1 starts off at DSR-7, if he -- he or she, pardon me, has
2 no accidents or convictions, then under DSR this person
3 is going to save three hundred dollars (\$300) in terms of
4 premiums, is that right, over this seven (7) year period?

5 MR. DONALD PALMER: That's correct.

6 MS. MYFANWY BOWMAN: Now, if this driver
7 has, as we described, one (1) at-fault claim and one (1)
8 low severity conviction in year one (1), there's a fairly
9 significant hit in both scenarios, is that right?

10 MR. DONALD PALMER: That's correct, about
11 eleven hundred and sixty-five dollars (\$1,165) in one (1)
12 and twelve hundred and seventy-five dollars (\$1,275) in
13 the other.

14 MS. MYFANWY BOWMAN: Now, if I look at
15 the -- the second scenario where the -- the person has
16 the accident and the conviction, if we look at how long
17 it takes this driver to get back to their original driver
18 premium and vehicle premium, under the Bonus-Malus
19 system, this driver, it takes him six (6) years to get
20 back to where they started, is that right?

21 MR. DONALD PALMER: Yes.

22 MS. MYFANWY BOWMAN: And under DSR, by
23 the end of the seven (7) years this driver is still not
24 back to where they started, am I correct?

25 MR. DONALD PALMER: That's correct.

1 MS. MYFANWY BOWMAN: So, would it be
2 another year or two (2) years, do you know how long it
3 would take this driver to get back to their original or
4 their starting premiums?

5 MR. DONALD PALMER: I'm sure my back row
6 is -- is busily figuring that out. So we can get it
7 quickly enough.

8 MS. MYFANWY BOWMAN: Thank you.

9
10 (BRIEF PAUSE)

11
12 MR. DONALD PALMER: I'm advised two (2)
13 more years.

14 MS. MYFANWY BOWMAN: So that takes us to
15 a total of nine (9) years?

16 MR. DONALD PALMER: Yes.

17 MR. MYFANWY BOWMAN: Thank you for
18 clearing that -- clarifying that for me.

19 Now, in the next example --

20 MR. DONALD PALMER: And, Ms. Bowman, I'll
21 also just remind you of something I said to Mr. Williams,
22 that one (1) of the underlying assumptions in comparing
23 these two (2) tables is that there are no changes to the
24 demerit premiums in the -- under the current system, and
25 yet there are differences that are shown on a going-

1 forward basis under the DSR, because we are anticipating
2 the demerits to change.

3 That doesn't affect this example probably
4 but in some of the later ones it -- it will make a
5 difference. So -- so we're not quite comparing apples to
6 apples.

7 MS. MYFANWY BOWMAN: Now, just to -- so
8 that I understand the significance of that, under Bonus-
9 Malus, have the demerit penalties been variable? Have
10 they changed frequently?

11 MR. DONALD PALMER: Not frequently. We
12 did have one (1), a change to the -- the amounts, maybe
13 2001, something like that.

14 MS. MYFANWY BOWMAN: So it wasn't that
15 they were changing very often?

16 MR. DONALD PALMER: No.

17 MS. MYFANWY BOWMAN: Thank you. Looking
18 then at Example Number 2, and this is the driver who
19 starts off at DSR level 5. I'll let you find that.

20 MR. DONALD PALMER: Yes.

21 MS. MYFANWY BOWMAN: If my math is
22 correct, but you never know, under DSR if this person has
23 no accidents then under DSR they save six hundred and
24 fifteen dollars (\$615) in premium as compared to Bonus-
25 Malus, is that right?

1 MR. DONALD PALMER: That's correct.

2 MS. MYFANWY BOWMAN: And in the event of
3 the accident and the low severity conviction in year 1,
4 under Bonus-Malus this driver does not suffer any premium
5 penalties, is that right?

6 MR. DONALD PALMER: Could you -- could
7 you restate the question, please?

8 MS. MYFANWY BOWMAN: If -- if I look at
9 the sort of the second box in the bottom half of the
10 page, which is where the driver has the one at-fault
11 claim and the one (1) conviction, looking at the Bonus-
12 Malus side of the chart, that person does not suffer any
13 premium penalties at all as a result of that accident.

14 Am I reading the chart correctly?

15 MR. DONALD PALMER: The -- well, that's
16 not quite accurate compared to the -- the -- or compared
17 to if he had not any incidents. Is that the comparison?

18 So the -- he would have got a 25 percent
19 discount in year 3 and so would have paid a vehicle
20 premium of nine hundred dollars (\$900) that stays at
21 twelve hundred dollars (\$1200) when he has -- similarly
22 the driver premium that would have gone down by five
23 dollars (\$5) every two (2) years remains at forty-five
24 dollars (\$45) and goes down to forty dollars (\$40) in the
25 sixth year.

1 MS. MYFANWY BOWMAN: All right. So this
2 person doesn't move up -- up the scales the way they
3 would have if they had not an accident, but they don't
4 actually have any additional expenses?

5 MR. DONALD PALMER: Again, there are a
6 couple of assumptions made that they hadn't had a
7 previous accident in the past thirty-six (36) months so
8 there isn't Charge IIs.

9 And the vehicle premium discount is zero
10 as opposed to 25 percent so they pay more premium whether
11 that's -- it's not -- they don't get a discount or they
12 don't get a surcharge but they don't get the discount
13 either. So they're -- they're paying more.

14 MS. MYFANWY BOWMAN: Because they failed
15 to move up as they otherwise would have?

16 MR. DONALD PALMER: Yes.

17 MS. MYFANWY BOWMAN: All right. So --
18 and then if we look at how long it takes this person to
19 get back to the premiums they started off with after the
20 accident and the -- the conviction, obviously, under
21 Bonus-Malus, that hasn't changed, and under DSR it takes
22 this person, if I'm counting correctly, six (6) years to
23 get back to where they started?

24 MR. DONALD PALMER: Yes.

25 MS. MYFANWY BOWMAN: Looking next at

1 Example Number 3, I'll give you a second to find that.

2 MR. DONALD PALMER: I have it.

3 MS. MYFANWY BOWMAN: If we look at how
4 long it takes this driver to get back to their original
5 premiums post accident and conviction, under Bonus-Malus
6 this driver has not had an increase in premium, so that
7 doesn't really become a factor.

8 Under DSR, it takes this person five (5)
9 years to get back to where they started in terms of
10 premium, is that right?

11 MR. DONALD PALMER: Yes.

12 MS. MYFANWY BOWMAN: And Example Number
13 4, which is the driver who starts at DSR 0.

14 MR. DONALD PALMER: I have it.

15 MS. MYFANWY BOWMAN: Again, this is a
16 situation where the driver is not, under Bonus-Malus,
17 paying higher premiums as a result of the accident
18 although they presumably have not moved up the way they
19 might otherwise have done.

20 Is that right?

21 MR. DONALD PALMER: Yes.

22 MS. MYFANWY BOWMAN: And under DSR it
23 takes them four (4) years to get back to their starting
24 premiums. Is that right?

25

1 (BRIEF PAUSE)

2

3 MR. DONALD PALMER: Sorry, what was that
4 question again?

5 MS. MYFANWY BOWMAN: You presume that I
6 remember.

7 This driver who starts off at DSR Zero,
8 after the accident does not pay higher premiums under
9 Bonus-Malus, they haven't moved up as we discussed, but
10 their premiums have not increased, whereas, on the DSR
11 side, it takes this driver four (4) years to get back to
12 the -- their starting premium, am I right?

13 MR. DONALD PALMER: Yes.

14 MS. MYFANWY BOWMAN: And moving to
15 Example Number 5, which is the driver who starts at five
16 (5) demerits, or minus five (5), depending on how you
17 want to think about it --

18 MR. DONALD PALMER: Yes.

19 MS. MYFANWY BOWMAN: -- under Bonus-
20 Malus, this driver has suffered premium penalties and it
21 takes them, as I read it, two (2) years to get back to
22 their starting premium, is that right?

23 MR. DONALD PALMER: That's correct.

24 MS. MYFANWY BOWMAN: Under DSR, this
25 driver also suffers some penalties and it takes them, as

1 I read it, five (5) years to get back to where they
2 started?

3 MR. DONALD PALMER: That's correct.

4 MS. MYFANWY BOWMAN: You're reassuring me
5 that I can count. Thank you.

6 Example Number 6, which is the driver who
7 begins at minus ten (10) --

8 MR. DONALD PALMER: Yes.

9 MS. MYFANWY BOWMAN: -- under Bonus-
10 Malus, it takes this person two (2) years to get back to
11 their starting premium. Actually, they do a little
12 better than that by the end of two (2) years, is that
13 right?

14 MR. DONALD PALMER: That's correct.

15 MS. MYFANWY BOWMAN: And under DSR, it
16 takes them four (4) years and they are also, I believe,
17 slightly better off than -- than when they started, is
18 that right?

19 MR. DONALD PALMER: That's correct.

20 MS. MYFANWY BOWMAN: And the last example
21 is number 7, which is the driver who starts at minus --
22 minus twenty (20). And this driver, as I read it, takes,
23 under Bonus-Malus, two (2) years to get back to their
24 starting premium and, in fact, they are, again, doing a
25 little better than when they started, is that right?

1 MR. DONALD PALMER: Yes.

2 MS. MYFANWY BOWMAN: And, in fact, has a
3 similar experience, although with somewhat different
4 numbers, under DSR. It takes them two (2) years to get
5 back to a slightly better position than when they
6 started.

7 MR. DONALD PALMER: Yes.

8 MS. MYFANWY BOWMAN: Thank you.

9

10 (BRIEF PAUSE)

11

12 MS. MYFANWY BOWMAN: I'm going to ask you
13 to look at a document that I provided to you, I think it
14 was just after lunch. It's a little chart and at the top
15 of it, it says "How Will One (1) At-fault Accident Affect
16 Vehicle Discount?"

17 I'll give you a minute to try and find
18 that. Would you like a spare copy?

19 MR. DONALD PALMER: I have it, thank you.

20 MS. MYFANWY BOWMAN: And I believe I have
21 provided that to everybody else. I'm not sure if they
22 have it in front of them.

23 I believe you had an opportunity to look
24 at this.

25 THE CHAIRPERSON: Would this be CAC/MSOS-

1 6?

2 MS. MYFANWY BOWMAN: We haven't marked it
3 yet, unless it got marked when I wasn't looking.

4 THE CHAIRPERSON: I believe it is 6,
5 subject to check.

6 MS. MYFANWY BOWMAN: Yes, thank you. It
7 got away from me.

8

9 --- EXHIBIT NO. CAC/MSOS-6:

10 Document entitled, "How Will
11 One (1) At-fault Accident
12 Affect Vehicle Discount?"

13

14 CONTINUED BY MS. MYFANWY BOWMAN:

15 MS. MYFANWY BOWMAN: You had an
16 opportunity to look at that, I think, over the lunch hour
17 or somebody looked at it on your behalf, I believe?

18 MR. DONALD PALMER: Yes, we've looked at
19 it.

20 MS. MYFANWY BOWMAN: I appreciate that.
21 I'm going to ask you if -- if you've had a chance then to
22 -- to confirm that, in fact, I've accurately calculated
23 the impact on somebody's merit discount as a result of
24 one (1) at-fault accident.

25 MR. DONALD PALMER: Yes, we -- we've

1 confirmed that the -- the counting is correct.

2 MS. MYFANWY BOWMAN: Excellent, I'm
3 having a good day.

4 So, if -- if I'm correct then, for
5 somebody who starts off at DSR Level 5, so obviously
6 we're talking a few years out then, as a result of one
7 (1) accident, they drop down to DSR Level 10 and lose 5
8 percent off their vehicle discount, is that correct?

9 They -- they go from a 30 percent discount
10 to a 25 percent discount.

11 MR. DONALD PALMER: Okay, DSR Level 15,
12 not -- not 5.

13 MS. MYFANWY BOWMAN: Sorry, I apologize.
14 Yes, DSR Level 15.

15 And if -- if I calculate the steps
16 correctly, it then will take them two years to get back
17 up to a 25 percent -- to a 30 percent discount.

18 Am I right?

19 MR. DONALD PALMER: Yes.

20 MS. MYFANWY BOWMAN: Whereas somebody at
21 DSR Level 14 who has the same accident, it will take them
22 three (3) years to get back up to their 30 percent
23 discount?

24 MR. DONALD PALMER: Yes.

25 MS. MYFANWY BOWMAN: And the driver at

1 DSR Level 13, it'll take them four (4) years, the driver
2 at DSR Level 12, it will take them five (5) years to get
3 to their pre-accident discount?

4 MR. DONALD PALMER: Yes.

5 MS. MYFANWY BOWMAN: The driver who
6 starts at DSR 11, who has a 25 percent discount instead
7 of a 30 percent discount, it takes them one (1) year to
8 get back to that discount level; is that right?

9 MR. DONALD PALMER: That's correct.

10 MS. MYFANWY BOWMAN: And then again, at
11 DSR Level 10, it takes them two (2) years to recover, DSR
12 Level 9, it takes them three (3) years to recover, DSR
13 Level 8, it takes them four (4) years to recover and so
14 on?

15 MR. DONALD PALMER: Yes.

16 MS. MYFANWY BOWMAN: Thank you very much.

17

18 (BRIEF PAUSE)

19

20 MS. MYFANWY BOWMAN: I'm going to refer
21 you very briefly -- I don't know if you want to look at
22 this or not; you can -- I'll -- I'll give you the
23 question, then you can decide.

24 As I understand the -- the numbers at SM-
25 4, there's approximately thirty-one thousand (31,000)

1 drivers who are going to have an increased driver premium
2 without a corresponding decrease in vehicle premium; does
3 that sound about right to you?

4 MR. DONALD PALMER: You'd better give me
5 the reference, please?

6 MS. MYFANWY BOWMAN: I apologize. It's -
7 - I have SM-4 Exhibit 1B, page 1.

8 MR. DONALD PALMER: Yes, I have it.

9 MS. MYFANWY BOWMAN: So if I read this
10 correctly, we've got about thirty-nine (39) drivers who
11 are having the -- the significant increase in driver
12 premium and they're way at the bottom of the minus twenty
13 (-20)?

14 MR. DONALD PALMER: That's correct.

15 MS. MYFANWY BOWMAN: And then the other
16 drivers who are experiencing an increase, although not
17 nearly to the same degree, it's -- it's of a much smaller
18 degree, we're talking of, as I said, about thirty-one
19 thousand five hundred (31,500) drivers; does that sound
20 about right to you?

21 MR. DONALD PALMER: That's about right,
22 yes.

23 MS. MYFANWY BOWMAN: And these are
24 drivers who are experiencing an increased driver premium
25 but no corresponding decrease in vehicle premium?

1 MR. DONALD PALMER: That's correct, and -
2 - and that's a result of the -- the transition was
3 designed so that they would be paying the same vehicle --
4 or receiving the same vehicle discount.

5 MS. MYFANWY BOWMAN: That's right. Now,
6 as I understand it, these drivers are all at the mid to
7 upper merit levels right now.

8 Is that right?

9 MR. DONALD PALMER: We have identified
10 those in SM-3. We have the complete transition chart and
11 the individuals that go up are highlighted in grey.

12 MS. MYFANWY BOWMAN: And they're all
13 people who have at least one (1) or two (2) merits and
14 sometimes more.

15 Is that right?

16

17 (BRIEF PAUSE)

18

19 MR. DONALD PALMER: That's correct.

20 MS. MYFANWY BOWMAN: Thank you. I just
21 wanted to make sure that I understood that correctly.

22 I'm going to ask you now to take -- to
23 answer a quick question about CMMG Interrogatories,
24 Numbers 10 and 11. So you might want to take a quick
25 look at those.

1 (BRIEF PAUSE)

2

3 MR. DONALD PALMER: I have them.

4 MS. MYFANWY BOWMAN: As I read these
5 answers, it would appear that underage drivers, who are
6 driving without a licence, under DSR are eligible for
7 upward movement while not driving, whereas adults are
8 not. Am I correct in that understanding?

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: Yes, that's a correct
13 interpretation.

14 MS. MYFANWY BOWMAN: And -- and what's
15 the thinking behind that distinction?

16 MR. DONALD PALMER: Giving that underage
17 driver light at the end of the tunnel, so to speak.

18 MS. MYFANWY BOWMAN: A light that the
19 adult driver perhaps does not deserve?

20 MR. DONALD PALMER: I -- I guess we are
21 giving some understanding for the --

22 MS. MYFANWY BOWMAN: Youthful exuberance?

23 MS. MARILYN MCLAREN: Immature
24 development of the portion of the brain that I can't
25 remember at the moment.

1 MR. DONALD PALMER: Ms. McLaren is much
2 more eloquent than I can ever be.

3 MS. MYFANWY BOWMAN: Very good. I just
4 wanted to understand that, thank you. I have a couple of
5 quick snappers for you before I move on to another area,
6 and these relate to faults. I'm not sure which one of
7 you wants to answer them.

8 But my first one is, in the event that --
9 that a vehicle is the victim of a hit and run and there's
10 no witnesses or whatever to sort of attest to that, it's
11 simply the owner of the car who's making the claim, is
12 that person at fault?

13 MR. DONALD PALMER: If there is some
14 evidence that it really is a hit and run then that person
15 is not at fault.

16 MS. MYFANWY BOWMAN: So that person's
17 word is not sufficient or are you simply saying that if
18 you have reason not to believe them, then they might be
19 at fault but otherwise you're going to take their word
20 for it?

21 MR. DONALD PALMER: Our --

22 MS. MARILYN MCLAREN: It comes down to
23 the estimating damage process. It -- it really rarely
24 comes down to taking someone's word for anything. The
25 estimators are -- are trained to understand how damage

1 occurred.

2 And -- and sometimes people's verbal
3 explanation of how the damage occurred is simply not
4 credible on its face given the damage to the vehicle.

5 There are times when it is less certain.
6 We would always defer to the customer's benefit in those
7 cases.

8 MS. MYFANWY BOWMAN: So they're not
9 automatically at fault. It would simply be a question of
10 if there are circumstances to suggest that the
11 explanation offered is not truthful?

12 MS. MARILYN MCLAREN: Exactly.

13 MS. MYFANWY BOWMAN: Thank you. And
14 similarly, what about damage from hitting a pothole. Is
15 that driver at fault?

16 MS. MARILYN MCLAREN: Those are at-fault
17 claims unless the City accepts responsibility. There's a
18 fairly structured process in place that the City has.

19 They -- and I don't remember the details
20 of it but it has to do with were they notified that
21 there's a pothole there? Did they have a reasonable
22 opportunity to fix the pothole?

23 And if -- if the answers to those kinds of
24 questions are in the City's favour, then they would not
25 be at fault or so-called responsible for leaving the

1 hazard there.

2 It's always up to the motorist to drive to
3 the conditions. There are a number of times when the
4 City does accept responsibility and, in those cases, the
5 motorist is not held at fault.

6 MS. MARILYN MCLAREN: Thank you. I'm
7 going to move on to a different area. Now earlier on,
8 Ms. McLaren, you testified that when a person is
9 purchasing Extension insurance, the only question that's
10 asked is, What's your Autopac discount?

11 Do you recall that evidence?

12 MS. MARILYN MCLAREN: Basic Autopac
13 discount, yes.

14 MS. MYFANWY BOWMAN: And I'm going to
15 suggest that the reason that that question is asked is
16 because the Corporation believes that that gives at least
17 some indicator of risk. Is that a fair statement?

18 MS. MARILYN MCLAREN: Yeah, I think that
19 insurers tend to believe that more broadly than just MPI,
20 yeah.

21 MS. MYFANWY BOWMAN: And so on that basis
22 that -- that the merit level gives at least a rough
23 indicator of risk, the person purchasing their Extension
24 package would get the same discount on their Extension
25 package as they do on their -- on their Basic, is that

1 correct?

2 MS. MARILYN MCLAREN: That's true of MPI.
3 I'm not sure exactly what discount others would give but
4 their underwriting question, so to speak, is the same as
5 ours.

6 MS. MYFANWY BOWMAN: All right. And I'm
7 just asking about MPI. I wouldn't expect you to be able
8 to necessarily answer about other insurers.

9 And I'm going to suggest to you then that
10 if the Corporation's hopes about DSR are fulfilled and
11 DSR, in fact, gives a better assessment of risk, then by
12 asking that question when the Corporation sells an
13 Extension package, the Corporation is, therefore,
14 ensuring that discounts are going only to the lower risk
15 drivers; would you agree with me?

16 MS. MARILYN MCLAREN: Yeah, yes.

17 MS. MYFANWY BOWMAN: And that in that way
18 Extension is going to have some benefit; is that fair?

19 MS. MARILYN MCLAREN: By virtue of the
20 improved relationship between the risk presented and the
21 rate charged, I would agree.

22 MS. MYFANWY BOWMAN: Thank you.

23

24 (BRIEF PAUSE)

25

1 MS. MYFANWY BOWMAN: I'd next like to
2 talk a little bit about some of the input factors for the
3 new DSR program.

4 Now, if I understand the evidence in the
5 material that's been filed, the input factors are
6 selected primarily because they're felt to be high-risk
7 behaviours and they are predictive of future accidents;
8 is that correct?

9 MR. DONALD PALMER: That's correct.

10 MS. MYFANWY BOWMAN: And as an example
11 for -- it'll be speeding or driving under the influence
12 of alcohol, those kinds of things. Those -- those are
13 predictive of future accidents?

14 MR. DONALD PALMER: Yes.

15 MS. MYFANWY BOWMAN: Now I understand
16 that failing to wear a seatbelt is an input factor that
17 comes with two (2) demerits; is that right?

18 MR. DONALD PALMER: Yes.

19 MS. MYFANWY BOWMAN: And you would agree
20 with me that failing to wear a seatbelt is not likely to
21 be predictive of accident frequency; is that fair?

22 MR. DONALD PALMER: Not necessarily, I
23 would not agree with that. Some of the linkages are with
24 attitude, if I can use that. So, again, we have done the
25 modelling and there is a predictiveness to not wearing

1 your seatbelt so -- so I -- it's not necessarily the --
2 the action itself, but there's probably some other
3 underlying reason that there's predictiveness to -- from
4 one (1) to the other.

5 MS. MYFANWY BOWMAN: All right. Would it
6 also be fair to say that not wearing a seatbelt could
7 certainly contribute to accident severity?

8 MR. DONALD PALMER: Yes.

9 MS. MYFANWY BOWMAN: And this is an issue
10 that I think that the Corporation feels very strongly
11 about, the -- the importance of seatbelts?

12 MR. DONALD PALMER: Absolutely.

13 MS. MYFANWY BOWMAN: And would it be fair
14 to say that at least partly this offence is included for
15 that policy reason, that the Corporation believes that
16 this is an important issue?

17 MR. DONALD PALMER: Yes.

18 MS. MYFANWY BOWMAN: Now, there's a
19 number of other less serious offences that receive two
20 (2) demerits as opposed to, say, ten (10) or fifteen
21 (15).

22 I notice that driving without a licence
23 falls in the two (2) demerit category; am I correct?

24

25

(BRIEF PAUSE)

1 MR. DONALD PALMER: Subject to check I'll
2 -- I'll take your word for it.

3 MS. MYFANWY BOWMAN: I'll take you right
4 to it actually; it's the -- it's in the Regulation which
5 is at AI-1.

6 MR. DONALD PALMER: I'm having franting -
7 - frantic nodding coming from the back row so I don't
8 have to look it up.

9 MS. MYFANWY BOWMAN: All right. Thank
10 you. And so somewhere along the line somebody made the
11 judgment that driving without a licence was,
12 comparatively speaking, a less serious offence?

13 MR. DONALD PALMER: Yes.

14 MS. MYFANWY BOWMAN: And if I understand
15 the evidence, the penalties that were selected were based
16 on the results of the retrospective model, the existing
17 penalties under Bonus-Malus, and public acceptability; is
18 that right?

19 MR. DONALD PALMER: That's correct.

20 MS. MYFANWY BOWMAN: Can you tell us a
21 little bit about the role that public acceptability
22 played in -- in that process?

23 MR. DONALD PALMER: In the surveys that
24 we have done that we have included in -- in the filing,
25 we did ask questions, certainly not about all the input

1 factors, but in some of them, do you think that speeding,
2 if you get -- have a speeding ticket you should pay more
3 for insurance, if you have an accident you should pay
4 more insurance. And so from that sort of general context
5 that was certainly the public acceptability, some of it.

6 MS. MYFANWY BOWMAN: You'd agree with me,
7 as well, that there's some judgment involved in -- in
8 balancing all of these factors and -- and deciding on
9 appropriate input factors and appropriate penalties for
10 each input factor; would that be fair?

11 MR. DONALD PALMER: Sure.

12 MS. MYFANWY BOWMAN: Now, as I understood
13 SM-5, the results of the -- the modelling you did
14 suggested that accidents and convictions were almost
15 equal in terms of predicted value, is that right?

16

17 (BRIEF PAUSE)

18

19 MR. DONALD PALMER: In -- in terms of --
20 and I think you're probably referring to the modelling
21 that was done on -- and shown on page 5 of -- of SM-5,
22 and that did not take into effect the starting point of
23 the driver. It was just looking at all drivers and what
24 they did in one (1) previous year compared to what
25 happened in the following year and then we expanded that

1 into two (2) previous years and -- and that's as far as
2 we went.

3 So it was about the same but that doesn't
4 conclusively prove because you don't know where the
5 starting point was. And -- and it doesn't necessarily
6 take into effect the -- the number of claims for years or
7 the number of conviction for years as has been done once
8 we expanded into the retrospective model, and that really
9 after the -- the placement and the outcome of that
10 wonderful fit to the risk line, that I keep bringing back
11 because I think it's so marvellous, that is real proof
12 that the input factors work well at -- at the levels that
13 we -- that have been chosen for them.

14 So -- so to expand on, likely wouldn't
15 work as well if there were different values given for the
16 different input factors.

17 MS. MYFANWY BOWMAN: Would it be fair to
18 say that accidents are, at least a large part of the
19 time, unintentional?

20 MS. MARILYN MCLAREN: By definition,
21 those are the only ones. There is occasionally
22 purposeful damage. But I can also tell you, almost
23 without exception accidents are caused by driver error.

24 MS. MYFANWY BOWMAN: It's -- it's most
25 often carelessness, inattention, those kinds of things?

1 MS. MARILYN MCLAREN: Travelling too fast
2 for conditions, failure to leave enough distance between,
3 those kinds of things. It -- it -- driver error, doing
4 things they taught you not to do in driver school.

5 MS. MYFANWY BOWMAN: Would it be fair to
6 say that convictions, when we're talking I suppose about
7 things like speeding or not wearing your seat belt or
8 passing where you're not supposed to, tends to be less
9 about inattention and more about choice?

10 Would that be a fair characterization?

11 MR. DONALD PALMER: Sometimes. In terms
12 of some speeding would be inattention, absolutely. Going
13 through a stop sign would probably be inattention. If
14 you don't -- going through a red light, it could be
15 either, either purposely running a red light or -- or
16 pushing the yellow, so to speak, or it could be you just
17 didn't see it.

18 So, it could be either that inattention or
19 something purposeful.

20 MS. MYFANWY BOWMAN: That's fair. So --
21 so there's -- there's room for both in -- in that -- in
22 the conviction area?

23 MR. DONALD PALMER: Sure.

24 MS. MARILYN MCLAREN: And in collisions,
25 as well. A number of years ago, we -- we began trying to

1 adopt the language of collisions as opposed to accidents
2 for the reason. I'm really uncomfortable with the entire
3 context of accidents are inattention and convictions are
4 purposeful.

5 It -- it's dangerous out there. It's
6 scary out there. People have an obligation to drive with
7 full attention, to stay engaged and when that doesn't
8 happen, convictions happen and crashes happen.

9 It -- trying to separate the two (2) into
10 different categories of driver error, I -- I think is --
11 concerns me.

12 MS. MYFANWY BOWMAN: Fair enough. I next
13 have some questions in terms of rate setting.

14 Now, as I understand it, there are a
15 number of factors that go into setting appropriate rates
16 for auto insurance, one (1) of the most important being
17 actuarial indicators, which assess risk, is that right?

18 MR. DONALD PALMER: That's correct.

19 MS. MYFANWY BOWMAN: You would also
20 consider the issue of accessibility? The idea that --
21 that MPI has an obligation to provide universally
22 accessible automobile insurance, is that right?

23 MR. DONALD PALMER: That's one of the
24 considerations in the final selection of -- of rate, yes.

25 MS. MYFANWY BOWMAN: Are there other

1 factors, as well?

2 MR. DONALD PALMER: Rate -- sorry, rate
3 shock would be certainly a consideration, and it's linked
4 to affordability and accessibility that you don't
5 necessarily want a rate changing by -- in excess of some
6 threshold any particular year.

7 This Board has chosen 20 percent as that
8 threshold; 15 percent on experience factors.

9 So, there are a number of considerations.
10 Certainly, one (1) of the considerations is the aggregate
11 value of all premiums you -- in aggregate you need to
12 balance to your total revenue requirement. So that's
13 certainly a consideration, as well.

14 MS. MARILYN MCLAREN: But just backing up
15 from that a little bit though, in selecting -- I don't
16 remember exactly the language that -- that was used in
17 the exchange that you just had here, but selecting the
18 rating factors or -- or -- or rating inputs,
19 accessibility and affordability really isn't in any way
20 other than the PUB imposed cap on any given rate change.

21 For years we have actuarially sound and
22 statistically driven rates. There is no room in that
23 process for consideration of very subjective things like
24 accessibility and affordability.

25 If overall concern began to build about

1 some of those factors, you know, you -- you look at
2 payment plans, maybe you look at coverage, you look at a
3 number of things. But in terms of our commitment to
4 actuarially sound rates, that's been there for a very
5 long time, and considerations of accessibility and
6 affordability are not part of that in any way, other than
7 the cap that we talked about.

8 MS. MYFANWY BOWMAN: Thank you. That's
9 illuminating. I -- I wanted to take you back a little
10 bit to some of the -- the evidence, I believe, from
11 yesterday around actuarial indicators for rates. And I
12 believe yesterday we reviewed PUB-1-33 which is the one
13 that talked about the -- sort of the -- the comparative
14 contributions of drivers at different DSR levels to both
15 costs and premiums.

16 You recall that?

17 MR. DONALD PALMER: Yes.

18 MS. MYFANWY BOWMAN: And as I understand
19 one of the benefits of DSR is to be -- that we'll have
20 better information about risk for each of those levels of
21 drivers, each of those sort of merit and demerit levels.

22 MR. DONALD PALMER: Yes.

23 MS. MYFANWY BOWMAN: And the hope is that
24 this will allow the Corporation to bring rates closer to
25 those which would be actuarially indicated.

1 Is that right?

2 MR. DONALD PALMER: Directionally,
3 absolutely.

4 MS. MARILYN MCLAREN: And again coming
5 back to yesterday, in the context of what I just said a
6 few minutes ago, it is -- it is very important we look at
7 it directionally and look at it in larger groups of
8 vehicles than you might. When we talked about absolutely
9 not going on a precise actuarially basis on each and
10 every step on the DSR scale, it is for some of these
11 broader public policy considerations, but that doesn't
12 mean that we're -- that the way we achieve that actuarial
13 soundness is in larger -- larger groups, larger pooling
14 within that context.

15 So when we talk about the, I guess almost
16 95 percent of total revenue coming from vehicle premiums
17 calculated on a solely actuarially sound statistically
18 driven basis and when we talk about the actuarial
19 directional improvement on DSR, they are separate; and
20 for some of the policy considerations that we talked
21 about yesterday.

22 MS. MYFANWY BOWMAN: And that's at least
23 partly related to concerns about making insurance
24 unavailable to people because it becomes prohibitively
25 expensive. And, as I understood your evidence, partly

1 around the realities of very small groups of drivers at
2 the bottom and very large groups of drivers at the top,
3 and the implications of -- of making those rates
4 reflective of risk.

5 MS. MARILYN MCLAREN: Yes. And separate
6 from the -- the latter consideration that you just talked
7 about in terms of the statistical reliability, it really
8 does come down to, you know, the -- the broader context
9 of the program, not just the afford ability that any one
10 person may have at any one (1) step on the scale.

11 But we're also looking at, you know, we --
12 we do insure people throughout their driving lifetimes.
13 And over the course of an individual's lifetime they may
14 pay a little bit more at a certain time than they might
15 otherwise have paid, they may pay a little bit less, but
16 in the context of the overall program and the objectives
17 of the program, the -- the rating needs to be appropriate
18 in that broader context. And it's -- it's for those kind
19 of reasons that we charge forty-five dollars (\$45) to
20 people with no experience, new drivers.

21 MS. MYFANWY BOWMAN: Would it be fair to
22 say that one of the benefits of having your rate set,
23 either on the basis of actuarial indicators or largely on
24 that basis, will be that gives you an objective way to do
25 that?

1 Is that fair?

2 MR. DONALD PALMER: Absolutely.

3 MS. MYFANWY BOWMAN: It would also be
4 fair to say that the further we get from those actuarial
5 indicators, the more judgment in -- is involved in
6 determining what's the right number?

7 Is that fair?

8 MS. MARILYN MCLAREN: In the absence of
9 any other selected determinant, you're left with
10 judgment. You -- you know, people could think up all
11 kinds of things, in terms of average income, low income
12 cutoff, but for the purposes of this discussion, in the
13 absence of any of those other kinds of measurements, firm
14 measurements, you're left with judgment for sure.

15 MS. MYFANWY BOWMAN: Thank you. I have
16 one (1) more area to get into. I'm not sure how the
17 Board is for time. I believe, Mr. Chair, you said that
18 we needed to leave a few minutes early?

19 THE CHAIRPERSON: Yes, how long is your
20 next area of discussion going to take?

21 MS. MYFANWY BOWMAN: I'm thinking ten
22 (10) or fifteen (15) minutes.

23 THE CHAIRPERSON: Well, then we'll have
24 to hold it off over till Tuesday morning. Thank you very
25 much.

1 MS. MYFANWY BOWMAN: Fair enough. Thank
2 you, sir.

3 THE CHAIRPERSON: So we'll see you all
4 Tuesday morning at nine o'clock. And as I understand on
5 Tuesday we just got a half a day, correct?

6 MR. KEVIN MCCULLOCH: No, sir, that was
7 Wednesday.

8 THE CHAIRPERSON: That's Wednesday, okay,
9 thank you.

10

11 (MPI PANEL RETIRES)

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13 --- Upon adjourning at 3:47 p.m.

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16 Certified correct,

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21 Cheryl Lavigne

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