MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION

2014/15

Before Board Panel:

Karen Botting	- Chair
Regis Gosselin	- Board Chair
The Hon. Anita Neville	- Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

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Pages 2021 to 2131

APPEARANCES

Candace Grammond	)Board Counsel
Kathy Kalinowsky	)MPI
Michael Triggs	)
Byron Williams (np)	)CAC (Manitoba)Inc.
Raymond Oakes (np)	)CMMG
Liz Peters (np)	)CAA

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--- Upon commencing at 9:35 a.m.

THE CHAIRPERSON: Good morning, everyone. We're ready to begin again with the proceedings of the MPI GRA hearings. And I'm going to just turn the mic over for a moment to Ms. Grammond.

MS. CANDACE GRAMMOND: Thank you, Madam Chair. Just two (2) matters that I wanted to speak to. The first is I was informed by the court reporter prior to the proceeding commencing that there's a small error in the transcript from August -- October 11th.

And that is there is reflected there on the Exhibit list CAC Exhibit 13 being the written evidence of Mavis Johnson, which is her report, but that document had already been entered as an exhibit earlier.

So if everyone can just disregard that reference there in the October 11th transcript to CAC Exhibit 13 being her report, that will clean up the record on that issue. So that's the first thing.

The second thing is yesterday in response to the undertakings filed by CAC, Mr. Oakes circulated a letter dated October 16th, 2013. It's a letter to Mr. Singh, a copy to myself, Ms. Peters, and Ms. Kalinowsky. So we would ask that that be entered as CMMG Exhibit 5. And Mr. Singh is aware of that, as well.

--- EXHIBIT NO. CMMG-5: October 16, 2013, letter circulated by Mr. Oakes

MS. CANDACE GRAMMOND: So probably then I'll ask, Madam Chair, if you'd go to Ms. Menzies briefly and she can enter these last CAC exhibits, and then we'll go to Ms. Kalinowsky.

THE CHAIRPERSON: Okay, thank you. Ms. Menzies...?

MS. MEGHAN MENZIES: Good morning, thank you. So I think on -- it was -- I think on Tuesday evening we distributed -- CAC (Manitoba) distributed a number of exhibits in response to undertakings by Ms. Johnson on Friday the 11th. And so I'll just read those in.

The first is in response to Undertaking 1, which was a request for -- for the actual papers that were cited in Ms. Johnson's report with regard to the Saskatchewan Government Insurance. And so the first is Exhibit 13 which is an assessment of child passenger safe -- of the Child Passenger Safety Program.

--- EXHIBIT NO. CAC-13: An assessment of the Child Passenger Safety Program

MS. MEGHAN MENZIES: The second is Exhibit 14, and it's an economic analysis of child safety in Saskatchewan.

--- EXHIBIT NO. CAC-14: Economic analysis of child safety in Saskatchewan

MS. MEGHAN MENZIES: And then in response to Undertaking number 2, which was a request for documentation or -- or articles on wildlife collision and seasonal speed limits from Ms. Johnson. And so Exhibit 15 is the animal vehicle -- a report on animal vehicle collision.

--- EXHIBIT NO. CAC-15: Report on animal vehicle collision

MS. MEGHAN MENZIES: Exhibit 16 is a wildlife vehicle collision reduction study.

--- EXHIBIT NO. CAC-16: Wildlife vehicle collision reduction study

MS. MEGHAN MENZIES: And then Exhibit 17 is a study on speed limit reduction with reference to seasonal -- with -- with reference to seasonal speed limits.

--- EXHIBIT NO. CAC-17: Study on speed limit reduction with reference to seasonal speed limits

MS. MEGHAN MENZIES: And in response to Undertaking number 3, which was a request for an -- a report that had been referenced by Ms. Johnson on -- on Friday the 11th, she submitted the report, which is 'The Role of Motor Insurance' -- 'the Motor Insurance Industry in Preventing and Compensating Road Casualties'. And so that is a submission of that report from 2001. And that is the end of the exhibits.

THE CHAIRPERSON: Okay. Thank you

very much, Ms. Menzies. Now I'm going to turn it over to Ms. Kalinowsky to give her closing submission.

FINAL SUBMISSIONS BY MPI:

MS. KATHY KALINOWSKY: Good morning, and I've -- excuse me, I've handed out copies of the closing argument. I noticed that out of the three (3) panel members there's a broad spectrum as to how they receive evidence and how they -- they process.

There's Mr. Gosselin, who writes as fast as he can, and you can see his hand cramping up at different times. And then there's Ms. Neville, who's the real thinker, and she looks at the -- the witness and very rarely takes notes. And Ms. Botting is somewhere in the middle there.

So I've provided this, and hopefully that assists all three (3) different members. And, of course, individuals learn different ways. Individuals can learn by reading, which is the way that I learn the best, or people can list -- learn by listening, which works very successfully for others. So take your pick. Do both at the same time. Do so at your -- at your pleasure.

Last night I had the great occasion to

go and listen and see one of Canada's great forecasters. And it's somebody that's written very extensively about forecasting into the future. I went and saw Margaret Atwood's ballet, The Handmaid's Tale. So it's a bit drab. It's a bit dreary. And let's hope our forecasts are certainly a lot better than The Handmaid's Tale. And of course her latest book, MaddAddam, which is part of the Oryx and Crake trilogy, but -- and let's also hope that that dystopia never does come true.

But forecasting can take all ranges of the spectrum and -- but today we'll be dealing with it with respect to interest rates and, of course, claims incurred. So with that, let's talk about the Application.

In this GRA MPI has applied for five (5) specific items. Number 1, the premiums charged with respect to compulsory driver and vehicle insurance, so that's the rates for services. And these are effective for -- for premiums written March 1st, 2014.

And we're also applying for a 1.8 percent overall Basic insurance rate increase March 1st, 2014. Number 3 is the use of the DCAT methodology to determine the minimum Basic AutoPac

RSR target of $172 million.

And number 4, a range around the recommended RSR target if indeed a range is deemed necessary by the PUB, and it's based on the actuarial guidelines of a one (1) in twenty (20) to one (1) in hundred (100) probable event.

And number 5, Basic rates effective March 1st, 2014, for the 2013 and 2014 insurance years for the new insurance uses collector passenger vehicle and collector truck.

So let's talk about rates. The Corporation is seeking a 1.8 percent increase in premium revenue for rates effective March 1st, 2014. This has been determined by the longstanding PUB-approved rate-making methodology that's encompassed in the rate filing. The goal accepted by all parties, including the PUB is for the PUB -- is for the Basic to break even financially.

'Break even financially' means averaging out the two (2) years of net income for 2014/'15 and 2015/'16, recognizing the effect of the staggered renewals. The Board heard forthright evidence of the potential variability of that forecast: could be hail, could be investments, could be interest rates, and claims costs amongst other things.

In her direct evidence at the outset of the hearing, the president provided some context around the 1.8 percent rate increase. It's the second time in sixteen (16) years that MPI is applying for a rate increase. In two (2) of the last three (3) years, the PUB has approved decreases to the average AutoPac rate totalling 12 percent.

Rates have decreased by 17.8 percent over the last fifteen (15) years. Once in the last fifteen (15) years, in 2004, MPI reque -- requested a rate increase. Also, more than $500 million -- that's half a billion dollars -- has been rebated to customers in the past decade or so. And this really reenforces the benefit of the public auto insurance model that Manitobans have.

So in this year MPI's projected to have a net loss of 7.5 million in the forecast year 2014/'15, but a $2.2 million net income in 2015/'16. In her direct evidence at the outset of the hearing Ms. Reichert explained why MPI is only applying for a 1.8 percent increase in rates, those -- with that forecast.

So the explanation is the Corporation sets rates to break even over the rating period.

Because policy renewals are staggered throughout the year, a rate increase that is effective March 1st, 2014, will only generate about 50 percent, on average, of the increase in 2014/'15, and an additional 50 percent in 2015/'16.

That's why, when we're estimating rate requirement, we take the average of the two (2) rating years. In this rate application the rating years are 2014/'15 and 2015/16. The average of the forecast -- forecasted net loss in 2014/'15 and 2015/16 is shown on pro forma number 1 after applying the 1.8 percent increase March 1st, 2014. And that's a $2.5 million loss, that being the total of $7.5 million loss in the first year and $2. mill -- $2 million income in 2015/'16 which is then divided by two (2), so averaged out over the two (2) year rating period.

As forecasts are just best estimates at a point in time, a $2.5 million average loss per year over the two (2) years is considered break even. Sometimes we get so involved in the details of the application because we live and breathe this in our workplace. Ms. Neville asked the most basic of questions, which strikes to the root of the application. And the question was:

"What are the benefits the ratepayers will receive from a 1.8 percent increase in rates, and can you also provide an explanation as to what the ratepayers would have to forgo if a 1.8 percent rate increase were not provided?"

So the response was:

"What will Manitobans get with a 1.8 percent premium rate increase? Well, rate stability. Manitobans place a very high value on the rate stability, together with a continuation of an effective balance of the four (4) aspects of the Manitoba Public Insurance value equation."

And I've listed the value equation there. It's price, and it's good coverage, and it's quality service, and access. All those things together are the value equation.

So we've discussed often the long-term view the Corporation takes in administering the compulsory insurance program. For example, long-term strategies have been taken for service improvement through streamlined renewals, strategic placement of new buildings, service centres, and for stable service delivery throughout the use of service standards and expense containment.

Multi-year IT projects are another example where the Corporation has taken a long-term view to ensure both the improvement and stability in service delivery. This Rate Application continues that long-term view that has served Manitobans so well. Enhanced and stable IT systems, replacing the outdated systems, will ensure that the Corporation will be able to provide customers with uninterrupted service with an improved network infrastructure that can support future demands.

Should a disaster, such as a local flood, occur, the Corporation's systems will not be impacted and other than the impact due to the natural disaster itself, there will be minimal impact to Manitobans. This high-level access to service is expected by customers today.

Given the significant loss of $72.2 million incurred last fiscal year for Basic, the rate stabilization reserve is below the DCAT ind -- indicated target of $172 million by more than $30 million as at year end. Without the 1.8 percent increase, it is forecasted that during the rating years the DSR would fall to 120 million by 2015/'16. If the rate increase is -- is not approved and the forecasts hold, the Corporation would undoubtedly be filing for an RSR rebuilding surcharge next year.

If the rate increase is approved and the interest rates decline as they have in the past, the RSR will not reach its target in the outlook period. If the 1.8 percent rate increase is provided and the interest rates continue to be more favourable than our current forecast, then the RSR will be returned to the DCAT-driven target more quickly.

The 1.8 percent effectively manages significant risks being faced by the Corporation, and it ensures the long-term operational and financial stability of the Basic insurance program. This is a very important benefit to Manitobans which cannot be overemphasized.

Updated financial condition: I don't think anybody in this hearing was pleased with the financial results of the 2012/'13 year, which had an unexpected net loss of $72.2 million for Basic. The first quarter results of this year were also not pleasing, with a net loss of $41.1 million. Board counsel even asked if MPI would be amending its rate application, presumably seeking a higher rate increase because of its recent financial condition.

The release of the second quarter results was met with a degree of relief because of a net income of $21.8 million for Basic. It's a big swing. The RSR sits at 163 million, below the $172 million minimum target required by the DCAT.

In response to questions from Board counsel, Ms. Reichert responded that MPI will not change its forecast of operating results for 2013 based on the second quarter results; that Basic is still slightly below budget to date; and that she was fairly confident in the forecast of net income for the year end 2013/'14. And that's found on transcript pages 1,371 to 1,375.

Ms. Grammond also asked the question, "So is it fair to say" -- these are a quote:

> "So is it fair to say that if the upward shift in interest rates holds, then basic RSR would, by the end of the fiscal year, exceed the current DCAT target?"

End quote. If absolutely every other assumption underlying the forecast for 2013 is a hundred percent accurate, which we know is never going to happen, of course, and the interest rate continues to increase, as the banks are now projecting, then it is possible that the RSR could potentially reach the $172 million DCAT-based RSR target.

In terms of the 2013/'14 financial results, the main driver will be the interest rate at the end of the year. That is the rate that will be used to value the assets and liabilities for year-end reporting purposes. If this interest rate is lower than the current upswing, the projection associated with the higher interest rate forecast will not be achieved.

This, combined with the potential for another bad winter and higher than usual PIPP claims, would negatively impact the results and the projection would not be achieved.

And, of course, let me remind that the panel should recall that typically in the Corporation's annual cycle there is positive net income in the first two (2) quarters which is followed by net losses in the last two (2) quarters over the winter driving season, which has a very high claims experience. This, of course, balances out to somewhere near this breakeven. Despite the very positive results reflected in the second quarter for the Basic Program, it is still less than what was budgeted to be achieved.

The benefit from the higher interest rates was more than offset by the claims reserve adjustment made in the first quarter. So in case the PUB is wondering, yes, the 1.8 percent rate increase is still very much required.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Interest rate forecast and the effect. We spent an awful lot of time at this hearing talking about interest rates. The pivotal question for the PUB to decide in approving the rates this year is what the appropriate level of interest rate is -- risk is it is prepared to embed in the 2014/'15 rates. This was laid out in the direct examination at the first day of the hearing and was subject to a lot of cross-examination by Board counsel and questions from the PUB panel members.

In general, when interest rates increase, MPI will see favourable financial results. Remember, MPI has approximately $1.9 billion set aside in investments for the Basic program, largely for unpaid claims liabilities of about 1.5 billion.

The higher the interest rates, the less money that has to be set aside to pay out long-term claims. When interest rates increase, then claims liabilities decrease. However, when interest rates increase, the value of the marketable bond portfolio decreases.

Remember, the Basic bond portfolio is approximately $1.3 billion. Small changes in interest rates can, therefore, have a significant impact on investment income. Currently, what is gained in the lower cost of claims more than offsets the negative impact on the bond portfolio of higher interest rates, and the Corporation's overall financial results are better.

Let me say that again in another way since it's such an important aspect for the PUB in its rate setting. In a rising interest rate environment, the monies gained from the lower cost of claims more than offsets the decreases in the bond portfolio; thus, the financial results will be better. Essentially, a reverse impact is felt if interest rates decrease.

So interest rate forecast, and MPI's

forecast, in particular: MPI has changed its forecast from that of the major banks and Global Insight, as used in prior years. There's a chart on page 9 of the overview documents in Volume I, and that explained our rationale. And that's the chart that had all the different colours with the interest rates all going like kind of in a low dip with a check mark for the actual.

You will see on that -- that chart, if you take a look at it again, that various interest rate assumptions made in the past five (5) years consistently over these five (5) years, the five (5) major banks and Global Insight have been forecasting increasing interest rates.

Generally in each of those years, the forecast has been for interest rates to increase about three hundred (300) basis points over the five (5) year period. There's the black line on that graph, and that shows what the actual interest rates were. Consistently, the forecasts have been much higher than what the actual rates were.

Ms. Reichert, in her direct examination the first day, referred the panel to a table indicating the scenario if interest rates are fifty (50) basis points less than the MPI April forecast, which is included in the -- in the GRA filing.

The change in corporate investment income is an increase of $40.6 million, so the change to Basic investment income is estimated to be an increase of $34.7 million, and the change in net claims incurred is an increase of $57.9 million. So the impact is approximately a $23.2 million reduction in net income.

On the other hand, if interest rates are fifty (50) basis points higher than the MPI April forecast in the filing, then the change in corporate investment income is $36.5 million less. The change in Basic invest -- investment income is a decrease of $31.2 million. The change in net claims incurred is a decrease of $58.9 million. And the net impact to Basic is a $27.7 million increase in net income.

And that's taken from Volume II investments, Table 1.1 page 7, and it's adjusted to reflect the investment income on a Basic program basic -- basis since it was done on an overall corporate instead.

In this hearing, we spoke at length for the first time about interest rate risk. Interest rate risk is the risk that changes in interest rates will negatively impact the Corporation's financial position, or its net income. The figures just provided above are illustrative of the extent of that impact.

If the Corporation were to continue to use the same method for forecasting interest rates, it would be accepting a higher level of interest rate risk. The interest rate risk would be too high, in our opinion. The Corporation is not prepared to assume that this time the forecasters will be more accurate, because if they are not, the negative impact on our financial condition and the negative impact on our rate stability is just too great.

Since the Application was filed, interest rates have increased. As at the end of August, the Government of Canada ten (10) year bond rate is 2.5 percent. This is sixty-three (63) basis points higher than at the end of February, and it's higher than any of the forecasters predicted for the end of 2013.

Updating the forecast for the fiscal year, based on the Corporation's actual results for the first six (6) months and using September adjusted interest rate forecast for the remainder of the year, retained earnings may reach $171.8 million at the end of this fiscal year. Of course, this assumes that all other assumptions underlying the forecast for 2013/'14 are accurate.

If the projection for the rating years was updated to reflect these current interest rate forecasts as at December -- as at September, sorry, as suggested by CAC, the rate indication would not be significantly impacted. Again, this assumes that every other best-estimate assumption underlying the projections will be accurate, and those numbers assume a 1.8 percent rate increase is granted as applied for.

Over the five (5) year history of interest rates in forecasts, we have never seen sustained increases. The evidence shows increases followed by decreases, and if interest rates decline after this recent increase, MPI would be in an even worse position then.

As shown in the attachment to Undertaking number 3, if interest rates declined at the end of 2014/'15 to the rate in effect at the beginning of this fiscal year, the impact on our rating years would be a decrease in average net income of approximately $21.3 million.

Had this been the forecasted interest

rate, the 2014/'15 year would have required an additional 2.6 percent increase beyond the 1.8 percent, or a 4.4 percent overall increase. A 1.8 percent increase in premium rates would be grossly insufficient.

The impact to MPI over the two (2) year -- rating years of the applications depends on whether the interest rates continue to increase and stay at levels higher than what we have forecasted, or will they follow historical patterns and decrease again.

The Board heard that Ms. Reichert would characterize MPI's interest rate forecast as a best estimate at this point in time, considering the Corporation's risk tolerance. It reflects a reasonable balance. It attempts to mitigate interest rate risk while still forecasting that there will be increases in interest rates.

It's an evolutionary forecast, not a revolutionary forecast, as argued by Mr. Williams. A revolutionary forecast would have been to assume interest rates would continue to stay low or decrease, as they have in the past four (4) years -- past five (5) years. MPI has not chosen that doom and gloom scenario.

While the Corporation agrees it does not have particular expertise in interest rate forecasting, the Corporation does have significant understanding of the risks facing its rate stability. This understanding of MPI's risk tolerance is something that professional interest rate forecasters cannot claim.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Options for the PUB regarding interest rates: Key question asked at the direct-examination of Ms. Reichert -- and we recognize that this was the biggest decision of the day, and we were upfront in ensuring that the Board appreciated that this was the big decision from the start of the hearing.

The question was:

"Well, here we are at the 2014 GRA. What are the options for the PUB as it relates to interest rates forecasts?"

And the response of Ms. Reichert was:

"Well, essentially the PUB will need to decide to what extent, if at all, they will substitute the Corporation's judgment for their own. If interest rates continue to be more favourable than our forecast and then the PUB approves the rate increase, then the RSR will be returned to the DCAT-driven target more quickly.

If interest rates continue to be higher than our forecast and the PUB disallows any rate increase, it will take longer to rebuild the RSR.

If interest rates prove to follow the recent history of increases, decreases, and the PUB disallows any rate increase, the CFO has indicated that she expects that next year we will be here asking for bote a rat -- both a rate increase and an RSR rebuilding surcharge."

And that's found at transcript page 59. As Ms. McLaren stated about interest rate risk, quote:

"And this is all about our determination -- your determination at the end of the day. We've told you what we think and it's your determination about risk, how much to assume, what's the downside, what's the upside, and what's in the best interest of rate stability."

Close quote. That's transcript pages 88 to 89. In summary, in our view, the risk of failing to increase rates by a moderate 1.8 percent far outweighs any risk of approving it. There is little risk in approving a moderate increase, and there's a significant risk in not doing so when future interest rates are so uncertain. It really is up to the PUB to determine their risk appetite in approving the rates.

Asset and liability duration matching; there's a lot of evidence on asset and liability duration matching. This was first addressed in the transcripts at pages 75 to 77. In order to maximize the returns in the bond portfolio, the investment policy statement allows for a plus or minus two (2) year spread between the duration of claims liabilities and the fixed-income por -- portfolio. If the Corporation's bond portfolio and claims portfolio were perfectly matched in duration, MPI's interest rate risk would be minimal.

But, as demonstrated in Undertaking number 24, the investment income of MPI could be impacted significantly. MPI was asked by the PUB to provide a model of the impact of investment returns and net income based on a perfect match scenario; and that's at MPI Exhibit number 52. The conclusion was that moving to duration matching in an increasing interest rate environment reduces projected income in the rating years. Over the four (4) year projection, net income is reduced by $30 million under the GRA interest rate forecast, and $41 million under the September adjusted interest rate forecast.

This reduction in net income reduces retained earnings relative to the unmatched duration scenarios which, to varying degrees based on the interest rate scenario used, to these reaching the RSR target. Duration matching reduces net income in the rating years by more than $8 million. This would indicate, based on the April forecast duration matched 0.5 percent, an additional increase to 2.3 percent.

Based on the September adjusted interest rate forecast duration matching essentially eliminates any reduction to the 1.8 percent rate increase that the higher interest rate forecast might otherwise have indicated. Unequivocally, with or without duration matching, a 1.8 percent premium rate increase is required.

Our forecast is based on maintaining the same level of duration band difference between our assets and our liabilities as to what we have had historically. Even though it's not as high a forecast as the banks forecast, MPI is still forecasting that interest rates will increase. Keeping the duration at a larger band difference will result in more positive results for the Corporation.

Because of how closely we have forecasted and looked at investment income, the impact of the duration of our bond portfolio, and the duration of our liability portfolio, it is something that we are going to be watching and monitoring very closely. Next year, should interest rates start to stabilize and not go up or down dramatically, then it's to our benefit to reduce our interest rate risk and move the durations closer together.

Right now, because interest rates are

increasing, the Corporation wants to benefit from the wider duration. The forecasts and projections are based on maintaining the wider duration; and that's in transcript pages 75 to 77. As Ms. Mc -- McLaren explained, after taking the pain on downward movement of interest rates, now is the time to take the gains on the upward movement. It's not the time to match perfectly. And that's transcripts pages 82 to 86.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: CAC provided five (5) reasons why the interest rate forecast of MPI should not be relied on. And I'm going to tell you why CAC was wrong on all five (5) allegations.

Number 1, the Centra Gas approach is preferable. Well, this has been addressed in MPI Exhibit number 29 and different circumstances can dictate different decisions for different regulated entities.

I was going to include the entire response because I thought it was really good, but it was over two and a half (2 1/2) pages, so I didn't. But I would urge you to take a look at that. There's a couple of good pages there for argument on why not to go with the Centra Gas approach.

Number 2, it relies upon the judgment of MPI. Well, MPI was upfront in its filing, in its direct examination at the outset of the hearing, that it was using its judgment to find a midway mark between the five (5) banks and the Conference Board forecast for the two (2) years that has an acceptable level of risk tolerance for MPI.

Every choice involves a judgment and the PUB can decide if it wants to accept this judgment or superimpose its own, which is, in essence, what it did in the Centra Gas order. In exercising its judgment the PUB might want to look at the better record the Conference Board has had over the past few years compared to the major banks; and that's found in MPI Exhibit number 35.

Furthermore, the Centra approach, which is to temper the upward bias by removing the one (1) top forecast, which is a judgment, will only barely budge the consensus forecast of the big banks and Global Insight.

It is interesting to note how the province sets its interest rate forecast. The Assistant Deputy Minister of Finance was here, and he explained that the province uses the five (5) banks and the Conference Board of Canada and other professional forecasts and that it applies its own judgment based on its tolerance for risk to the forecast.

Maybe the PUB, as a provincial tribunal, should consider using that approach and accept the application of the Corporation's judgment regarding the risk tolerance that needs to be applied to the interest rate forecast used for basic rate setting purposes.

Number 3, CAC said it's not current. Well, with all due respect, that's not really a rational argument. At the time of the filing and every filing in the past twenty-four (24) years, MPI has used the most current forecast. Like every forecast, it can be updated, but for rate setting purposes, it's updated annually.

Forecasts like this are updated mo -- monthly by the banks and institutions. And MPI provided updated July and September forecasts during the hearing process. PUB-2-5 and Pre-ask 2 have those scenarios in them. But it must be said that even with the rise in interest rates to September, net inci -- net income only increased to $1.5 million in 2014/'15 and 8.4 million in 2015/'16 even with the

1.8 percent rate increase as applied for. That's still within the breakeven definition over the two (2) years of the application, albeit on a high end.

Number 4, it's a conservative estimate rather than a best estimate. Well, Mr. Reichert has testified it's a best estimate considering the Corporation's risk tolerance. It seems that both the PUB and the MPI were perplexed at this double counting rationale, as Mr. Williams was asked about this following his closing argument. And for us, his response did not shed any further light.

Though it's not indicated here, I could ask you to -- to consider the actuarial standards of practice which has a definition for best estimate. And Mr. Pelly, of course, can validate this, but the definition line at one thousand, one hundred and ten point zero nine (1,110.09) is best estimate means without bias, neither conservative nor unconservative. I'll just repe -- repeat that again. Best estimate means without bias, neither conservative nor unconservative.

Number 5, the reliance on MPI judgment does not form the foundation for future GRAs. MPI sincerely hopes that one day it can return to using the forecast of the five (5) banks. This will occur when their forecasting improves and incorporates an appropriate risk tolerance for MPI. It might be next year, or the year after, or not.

In the meantime, MPI has used its judgment and if the PUB considers its judgment to be better, then, as we've said since the first day of the hearing, then it is free to im -- superimpose its judgment on interest rates for rate-making purposes.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: In its order issued after last year's GRA the PUB required the attendance of the Assistant Deputy Minister of Finance in regards to questions on investments. This was most unprecedented.

As per the Corporation's governing legislation, the Minister of Finance not only has the responsibility for the investments of the Corporation, but the Corporation is further required to forward investment monies to the Minister of Finance including monies not immediately required by the Corporation. And that's in the MPIC Act, Section 12.

I think the PUB mem -- panel members

were quite surprised by this: the fact that MPI does not hang onto its own monies.

Much of the direct examination explored governance along these themes. The Minister of Finance is ultimately responsible for and controls the investment portfolio as per the legislation and this was repeated over and over and over again.

Authority is delegated to the Assistant Deputy Minister to make decisions. The Assistant Deputy Minister is the manager of the fixed income fund. That is, $1.3 billion out of the $1.9 billion in the investment monies allocated to Basic.

The Assistant Deputy Minister is like a chief investment officers, and he -- investment officer, sorry, and he has signing authority. The Department of Finance and MPI work collaboratively and jointly together to manage investments other than bonds. The investment committee working group is joint MPI finance and makes decisions on a consensus basis.

Finance and the Corporation work together at the investment committee working group. The work is characterized as joint. It's collaborative. It's consensus-based as a team, et cetera. The decisions are not necessarily unanimous since it is a committee.

If there is a disagreement or a failure to reach consensus between the MPI and the Department of Finance, then the Assistant Deputy Minister would seek advice from the Minister and his Deputy Minister.

MPI monies are deposited into two (2) trust funds of the province, one (1) of which is investments and the other is for cash purposes. The investment equity managers are hired after a search and discuss -- discussion at the ICWG and the contracts are in the name of the province.

Retention and termination decisions on the equity managers are agreed to at the ICWG and then the Department of Finance prepares and signs the cabinet submissions, the letters, contracts required in the circumstances.

Just to put this in context, there are three (3) equity mangers now. Two (2) of them have managed funds for in excess of six (6) years and one (1) of them since the last century. So there's not a lot of retention decisions there and two (2) out of those three (3) predate Mr. Gibson as per his responsibilities as being Assistant Deputy Minister.

The US equity funds are merely in an

index right now. When asked who is responsible for the investment returns of MPI, Mr. Gibson answered that it's the investment committee working group, but ultimately the Minister of Finance.

The following paragraph is -- it's a short paragraph, but it's really important. The Assistant Deputy Minister of Finance opined on MPI's forecast of interest rates that it was reasonable and prudent. He also elaborated that the province uses the five (5) banks, the Conference Board of Canada, and then inputs its own judgment based on the risk tolerance acceptable to the province.

The province's forecast is directionally similar to MPI's. So although this is a short paragraph, it is indeed a crucial section for the PUB to consider.

Mr. Gibson's view on the current asset mix is that it fits -- fits well with the risk tolerance level of MPI. Mr. Gibson further opined at the invitation of the Board counsel that interest rates are likely to go up, but given the political issues such as the -- what was then the current political deadlock which resolved last night in the United States, and issues amongst other world events, interest rates could also go down.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: CAC had several recommendations on investments. CAC recommended MPI prepare a discussion paper on the merits and the risks associated with a more closely matched portfolio.

This came as a real surprise to MPI, especially considering that, during the hearing, the Corporation provided an undertaking to demonstrate the impact a more closely matched duration would have on the financial projections of MPI; and that's in Undertaking number 24.

There's not much more that can be said or done than produce this under -- reproduce this undertaking. It was discussed, it was cross-examined upon at some length, and MPI at this stage doesn't have much to add or anything to add. The Corporation agreed that it would monit -- it would be monitoring the duration band width closely through the ICWG.

MPI will try to reach consensus with the Department of Finance on how to manage the duration now and in the future, even though after listening to the testimony of the Assistant Deputy

Minister for Finance it was pretty clear that he and his office exclusively make the decisions on the fixed income portfolio. The legal authority for investments lies with the Minister of Finance. The PUB is charged with approving Basic rates, nothing else.

The review that is being suggested is in reaction to the last six (6) months of rising interest rates in an environment that may or may not persist and which the Corporation will be closely monitoring. For these reasons, MPI requests that the PUB not order such a review.

In its wish list, CAC also encouraged the PUB to initiate a process of a portfolio review for the consideration of the PUB. Again, with all due respect, this is not within the statutory powers of the PUB. So -- maybe a brief review of the statutory powers of the various parties will assist here.

Okay. The Minister of Finance is responsible for MPIC's investments ;and that's under MPIC Act, section 12. The PUB approves Basic rates and it gets its jurisdiction from the Crown Corporation's Public Review and Accountability Act, page -- or section 26.

The Board of Directors of MPI exercises the powers of the Corporation directly or indirectly through its employees and agents and it directs the management of the business and affairs of the Corporation. And that's from the same act. That's from the Crown Corporations Public Review and Accountability Act section 13. And then you have the Board of Directors of MPI is responsible to the Minister responsible for MPI. And that's from the Crown Corporations Public Review and Accountability Act.

So this shows the different areas of responsibility of the parties with respect to its jurisdiction and to the jurisdiction of others granted by the legislature. So MPI trusts that the PUB will find this statutory framework of assistance in making its order.

So what you do -- to explain this a little bit more is in -- within this same act, this Crown Corporations Public Review and Accountability Act, and the one (1) -- on the one (1) hand, the PUB gets the jurisdiction to set rates and approve rates for Basic. In that same act it says:

"The Board of Directors of MPI directs the management of the

business and the affairs of the
Corporation."

So you have to think, who has got the responsibility for which different things? And when there is a wish list to initiate a, you know, a portfolio review, well, does that fall under rate making or does that fall under directing management for the business and affairs of the Corporation? We would argue that that's something that the Board of Directors of MPI has the jurisdiction on because it relates to the business and affairs of the Corporation.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: And I hope I -- that jurisdictional review was -- was helpful for the members. I'm going to move on to the topic of the -- the DCAT, the dynamic capital adequacy test. And, then, maybe when I finish with the DCAT that would be an appropriate for a break. Or did you want to take a break now?

THE CHAIRPERSON: How's your voice?

MS. KATHY KALINOWSKY: I can continue.

THE CHAIRPERSON: We'll take a break after the DCAT. Thank you.

MS. KATHY KALINOWSKY: Based on the 2013 DCAT report, the Corporation is recommending that the Board approve a minimum RSR target of $172 million. The 172 million target represents the most significant decline in retained earnings relative to the Corporation's base forecast for the plausible adverse scenarios tested in the DCAT report. These plausible adverse scenarios were tested at a one (1) in forty (40) probability level and included assumed management and regulatory action in regards to rate increases and rate surcharges.

The combined scenario, which is interest rates, equities, and loss ratio is the most adverse scenario. As the name indicates, the adverse scenario is based on the combined impact of those three (3) key risk factors: flat interest rates, a decline in equities return, and higher claims costs.

The $72 million net loss in the 2012/'13 provided a good example of how the Corporation can be significantly impacted by combinations of these three (3) risks. That's what happened in the past year as all three (3) items performed worse than expected last year.

In this case, none of the individual risks impacted noted in 2012/'13 would be considered extreme. However, when combined together they produced a very adverse outcome. The adverse scenario assumes the following event, which is deemed to be plausible at the one (1) in forty (40) level.

Interest rates remain at the same levels as February 28th, 2013 over the entire forecast period. Note: if the Corporation had forecasted even higher interest rates than it did, the impact on the RSR of sustained lower interest rates would have been even greater than the amount included in the DCAT report.

There is no double counting of interest rate risk from this perspective: a four (4) year total equity return of 4.2 percent relative to the budget of 6.2 percent per year, or 27.2 percent over four (4) years. So it's not just a straight 4.2 percent every year.

And claims costs of approximately $68 million over a four (4) year period, which sounds like a lot, but that's only 2.6 higher than the Corporation's base forecast. The combination of those events results in a reduction in re -- retained earnings of $271 million before considering management and regulatory action.

The 2013 DCAT report was to consider the results before and after management and regulatory action. Mr. Johnston made the following assumptions in the DCAT report: that the PUB would require breakeven rates, therefore, increases in actual claims costs would be expected to increase the forecasted claims costs and then rates; that PUB would order a surcharge if retained earnings fell below $125 million. The maximum additional surcharge in any given year would be 2 percent.

In regards to the second condition, Mr. Johnston had to make an assumption in regards to regulatory action. So based on the magnitude of the initial scenarios and discussions held with the Corporation's CEO and CFO, Mr. Johnston selected a threshold of $125 million as the point where surcharges occur. A lower threshold would result in slower regulatory action and more adverse outcomes. Similarly, a higher threshold would result in faster regulatory action and less adverse outcomes.

In regards to the 2 percent additional surcharge, Mr. Johnston used past PUB orders and, as I mentioned, discussions with the Corporation's CEO and CFO as the basis for this assumption. There's a fair amount of IRs and discussion in cross on this.

In particular, the 1996 to 2000 period when the Board ordered surcharges of 2 percent, an additional 2 percent and an additional 1 percent before reducing the surcharge by 1 percent in 1999 and removing the remaining balance in 2000.

Based on these assumptions, the above scenario was assumed to generate rate increases of 1 percent in 2015, a 3.7 percent rate increase, and a 2 percent rate surcharge in 2016/'17 and a 2.0.5 (sic) percent rate increase, an additional rate surcharge of 2 percent in 2017/'18.

Even after applying these rate incris -- creases, the maximum impact of this scenario declines for $271 million to $172 million. And that's not a typo. Those are not numbers transposed there, but it is from two seventy one (271) to 172 million. This $172 million then becomes the basis for the DCAT recommendation in Mr. Johnston's report.

At the technical ho -- conference, which we've said is very helpful, the inclusion of a balance sheet seemed to become a necessity. Even without the balance sheet, however, the PUB can still use the DCAT to determine the RSR target. And this was explained by Mr. Johnston at transcript pages 155 to 158. So the Corporation will be providing a balance sheet as part of its 2014 DCAT report, and that's next year's GRA.

The Corporation understands that the balance sheet is important because: 1) it provides additional transparency in the DCAT report; 2) it allows the calculation of minimal capital test ratios for comparison purposes; and 3) it is utilized in DCAT reports prepared by other actuaries.

No other reasons have been provided by the other actuaries to Mr. Johnston as to the necessity of the balance sheet.

Although these are important considerations, the Corporation does not believe that these considerations should preclude the PUB from approving the DCAT based RSR minimum target of $172 million this year. Mr. Johnston's reasons for this are as follows.

1. The Corporation's claimed liabilities at each year are already calculated and presented in the claims incurred section of the Rate Application. Claims liabilities are the most significant and variable risk factor on the liabilities side of the balance sheet.

Number 2. The Corporation's

investment income forecast considers the year-end market value of assets along with the unrealized gains and losses on those assets. The forecasted year-end value of the investment portfolio is presented in the investment section of the Rate Application. Similarly, the investment assets are the most significant and variable factor on the asset side of the balance sheet.

3. The DCAT scenarios provide a detailed description on how each adverse scenario is expected to impact Basic retained earnings. The Corporation does not believe that the existence of a balance sheet would change retained earnings projections made under those scenarios.

And 4. The PUB does not use the MCT to determine the RSR targets. In fact, the PUB rejected the MCT quite a number of years ago.

MPI is willing to attend a further session of the DCAT technical conference to review some of the details and technical issues relating to the inclusion of the balance sheet next year.

The question that the PUB has to decide is whether it wants to wait for the next iteration of the DCAT, which will contain a balance sheet so as to endorse the DCAT methodology for rate-setting purposes, or does it have the level of satisfaction that the DCAT is ready now to be relied upon for rate-setting purposes.

MPI submits that, following the many advances made at the last technical conference and the increasing sophistication and the collaboration on the adverse scenarios achieved, that the PUB has more than enough information to approve the $172 million DCAT target as a minimum RSR level.

And with that, we could take a break now. Thank you.

THE CHAIRPERSON: Thank you very much. We'll take a fifteen (15) minute break.

--- Upon recessing at 10:33 a.m.
--- Upon resuming at 10:49 a.m.

THE CHAIRPERSON: Okay. Thank you very much. We'll begin again, Ms. Kalinowsky, with your submission.

MS. KATHY KALINOWSKY: Sure. I was at page 25 on the -- just about to commence the RSR minimum of $172 million as required in the range section.

So the record clearly indicates that

retained earnings need to be in excess of $172 million for Mr. Johnston to state in his opinion that MPI is in a satisfactory financial condition.

The target really is to give this Board a sense as to when it would pull the trigger on rebates and, alternatively, when it would pull the trigger to order surcharges on top of Basic AutoPac premiums for the purpose of rebuilding RSR. And, of course, the ordering of rebates or surcharges will be situational dependent upon the unique circumstances at the time. And that's from transcript pages 861 to 865.

In this year's GRA, Board counsel asked about the issue of the range for the RSR. The response was that:

> "It is -- really is situation specific. There's a lot of context that MPI and the Board would need to consider. For instance, the trends that would be indicated in the outlook years; if the event that caused the loss that drew the RSR down that much also had significant effect on ongoing costs; whether there's a rate

increase already applied for. Or if there are deteriorating financial results going forward while there is an excess of money in the RSR, then MPI would not be wanting to apply for a rebate in that circumstance. MPI would still take the position that at range is optible -- optimal and would prefer a number driven by the DCAT."

And that's transcript pages 861 and 865.

In determining if it should order a rebate or a surcharge, the PUB might want to consider the following from MPI Exhibit number 53.

Since the current upper target of the PUB's RSR range, the Corporation believes it is reasonable that the Board only order a rebate or a surcharge if the RSR balance is significantly above or below the RSR target number. In terms of rebates, the Coporalation -- Corporation believes that it would be appropriate or more operationally efficient if the Board did not order a rebate of less than 10 percent written vehicle premiums based on an RSR target of $172 million, for example. This would imply that the Board would not order a rebate until the RSR was in excess of approximately $248 million.

In terms of surcharges, the Corporation's 2013 DCAT report assumed that surcharges would be ordered if the RSR balance fell below 125 million. On a go-forward basis, the Board would target a particular dar -- dollar or a percentage deviation from the RSR target as the basis for triggering sarch -- surcharges. For example, $125 million threshold would be approximately $50 million, or 25 percent, below the Corporation's proposed DCAT target.

The one (1) in twenty (20) DCAT indication, currently $140 million, could also be used as a threshold point for which surcharges are triggered.

In addition to the current RSR balance, the Corporation believes that the Board should also consider the following when determining if rebates or surcharges are required:

1) Financial outlook. For example, if the Corporation's RSR balance is below the surcharge threshold but the Corporation has a positive financial outlook over the forecast period, i.e., positive net income, it may be possible for the Board

to restore the RSR to the target level without the application of surcharges.

2) AOCI. For example, a rebate may not be appropriate if there is significant negative balance in AOCI, while a surcharge may not be appropriate if there is significant positive balance in AOCI.

And 3) the cost associated with the rebate and the amount of the rebate as per the above.

So now that I've mentioned AOCI, let's talk about AOCI. So the relationship between RSR and AOCI. Mr. Cheng, the external actuary, is recommending that AOCI be included in the assessment of Basic's financial condition. The Corporation agrees with this recommendation. However, for the purposes of establishing and RSR target, the Corporation believes that AOCI should be excluded for the reasons outlined in -- outlined in PUB-1-112.

From a conceptual and policy perspective, the Corporation's position is that the results of comprehensive income should not be considered in the determination of rates. This is because, by definition, other comprehensive income is not real, or has not been recognized as real by being brought into net income. By the time it would be recognized as real, it may grow, reduce, or fully disappear. Unlike fixed income investments such as bonds, there's no offset with claims liabilities to mitigate the impact of changes in the unrealized gains and losses in other comprehensive income. This would result in higher volatility and less rate stability if other comprehensive income were used for rate-setting purposes.

For similar reasons, the AOCI should not be considered for capital adequacy purposes. However, from a mis -- risk mitigation perspective, AOCI should be considered before a rebate is provided. If there are significant unrealized losses reflected in AOCI, this should be considered before large rebates are provided.

The accumulated unrealized losses, if realized, would represent a potential significant drain on the net income of the Corporation if this occurred at the same time as a rebate was issued. Conversely, if there were large unrealized gains in AOCI, there's less risk that the net income would be negatively impacted if a rebate was provided from accumulated surpluses of net income.

RSR and DCAT conclusion. Ultimately, in the quest for the methodology for determining an adequately funded RSR, it is submitted that the PUB should believe in the DCAT. It is reflective of the risks faced by MPI, which is what the intended purpose of the RSR is. And it's a clearly documented process, which adheres to professional standards and methodology that is both peer reviewed by the appointed actuary and reviewed in detail at these hearings, including by the PUB's actuarial advisor, amongst other benefits.

Through the technical conference in the past year, there were almost a dozen areas of agreement between the parties and much consensus agree -- achieved, resulting in an improved DCAT prepared by Mr. Johnston. At the end of the day, the PUB should now buy into the DCAT to determine an adequately funded RSR.

So, in summary, the Corporation recommends that the DCAT be adopted as the method to calculate the required RSR. The DCAT explicitly measures the potential financial impact from the Corporation's key risk factors and produces a RSR target that is directly related to the Corporation's risk level and is directly responsive to the purpose of the RSR.

In other words, it is the only method

that truly identifies the risks faced by MPI, and it produces a target that is directly related to the purpose of the RSR. The time to do so is now. And if the Board is not going to proceed with the DCAT approach, then if the Board could please advise so in this upcoming order. And I know that Ms. McLaren mentioned that in the transcript.

So moving on to PIPP reserves being increased. CAC counsel suggested that additional reserves are overly conservative. There is no evidence on the record to support this whatsoever. The increase in case reserves in March 2013, is a one (1) time adjustment required to bring PIPP case reserves back in line.

As described in CAC Pre-ask 4, part E, the injury claims management department has implemented several solutions to ensuring reserving processes are appropriate.

Counsel for CAC argued that the IBNR for Accident Benefits Weekly and other is excessive. MPI believes the co -- these comments are unfounded.

Again, per CAC Pre-ask 4, the higher of method used to estimate IBNR for the most recent five (5) accident years appears to be producing results that are relatively close to budget in

2013/'14, possibly a bit over budget actually.

The reported results do not indicate that there is excessive IBNR for these coverages. On the contrary, the additional case reserves added to older accident years, in particular Weekly indemnity, may actually indicate that the IBNR provision is insufficient.

To our knowledge, outside of the Corporation's usage of the higher-than method, Mr. Williams has not made the case or pointed to any specific references that the assumptions used in the actuarial reports are anything other than best estimates. Again, these assumptions will be reviewed thoroughly by the internal and external actuaries as at October 31st, 2013 in the review.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Linear and exponential: MPI has added an additional request to this hearing; namely, a variance of Board Order 174/'90 -- slash '92, which requires that the Application contained linear ane exponential forecasts.

The Corporation believes there is no

need to create, include, and explain the exponential and linear forecasts. These are very simplistic forecasting methods, and the Corporation has an entire section of the Rate Application, the claims section, devoted solely to supporting the claims forecasting assumptions for each of its coverages.

The Corporation recommends that the Board not use a purely exponential or linear forecast to predict future claims costs, as these forecasts may not be appropriate in certain cases. For example, the historical trend rates for comprehensive coverage are of very questionable value due to changes in theft and hail experience, while the cost per unit for certain PIPP coverage is actually declining in recent years despite increasing in recent years.

Given that an exponential or linear forecast may not be appropriate in some for -- cases, the Corporation re -- recommends that the Board not use these forecasts as a reasonability check. Again, there is significant statistical information in the claims incurred section of the Rate Application for which the Board can assess the reasonableness of the Corporation's claims forecast. And that's taken from PUB-2-17.

Using linear and exponential forecasts as a check adds no value and, in fact, could provide a false se -- sense of legitimacy if, by chance, they were close to the fact-based claims forecast used.

Moving on to collector vehicle insurance use rates. The Collector Vehicle Program includes a new insurance use for qualifying passenger vehicles and light trucks and a new collector car licence plate. This would see collector cars only paying a premium based on the summer driving season, yet receiving twelve (12) months of Basic AutoPac coverage, recognizing collector cars are never driven in the winter.

This seasonal rating is similar to motorcycles and snowmobiles. That's taken from Volume III AI-9 section. The actuary analys -- actuarial analysis suggests setting the collector vehicle insurance rates at 55 percent of the existing annual Basic pleasure rate. Once actual loss experience becomes, available MPI will then seek to adjust the rates consistent with PUB-approved methodology for other insurance uses.

The addition of the collector car insurance use after the GRA filing does not affect any rate change at the major class level. And that's from transcript pages 887 to 888. This is due to the relatively small number of collector cars compared to the overall fleet.

Motorcycle rates: MPI has applied for a 6 percent decrease in motorcycle rates. One (1) of the main drivers behind the observed rate changes is the forecasted increase in interest which lowers forecasted investment income and forecasted PIPP claims costs.

This forecast results in a more favourable outcome for classes where PIPP is a significant component of the class's total claims costs, like motorcycles, since approximately 85 percent of the total claims costs is PIPP.

Motorcycles have also experienced a decline in loss costs in the 2012/'13 insurance year, even with an 8 percent increase or growth in motorcycle units. That's in Volume I of the GRA overview, pages 11 to 12.

The serious loss frequency of motorcycles is five (5) to six (6) times higher than it is for other registered vehicles. And that's extremely important: five (5) to six (6) times higher than it is for other registered vehicles. And that's contained in MPI Exhibit number 40, which was explained at some length by Mr. Johnston.

Ms. McLaren also walked the Board members through the motorcycle claims loss data over the past five (5) years, as contained in CMMG/MPI-1-4, page 4. This showed the extreme variability in claims costs when in 2012 the total incurred amount of a hundred and seventy-seven (177) claims was $3.2 million compared to one (1) claim alone having a $2.9 million incurred in the previous year, 2011. For smoothing purposes, the motorcycle claims are averaged out over a ten (10) year period.

In regards to Mr. Oakes's comments in CMMG-1-1, the Corporation is not surprised by the significant variability in historical loss ratios for the motorcycle class given that approximately, as I mentioned previously, 85 percent of claims costs are for injury claims and more than half of these costs are from a small number of serious loss incidents.

The Corporation sets rates for motorcycles consistent with all other classes of vehicles and that historical loss experience of that class is used to determine future rates. The Corporation acknowledges that there was a significant reevaluation of PIPP claims in 2010 which changed both the projected motorcycle loss costs and motorcycle rate indication on a go-forward basis.

However, despite the significant change in the PIPP forecast motorcycles still have a historical loss ratio that is slightly higher than that of private passenger vehicles. So 70.84 percent for motorcycles, and 68.32 percent for passenger vehicles.

The Corporation explained in Undertaking number 28 that the historical loss ratios do not include PIPP pool costs of 6.25 percent and claims expenses of 18.6 percent, which would increase the rate -- the loss ratio above the 85 percent target for Basic rates. The historical loss ratios were also not adjusted to include the $515 million in rebates that were issued between 2004 and 2012.

So, in summary, there is simply no evidence that the rate-making methodology is treating motorcyclists unfairly.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Rate-making principles: The Corporation states that, throughout twenty-four (24) years of these proceedings, it's established a rate making and a rate setting on a consistent basis that is actuarially sound and statistically based.

The Corporation, along with the PUB and the Intervenors, have strived for twenty-four (24) continuous years to ensure that the rates are actuarially sound and statistically based.

Rate making is done as -- on this basis as set out in the principles. Rates are and have been predicated on what is actuarially sound and statistically based. The Corporation would urge the Board -- Board to not deviate from this basis after twenty-four (24) years of hard effort to achieve rates that adhere to the actuarial standard for rate making and are reasonable, not excessive nor unfairly discriminatory.

Specifically, after twenty-four (24) years of rate making, MPI was indeed surprised to have so many questions asked about its adherence to the statements of principles regarding rate making by the Casualty Actuarial Society. This was explained in PUB-1-41, and then elaborated on in pages 641 forward of the transcript. So:

"A) Reference made to conforming to the statement of principles regarding property and casualty insurance rate making adopted by the Casualty Actuarial Society.

What can be said in this regard with respect to the standards of practice of the Canadian Institute of Actuaries, including Section 2600, rate-making property and casualty insurance.

And B) Please outline what steps, if any, would be required to bring the GRA into compliance with the standards of practice with the Canadian Institute of Actuaries."

And there's a response there, but let me talk a little bit before I give the response. And you have to remember that the standards of practice and the Canadian Institute of Actuaries, it's largely for the insur -- the insurers in Canada and all insurers in Canada other than SGI, ICBC, the -- the SAC, and MPI, are private.

So whether they're life, they're general, they're auto, they're commercial lines, disability, et cetera, they're -- they're for-profit basis. And MPI and these other Crowns are non-profit. So keep that in mind as a public policy background to this response.

So the response is:

"A) The Corporation's rate-making methodology is unique from other insurers in that the overall rate requirement and the components of the overall rate requirement are determined on the basis of break-even net income, i.e., no profit over the rate-setting period. A rate-making methodology based on the referenced standards of practice would determine the present values of the revenues, costs, and profits, we don't have profits, associated with a particular group of policies being rated as the basis the over rate and rate indication as opposed to breakeven net income over the rate setting period."

For this reason the Corporation's rate-making methodology does not comply with the standard statement of principles. The existing rate-making methodology was developed specifically to address the Corporation's breakeven mandate. And in the 1992 Rate Application you can quote:

"For the '92/'93 insurance year it is anticipated that the investment income will be 17.5 percent of earned premium. Another approach to the inclusion of investment income is to discount all cash flows to the beginning of the insurance year and calculate the required premium directly."

End quote. The other approach discussed in the above reference is essentially the approached described in section 2630 of the standards of practice. However, on re -- RD1, page 21 of the 1992 rate application the Corporation states it's rat -- rational for not using such an approach, and quote:

"Using this method the resulting required premium is higher, because only investment income earned from the current years policies is counted for. For example, investment income from retained earnings is not used as a premium

offset. Due to the Corporation's
non-profit mandate this income
should be used as a premium offset
and, therefore, the method
described under Section 2.3.1,
i.e., the Corporation's current
rate-making methodology, is more
consistent with the goals of the
Corporation."

End quote. So although the Corporation does not conform to these standards of practice, we believe that the rational for de -- deviating from these standards, as described in the 1992 rate application, is still valid.

The Corporation would be required to perform the following steps to adhere to the standards. One (1): the rate making methodology would have to be redeveloped on the basis of the descri -- description in 2620 of the standards of practice. Rates established on this basis would not produce breakeven net income over the rating period. And number two (2): the internal actuary would be required to provide an opinion on the rate proposal per Section 2630 of the standards of practice.

In his testimony Mr. Johnston

committed to preparing rate applications as per the Standards of Practice for the PUB's information. However, MPI submits that the rationale for its rate making methodology is as valid today as it was in 1992. MPI is still committed to its current rate-making methodology for rates.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Now, this brings us to a resourcing issue that was addressed. So after a set of cross-examination questions of Mr. Johnston by Board counsel on various actuarial topics that, perhaps, could be addressed in the future, it was almost like a -- a wish list of things that could be done, including resuming the DCAT technical conference, maybe making this new rate making model, amongst other things, Ms. McLaren addressed this issue of resourcing and I'm going to quote. Quote:

> "I think it's fair to say we understand that would be advantageous, but we're not in a position to make that commitment right now. We're going to have to make some decisions and it would be

helpful for the Corporation if the Board could provide some guidance in its order because, with the possible extra pieces of work that are in, some -- I think it's fair to say that the potential extra -- extra pieces of work from Mr. Johnston in this area that are on the table at this point, we would definitely had to -- have to add resources. It's not clear to me whether the Board believes some of these things that have been asked about would be nice to have if they have time, if it's things that the Board feels very strongly about and would like to see us add an actuary or two (2). So that would be helpful. It's really a matter of trying to manage a very heavy workload and provide the support what the Corporation needs from that area and really trying to figure out what we should do with respect to resourcing."

End quote. So the Corporation has put this forward and asked that the PUB consider this in making its decision, of course.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: So into a totally different area now, operating expenses. Over the 2013/'14 forecast for corporate normal operating expenses is for an $11.7 million decrease over 2012/'13, and a $7.1 and $1 million increase, respectively, over the following two (2) years. These operating costs are incurred to manage the day-to-day operations of the Corporation and exclude initiatives.

Sixty (60) percent of the operating expenses are compensation, and members heard the results of the collective bargaining which provides zero percent -- zero percent, two point seven-five (2.75), and two point seven-five (2.75) in each of the four (4) years of the contract from September 2012 forward.

From a corporate perspective, staffing levels have been consistently below budget levels. This is attributable to 1) unfilled vacancies; and 2) vacancies created through movement of staff between corporate divisions.

The Corporation's forecast has not included a staffing increase in normal operations or improvement initiatives throughout the projection years. And that's in Volume II, E-4, which is the expenses section, page 9. The forecast of total Basic expenses for 2013/'14 in the 2013 GRA, to those forecast in the 2014 GRA, so from last year to this year, decreased by about $1.8 million.

Projections of total operating expenses in the rating years also decreased from the 2013 GRA. This reflects the Corporation's continuing management of all operating, maintenance, and capital expenditures. MPI believes that it has shown in the evidence, both written and oral, that it makes these expenditures with the appropriate degree of fiscal prudence, whether it is staffing numbers, compensation amounts, benefits, data processing, or postage.

The test is whether the expenditure is a positive contributor in the Corporation's value equation. Remember, the value equation was found on page 3, and it's price plus coverage, plus service, plus access equals value.

So MPI, in this Application, has demonstrated that it was true to its forecast and budget presented at the PUB, and that normal operating expenses would decrease in this fiscal year, which they have. As well, MPI has projected a further decrease in each of the next four (4) years compared to the 2013 GRA.

In summary, there's simply no basis for the allegation that the management of operating and claims costs is neither reasonable nor prudent.

Capital expenditures: The capital expenditures, including im -- including implementation expenses, are 36.9 million in 2014, 30 million in 2015, and 25 million in 2016. So note the downward trend.

Forecasting for initiatives takes place annually and is continually reviewed throughout the year to maintain an understanding of expected costs. Initiatives are subject to an intake process, through which they are prioritized and subsequently approved by management committee and then by the MPI board of directors. And that's found in Volume II of the expense section, pages 16 to 18.

The major initiative over the next few years is the physical damage re-engineering initiative. And that will deliver and orchestrate the improvement of the full cycle of physical damage claims, management services, in partnership with the extended repair industry, to meet the evolving needs for quality, safety, cost control, and service.

The claims administration process will strive for a seamless interplay with the various incident touch points by leveraging technology and staying abreast of emerging technologies, tools, and processes, and implementing these when prudent and appropriate, resulting in convenience for the customer.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: IT expenditures: The forecasted IT expenses are $60.6 million in the 2014 fiscal year, which includes amortization of deferred development. The capital expenditures associated for IT that year are 29.8 million. And that's in PUB/MPI-2-33.

With respect to disaster recovery, the panel heard evidence of the successful implementation of the risk mitigation strategy by moving data and servers in multiple waves to the IBM data centres.

The final transfer occurred over the September long -- September Labour Day weekend. And all MPI data is now housed in the IBM data centres and is operated in realtime.

The importance of IT expenditures for MPI cannot be overstated. These expenditures are reasonable. They're in the best interest of ratepayers and required to meet their needs. And that's transcript pages 478 to 481. The increased IT investment will allow MPI to accomplish more things with its business plan that it otherwise would have been able to.

Response to CAC arguments on IT: The PUB heard from CAC counsel that MPI has neither been prudent nor reasonable in its management of IT expenditures. While this simply ignores the evidence provided at the hearing, it ignores a previous Board order on IT optimization expenditures and it ignores the many benefits ratepayers receive from the IT initiatives and systems undertaken over the past several years.

MPI informed this Board over the past three (3) hearings that it was embarking upon a project called IT Optimization to improve its IT infrastructure. In Board Order 162/'11, the PUB, in its findings section, wrote that MPI, quote:

> "...would spend $71 million in one (1) time cost and 21 -- $29 million in ongoing costs over the next five (5) years for IT optimization work."

The report surprised the Board, as at last year's GRA hearing MPI forecasted a relatively low level of capital expenditures in the forward forecast period. I have to agree with that surprise. This was also totally new for MPI because it was a new initiative. And we spoke at length about that at that hearing three (3) years ago.

So in particular, continuing with the Board findings here, MPI now envisions a projected targeted towards current IT infrastructure and infrastructure that has already been assisted through large capital expenditures in previous years.

MPI goals for its current plans relate to system reliability, business continuity, disaster recovery, and largely undefined future service delivery enhancements. The anticipated project costs for these plans, pursuant to the evidence of MPI's external IT consul -- gar -- IC -- IT consultant at Gartner, may, given the scope and details remain to be finalized, prove conservative.

It is still ca -- part of the PUB findings. That said, the Board, with no evidence to the contrary, accepts that MPI and its external consultants hold that there are significant and troublesome issues with various aspects of MPI's IT systems, requiring major -- major system upgrading to avoid or lessen the risk of a future breakdown in MPI's operations.

While MPI has apparently spent more on IT than its peer group, the evidence put before the Board by MPI is that its system requires further material improvements and expenditures. It is the view of the Board that the IT optimization should be funded out of annual operations as projet expenses are incurred, this consistent with other basic IT projects. And that's the end of the Board findings.

So what Mr. Williams is articulating is, in direct contravention of the PUB, that we are now spending these monies on IT optimization, which was required.

So the PUB, at that time, also expressed concerns that MPI may get into -- or get onto an IT treadmill, and rightly so. That is no different than the concerns expressed on a near constant basis by management committee at the Corporation and the board of directors of MPI regarding IT costs. Every company should be vigilant over IT costs; MPI certainly is.

Let's take a look at some of the major benefits to the ratepayers from these IT costs. With IT optimization almost finished, there's system reliability. So customers' transactions can be processed when they attend at the insurance broker.

There's Business Continuity Plan. It's a detailed plan in place to ensure that customers continue to receive services in the event of a major disruption.

There is the Disaster Recovery Plan. All MPI data has been transferred from the unreliable and older MPI data centre to the IBM data centres and transactions are now completed in realtime.

There are future ser -- service delivery enhancements. The IT platforms are now almost up to date and stable so that the Physical Damage Re- engineering program, and others, can be launched to enhance customer service and reduce costs.

There have been other major service benefits to customers over the last number of years.

Think of streamlined renewals of insurances and licences, which means customers no longer have to make the annual trek to their broker.

There's BIII, which has automated the bodily injury claim system, providing customers with some quick access to their information and to their case managers.

And there is the DSR program, which has been a terrific benefit, especially to the majority of drivers who are good drivers and have experienced additional significant discounts on their insurance. All of these are benefits from the IT projects.

Mr. Williams signal -- singled out HRMS as having excessive costs. He noted that the cost increased by 62 percent from 10 million to $16 million. These are budgeted figures. Actual costs to date are $13.7 million, which MPI acknowledges is still more than they originally anticipated.

MPI has a terrific record in extremely successful project management of over $150 million in IT projects over the last several years. Unfortunately, as indicated openly and candidly by Ms. McLaren, HRMS is the only project which has not shared that stellar distinction. And that's at transcript page 265.

The costs of IT, as noted by CAC, are largely composed of amortization. More than 20 percent of actual costs, and projected to more than a third of costs in 2017/'18, amortization accounts for the majority of the compounded growth in IT expenditures.

As mentioned during the hearing, MPI follows the standard amortization rules for IT. Hard costs are depreciated over five (5) -- or, sorry, over three (3) years and deferred development costs are amortized over five (5) years.

The point that has to be made is that IT expenses may be higher than the comparators as per the Gartner Group, but the Ward study demonstrated that while IT is a higher percentage of overall expenses for MPI, at MPI those same overall expenses are lower than the benchmark. That's the reve -- relevant fact. That's what matters. We're just delivering services in a different manner.

And there have been, and there will continue to be, many benefits to the ratepayers for a significant investment in the cor -- that the Corporation has made in IT. MPI in this Application has demonstrated that it was true to its forecast and budget present to the PUB, and that normal operating expenses will decrease in this fiscal year, which it already has.

As well, MPI has projected a further decrease in each of the next four (4) years compared to the 2013 GRA, as I outlined earlier.

So in summary, there's simply no basis for the allegation that the management of operating and claims costs and IT costs is neither reasonable nor prudent.

Benchmarking: In Order 157/'12, the Board ordered that MPI develop productivity factors to enable the assessment of the cost containment measures, and file those factors at the next GRA. So MPI just did -- did that.

MPI's approach to benchmarking and productivity measures is fourfold.

1. Macro mandate driven measures. So it's A) rates that are on average lower than those charged by private insurers for a comparable price and coverage; B) Basic rates at least -- Basic returns at least 85 percent of premium revenue to Manitobans in the form of claims benefits; and C) lower -- lower annual increases in the CPI index for auto insurance than the rest of Canada.

2. Third-party comparison to national averages amongst auto insurers. So A) the Ward Group was engaged to provide benchmark data relative to its auto insurance benchmark group; B) the findings are that the Corporation compares favourably to the majority of the benchmarks; and C) many of the differences are related to the public insurance model that exists in Manitoba, and this demonstrates the efficiencies and effectiveness of the public automobile insurance model. And that's transcript page 358.

Number 3. IT comparisons through the Gartner CIO score -- score card. A) This has been filed in the past three (3) GRAs and the PUB now has a high degree of familiarity with this benchmark; and B) the key observations, implications, and recommendations were explored by Board counsel in their cross-examination of the Corporation.

So 4) Internal trending: A) MPI developed a productivity based key performance indicator framework to evaluate the Corporation's key customer processes and cost control measures to ensure the organization is utilizing ratepayers' funds in the most efficient and effective manner possible.

B) These measures evaluate the effectiveness of process, and of technology implementations, and their impact on overall customer satisfaction. The conclusion is that MPI has been very successful in implementing initiatives that demonstrate continuous improvement through the leveraging of technology, effective human resource utilization, and improved customer satisfaction.

C) The internal trending focussed on injury claims management, contact centre, and physical damage management. The Corporation has committed that it will continue to provide the bench marking information in the application next year with its annual updates. And that's transcripts pages 370 and 1,364.

With this material in hand, it is submitted that the Board can be assured that the Corporation is doing everything possible to ensure efficiencies within its operation and this bench marking provides the basis for a cost control framework, which was what the intention of the PUB was in Orders 162/'11 and 157/'12.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Moving into the final section of the argument before getting to the conclusion, road safety. Pursu -- pursuant to Order 22/'13, the Board sought to explore the adequacy and effectiveness, or otherwise, of spending on various road safety initiatives.

Over the course of hearing, the Board learned the following key points about road safety: 1) road safety is complex; 2) there can be many causes to motor vehicle collisions and the injuries sustained; 3) there can be many interdependencies between the causes of motor vehicle collisions and the injuries sustained; 4) there's no easy solution to prevent injuries sustained in motor vehicle collisions; 5) there are many stakeholders who have a role in improving road safety; and 6) there are complex inter -- interdependencies in the relation and collaboration of the various stakeholders who can improve road safety.

On the first day of the hearing, Mr. Gosselin expressed a fundamental point that I'd like to go through. He said:

"I get your message around the fact that MPIC is only one (1) of the players amongst the entities responsible for road safety in the province. Clearly, we're still trying to understand the limits of your jurisdiction and the limits of ours and, frankly, that is a process in discovery. But last year in your annual report you did indicate that you were prepared to take leadership in road safety. And I think that my question is around, has that changed in terms of your approach? Or am I ascribing too heavy a role on MPIC than you intended as part of that statement? And by 'that statement' I'm paraphrasing, I'm not stating."

So:

"MS. MCLAREN: Maybe too big to a certain extent. I think we have the opportunity at MPI to take a very, very long-term view of our responsibilities and of change. We have a limited ability to influence a lot of areas and I really believe that if we really, truly can make a significant difference with high school driver education and can do something that can be -- could be a leader in the world, if not even Canada, that will have impacts for generations, but it'll take generations, too. That is something where we truly can lead. We also, probably, have more data than anybody else and I think we can do more than we have there in terms of really providing different kinds of access to it in the forums to use the data.

So within our very clear legislated and public mandate, those are the two (2) areas that I think we can provide some leadership. If you thought that it might be that MPI would have said, Well, you know, we've got this new road safety vision -- vision on a national level, MPI is going to go forward and try to get everybody at the table to create one (1) for

Manitoba, I never would have seen
that as an appropriate role for the
Corporation to take."

And that's transcript page 190.

The Chairperson of this hearing, in her opening comments, made the important point that this hearing is to be conducted in accordance with the Crown Corporations Public Review and Accountability Act. So this statement is important because it really answers Mr. Gosselin's question about what is the PUB's role in road safety.

The PUB's role in relation to road safety is set out in Section 26 of that Act, which states:

"Notwithstanding any other act or
law, rates for services provided by
the Manitoba Public Insurance
Corporation shall be reviewed by
the Public Utilities Board and no
change in rates for services shall
be made and no new rates for
services shall be introduced
without the approval of the Public
Utilities Board."

So the PUB is not responsible for road

safety. The PUB is responsible for approving Basic rates. The road safety evidence has been very informative and the Corporation appreciates hearing different perspectives and will consider what it has heard to determine what it can learn from the discussion that has taken place.

But the Corporation notes that this forum is inappropriate for just about every one of the CAC road safety recommendations. The recommendations go to the heart of the management of the Corporation's Road Safety Program.

I respectfully draw the PUB's attention to the other provisions of the Crown Corporations Public Review and Accountability Act, which state that another board, namely, the board of directors of MPI, is responsible for the management of the business and affairs of the Corporation. And that section is reproduced there below.

But the Crown Corporations Public Review and Accountability, which grants the PUB the authority to set rates, clearly grants jurisdiction to the Corporation's board of directors for the management of the business affairs of the Corporation And it's set out there below and I had mentioned it before, so I'm not going to re -- reread that into the record.

Going back to Mr. Gosselin's initial comment about this being a discovery process to learn the Corporation's role in road safety, I would also draw your attention to su -- subsection 6(2) of the MPIC Act. It is clear as to what the Corporation's role is in road safety.

Subsection 6(2) of the Act states:

> "The Corporation has the power and capacity to do all things -- [sorry] to do all acts and things necessary or required for the purpose of carrying out its functions and powers and, without limiting the generality of the foregoing, the Corporation may: H) carry out either a loan or jointly with either board commission, corporation, department or agency of the government or any private person, agency, or association introduce, establish, supervise, finance and [here it is] promote research or educational programs relating to health, rehabilitation,

safety and the reduction of risk in respect of any branch or class of insurance in which the Corporation is engaged; and, I) promote or carry out programs of research into the causes of accidents and research into the more equitable distribution of losses resulting from highway traffic accidents."

So the jurisdiction of the Corporation in the area of road safety is limited to education and research. And, of course, out of education, awareness is required. And I'll be talking about education, basically, and research, and awareness as a threesome.

Although Mr. Williams referred to limitations on jurisdictions at page 1,994 of the transcripts as, quote, "Artificial delineation," and I'll -- close quotes there, it is a reality that the Corporation has a limited role in road safety. The legislation can't be ignored and I would not suggest that the PUB ever consider legislation to be an artificial delineation.

There are many stakeholders with very many res -- varying responsibilities. High school driver ed is MPI's foremost program and MPI is addressing this, and its first step is the review of the best practices that was undertaken by the Mr. Robinsons.

The Intervenors have also made submissions regarding the deficiencies that they see in the Corporation's road safety programs. They're critical of the Corporation's approach to road safety. But I mote -- note that their criticism is largely based upon Ms. Johnson's report.

However, Ms. Johnson very clearly qualifies her criticisms by stating, page 6 of her report, quote:

"Please note that this report does not constitute a formal review evaluation of MPI's road safety programs due to time limitations. It merely reflects the views of the author based on reading many research documents and papers relating to MPI's programs."

End quote. It is inappropriate for the Intervenors to heavily criticise the Corporation's programs as being deficient because they contain what they argue as limited evaluations when the basis of making this criticism is a report that acknowledges it is not a proper evaluation as to programs it claims to criticise.

And I just want to add an inserted note here. But I do want to acknowledge the strength of the contribution of Ms. Johnson as she was a strong witness. She has a wealth of information. I'll certainly grant that. Mr. Williams addressed this for over an hour in his closing argument on Tuesday, but I would urge the panel members of the PUB to take that with a little bit of a grain of salt and, instead, look critically at some of her contributions.

Importantly, there's a fundamental misunderstanding by some of the Intervenors regarding the role of the Corporation in road safety and the basis upon which its actions should be evaluated. On the one hand, Mr. Williams went on at great lengths, transcript pages 1,966 to 19 -- 1,995 criticizing the Corporation for not measuring outcomes.

On the -- on the other hand, he points out in transcript pages 1,986 and 1,987 that awareness education programs are not, in and of themselves, effective in producing outcomes and that they need to be coordinated with other programs to be effective.

The Corporation understands that its area of responsibility and road safety is research, education, and awareness. And the Corporation understands that it cannot, on its own, through research, education, and awareness produce the outcomes Mr. Williams speaks of.

But the Corporation's role in the complex interdependencies of road safety stakehold is -- stakeholders is to provide research, the education, and the awareness. Although the Intervenors may be mistaken on the role of the Corporation with respect to road safety, this Board, the PUB, should clearly understand the Corporation's role and mandate.

The Corporation, which is experienced and successful in project management, has identified the challenges in establishing appropriate targets and measurements for the effectiveness of road safety tar -- programs. That is why the Corporation asked Ms. Johnson in MPI/CAC-6:

"Throughout the report Ms. Johnson emphasizes the importance of program evaluation. Can she provide best practices for evaluating the effectiveness of road safety education and awareness programs?"

Her response was:

"There are many good practice documents that you can guide an overall program evaluation. Two (2) have been selected for your information."

And I just took out the cite there for them. The World Bank Report, which Ms. Johnson recommends, states:

"Road safety publicity can be used to achieve various aims and objectives. In general, the aims of such publicity are to change the road users behaviour, attitude, or knowledge in order to increase road safety. However, usually road safety campaigns can succeed if advertising is only one (1) of the elements in the campaign and usually not the key element."

And that's from Elliott, 1989.

"According to Elliott..."

She then went on:

"...mass media campaigns can achieve the following..."

And there's some bullet points there:

"...increase awareness of a problem or behaviour; raise the level of information about a topic or issue; help inform beliefs especially where they are not firmly held; make a topic more salient and sensitize the audience to other forms of communication; stimulate interpersonal influences via conversations with others, e.g., police, teachers, parents; generate information seeking by individuals; and reinforce existing beliefs and behaviours."

The report concludes:

"Using advertis -- advertising alone will not result in desired change. It should be seen as only one (1) part of a wider campaign involving enforcement, legislation, engineering and other strategies.

The behavioural change main aim should be realistic and not too large. However, publicity is an essential, but long-term part of any strategy to reduce the number of people killed and injured on roads."

End quote. This is how MPI evaluates its road safety programs. This is the role in legislated mandate that the Corporation has in road safety. It's an important role, but it's only one (1) role. Evaluating MPI's road safety programs must be in the context of the role it plays, not in the ultimate outcome of all road safety initiatives in the province.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Ms. Johnson correctly stated, MPI has an interest in road safety. This is true because the Corporation insures the consequences of motor vehicle collisions. The lack of road safety affects the Corporation's bottom line and negatively impacts our customers, the Manitoba ratepayers. However, there's an important distinction between having an interest in the consequences and having the ability and the mandate to address those factors that impact the bottom line.

An analogy to emphasize this point is that hail storms and severe winters cause damage that impact the Corporation's bottom line and the rates set by the Board, but the Corporation has no ability to influence the weather. We can prepare for the weather. We can research, educate, and, of course, create awareness so that the customers protect their vehicles and property in the event of severe weather, but we can prevent the weather.

Fortunately, the cust -- the Corporation has this important role in improving road safety and the Corporation understands and recognizes this role. MPI also recognizes the interdependencies of the road safety stakeholders and works with many partners to optimize its efforts and the efforts of other.

The Corporation works with its many partners delivering the message of road safety in many different forms to many different audiences. The nature of the partnerships varies based upon the specific goal that is to be achieved, but the common thread is working collaboratively with others to improve road safety in Can -- in Manitoba.

In CAC-1-48 to Corporation lists forty-nine (49) partners it regularly works collaboratively with in improving road safety. It has been suggested that MPI should take the lead agency role in a safe system approach. While it's flattering that CAC believed the Corporation's organization and management is up to the challenge, the decision to adopt a safe system approach and the appointment of the lead agency is neither for MPI or for this Board.

The senior officials from MPI who are responsible for the administration of its road safety programs and are intimately involved in understanding the discussions have attended those parts of the his -- of the hearing dealing with road safety, listening to all the perspectives put forward. The Corporation reviews this as a valuable learning experience and will consider all the comments made in order to improve its road safety programs. And there were a lot of very, very good comments both by Ms. Johnson and by the two (2) -- Dr. and Mr. Robinson.

The PUB's role, pursuant to subsection 26(4)(a) of the Crown Corporation's Public Review and Accountability Act is when approving rates, to take into consideration the amount required to provide sufficient monies to cover operating, maintenance, and administration expenses of the Corporation, so including those related to road safety.

The board of directors of the Corporation is responsible for directing the management of the road safety programs. Decisions on whether the Corporation should pursue 'X' or pursue 'Y' in relation to road safety is a decision to be made by the board of directors of the Corporation and the Corporation's management.

The PUB's role is to make sure that when it is approving rates that there are sufficient monies to allow the Corporation to carry out 'X' and 'Y' in respect of road safety. It's certainly not the jurisdiction of the PUB, or within its expertise to get into the minutiae of road safety programs.

So, finally, the conclusion. First, the Corporation submits that the indicated 1.8 percent overall increase in premiums should be approved. No evidence was educed to suggest anything but this is appropriate. Second, approve the premiums charge with respect to the compulsory driver and vehicle insurance, or rates for service, effective March 1st, 2014. Third, the Corporation submits that PUB should adopt the DCAT methodology to determine the Basic AutoPac RSR target and for 2014 set a minimum RSR target of $172 million.

Fourth, approve a range around the recommended RSR target, if a range is deemed appropriate, based on the actuarial guidelines of a one (1) in twenty (20) to a one (1) in hundred (100) probable event. Fifth, approve rates effective March 1st, 2014, for the 2013 and '14 insurance years for the new insurance uses, collector passenger vehicle, and collector truck.

And sixth, and this was mentioned earlier on in the argument and I don't want it to get lost, but it was raised in the direct examination and that is the variation of Order 174/'92, so as to no longer include the linear and exponential forecast.

So as parting words, contrary to the CAC recommendation to impose a zero percent overall rate change given the challenges of cost control, MPI is not going to lay off staff to decrease its biggest operating expenses and thereby imperil its excellent customer service. Nor will MPI fail to proceed with new initiatives such as physical damage re-engineering. An overall zero percent rate change will only imperil Basic's financial condition.

The one (1) area of discretion the PUB has this year, really, is the choice of the interest rate and how much risk tolerance to assume this year and the next over the rating period. MPI has made its case for acceptance of its forecasted interest rates. There is no evidence that the Intervenors suggested that anything but the 1.8 percent overall rate increase is appropriate, actuarially sound, statistically driven, or sustainable.

So, in closing, MPI submits that it has satisfied the onus that its rates as applied for are just and reasonable and requests that the PUB approve them. The Corporation has placed sufficient evidence on the record for the PUB to approve the rates as applied for and, as usual, the Corporation requires an order on or about December 1st, 2013.

And with that I'd like to thank the many people that assisted in this general rate app -- application. There's obviously a new format to the general rate application filing. That was led by Ms. Reichert and her team in the finance department. There's an awful lot of work that goes in by people in the back row and people back in the office.

There's a huge amount of interest in

the PUB proceedings by management, by people in different areas of the Corporation, and also by our board of directors. And they're -- they're always watching. They're always keen to hear what's happening on -- at -- at this Board instead of their board, so to speak.

And I would like to thank, of course, Board counsel and the Board advisors and the Intervenors. I think Mavis Johnson was a very strong witness and it was very interesting to hear from her. She had a lot of very good, very valid points. Misters -- Mr. and Dr. Robinson came in from Pittsburgh, also, and they testified and had a lot of very good and interesting points. And I would like to thank the Intervenors and, of course, the Board members who now have a lot of work ahead of them. So thank you very much.

THE CHAIRPERSON: Thank you very much, Ms. Kalinowsky, for your very thorough closing submission. As I've said before, the Board panel has listened intently to all the evidence put before it during this MPI 2014 GRA hearing -- hearings, and will take it into consideration during our deliberations. We will be meeting soon to make our decisions and to prepare the order in a timely fashion. Thus, that concludes the MPI 2014 GRA hearings, but I think I forgot questions. You had a question. I apologize. Yeah.

MR. REGIS GOSSELIN: I'm sorry. I should have --

THE CHAIRPERSON: Sorry.

MR. REGIS GOSSELIN: I just have a few questions I wanted to address, or matters I wanted to address. And, specifically, turn to page 15 of your -- of your document or your closing arguments. I -- I just wanted to make sure the record shows that, in terms of -- I'm looking at the second paragraph of that page, specifically the section that deals -- the part that deals with the PUB can decide if it wants to accept his judgment or propose its own, which is, in essence, what it did in the Centra order.

What happened in the Centra case is that there was an expert witness that appeared before this -- the panel. And the decision of the panel in that particular case was reflective, to a considerable extent, what we heard from that expert witness. And that was equally true in respect of the Hydro decision that addressed interest rates.

So I just want to make -- make it

clear that, in that -- in those two (2) cases -- or two (2) -- two (2) rate applications, the Board had the benefit of expert -- of an expert witness who provided evidence that was used to support the -- the Board's decision.

Unfortunately, this isn't available in this particular rate application. It's just not available to us, so a decision will have to be made. And, I guess, one (1) other comment that I -- one (1) question I had is that, you know, there was evidence that was disclosed in this application that the cash levels available to the Corporation exceeded the investment policy and -- and I haven't heard you comment on that particular case. And, obviously, it's something that we will need to address because it was part of the evidence.

So if you want to comment on that, that's -- I think that's -- is something that's open to you. And I guess one (1) other -- one (1) other matter that I want to raise is the fact that I recall we heard from a wi -- from an individual whose name escapes me now, a motorcycle driver who made a number of arguments about how motorcycles should -- motorcycle rates should be addressed.

And I expected that MPIC would give a

detailed response to -- to that presentation and you indicated that you would. I haven't heard what -- what that is. And -- and I think that would be beneficial. I don't know how we can address it now at this late date.

But there were a number of recommendations that were made by that individual which parallelled the -- the recommendations that were made by Mr. Oakes. And -- and, you know, I personally would have wanted to hear your views about those recommendations. I think it would have been useful in making our decision.

And -- and to some extent, in similar fashion, I would have wanted to hear your views about what we heard in respect of Bike Winnipeg. I think it would have been useful for us in -- in developing a response to the rate application.

Could you comment, please?

MS. KATHY KALINOWSKY: I'm just going to seek some instructions from my clients here.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Thank you. I believe I have a response to the questions that Board

Member Gosselin asked.

With respect to the cash levels exceeding the investment policy, I do remember that you spoke to Mr. Gibson and asked him specifically about that. And he responded that he was holding onto it for the purposes of -- as twofold, looking for real estate opportunities because we're -- and infrastructure opportunities 'cause we're underfunded in those areas. So that's why he was hanging onto the cash should -- should some of those opportunities come available.

The other reason he was hanging onto the cash was that he was thinking that interest rates would rise and once they start to rise then he would activate a decision on that.

I'll find you the transcript pages for that, since, obviously, I can't give evidence at this stage, but I can forward those to Board counsel, and she can give you that transcript reference.

With respect to I believe the -- the presenter that you're referring to from CMMG was Doug Houghton, who I -- I believe is the president or one of their Board members, anyways, and we are always in the habit of providing a response to those individuals. So what we can do is ensure that that response is copied to the Board's secretary and he can pass those onto you.

And the same is about Bike Winnipeg and, I believe it was Mr. Elmore, and, I think, also Mr. Carter provided some further comments the next day, or something like that. So we can make sure that those are copied to you, if that's satisfactory.

MR. REGIS GOSSELIN: Yeah, I -- I think that -- just an observation that I think we're getting somewhere with respect to the value equation in terms of my understanding. You know, I -- I asked a question about, What will we be getting for a 1.8 percent rate increase, and -- and there was a response there. And -- and later on in your document you -- in fact you -- you described some of the effects or the benefits of the investments you're making in IT.

You know, to some extent, even though it's probably not set out specifically in legislation, part of our role as a Board is to deal with monopoly providers of services and it's about, in some ways, standing in the shoes of what otherwise would be competitors to MPIC to make sure that, you know, the -- the product and service offering from MPIC is a competitive one.

And, so it's about us understanding how you are moving the yardsticks and providing better service delivery to -- to ratepayers. So it -- it -- my question, and properly phrased, was about trying to understand how it is that Manitoba -- MPIC has moved their yardsticks in terms of its service offering, service delivery, and so on.

And I think we're getting there. I think that it may be something that we can address in future Rate Applications. It's really about defining to Manitobans, okay, I'm paying all this money, what am I getting? Am I getting -- am I -- am I seeing an organization that's evolving in produce -- in service offerings, and so on.

So I think we're getting there. And -- and perhaps next year I'll have a better question -- I'll have a better phrased question that allows us both to explain to Manitobans how it is that you're improving your service offering and improving the value equation for them. So, that's it.

THE CHAIRPERSON: Thank you, Mr. Gosselin. I think Ms. Neville has a question.

MS. ANITA NEVILLE: Thank you. I think I have a question here. I'm looking at -- thank you -- thank you for your presentation, first of all, and for the work that went into it.

I'm looking at page 16 at the bottom when you're responding to Mr. Williams, and the comment about that he hopes MPI can return to the using the forecast -- forecasting of the five (5) banks.

And then I turn it over to the page 18, that paragraph, Ms. Kalinowsky, that you identified as crucial to public considerations, the one (1) at the bottom of the page.

And I wonder if you could comment and -- once again, on how you use or do not use the forecasting of the five (5) banks.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I think there's a few things wrapped up in your question, Ms. Neville. And when you pointed me to two (2) different sections on page 16 and page 18, and maybe you're trying to think if there is some kind of distinction there or not. And I think that throughout our evidence is that, yes, we always do use the forecast of the five (5) banks. It -- particularly, in the past it has seemed that the --

the risk tolerance of the Corporation has aligned with the forecast of the banks.

This year, because of improved financial modelling, that -- we've noticed that it did not align with the risk tolerance of the Corporation. So, therefore, we -- what we did was, although we still use the five (5) banks as the base, what we did is instead of using it over five (5) years we stretched it out over a ten (10) year period.

And hopefully that can help why, in this year, because of the risk tolerance, we still relied upon the banks, but we stretched it out from the five (5) years forecast to ten (10) years. So that had the effect of slightly flattening that line. Hopefully that helps.

MS. ANITA NEVILLE: I hope so, too. One (1) other question or comment. On page 16, it's not in the text, you inserted into your remarks quoting the actuarial standards of practice without bias, et cetera.

Why did you insert that?

MS. KATHY KALINOWSKY: There were so many questions about best estimate. You know, what's a best estimate? Is it -- you know, is it conservative? What do you mean by 'estimate'? Is that a forecast, et cetera? And when I was writing best estimate I recalled that two (2) years ago, maybe, or a year ago we spoke about this standard of practice being a -- a -- and the definition of best estimate.

And it's used, of course, in the actuarial context for claims incurred, but I thought that it was helpful for the Board to have a bit of a grounding as to what, indeed, can be used as a definition of best estimate. And I thought it was helpful that it means without bias. It's neither conservative nor unconservative. I was merely trying to be of assistance there.

MS. ANITA NEVILLE: Thank you.

THE CHAIRPERSON: Thank you very much. My apologies for not asking for questions, but I hope we are satisfied with that now. Thus, I guess we will now conclude the MPI 2014 GAR (sic) hearings. But first I would like to do, as Ms. Kalinowsky did, thank everybody that participated in the process, including the MPI staff and counsel, the Intervenors, all the presenters, and the witnesses, Board counsel, and our expert witnesses, our ex -- expert consultants, the Board staff, my colleagues on the panel and also our court reporter.

And before we adjourn I, too, would like to wish Ms. McLaren well in her new life change. Your successor is going to have very big shoes to fill. And you will be missed at the next year's GRA hearings. So all the best. We're now adjourned.

--- Upon adjourning at 12:12 p.m.

Certified correct

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Ms. Cheryl Lavigne