



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: PUBLIC HEARING
RE: MANITOBA PUBLIC INSURANCE
GENERAL RATE APPLICATION
FOR THE 2013/14 INSURANCE YEAR

Before Board Panel:

Regis Gosselin	- Board Chairman
Karen Botting	- Board Member
Anita Neville	- Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
September 27, 2012
Pages 308 to 503

	APPEARANCES	
1		
2	Candace Grammond) Board Counsel
3		
4	Kathy Kalinowsky) MPI
5		
6	Byron Williams) CAC
7		
8	Raymond Oakes) CMMG
9		
10	Liz Peters) CAA
11		
12		
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1 --- Upon commencing at 9:30 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. I believe we're ready to start the
5 proceedings. I have a couple of announcements to make
6 before we start the cross-examination.

7 On the -- I draw your attention to a
8 sign on the wall. It refers to the availability of
9 wifi in the room, which I think is a most welcome
10 development, as far as I'm concerned. So it's --
11 hopefully it's the first step in a -- in a more
12 elaborate electronic handling of documents and data in
13 this room. So we look forward to see where that takes
14 us.

15 Secondly, I'd like to advise that Mrs. -
16 - Ms. Jill Ruth of Headingley Sports Shop will be
17 presenting to this panel tomorrow afternoon right --
18 immediately after lunch. I believe Ms. -- Ms. Ruth was
19 a presenter last year, and she was a late arrival as
20 far as presenting was concerned, so we've -- we've
21 agreed that she will make a presentation to -- to this
22 panel.

23 And finally I'd like to advise that on
24 Tuesday afternoon because of a personal matter, we --
25 the Board will adjourn early for the day. It's my

1 intention to -- to start at 9:30 as usual, and finish
2 at approximately 1:00. And we would resume proceedings
3 the Wednesday. So I ask for your forbearance in that
4 matter, but it's one of the things that could happen
5 from time to time as part of these hearings.

6 So without further ado, I'd ask -- I'd
7 ask Ms. Grammond to start her cross-examination of MPI
8 witnesses. Thank you.

9 MS. CANDACE GRAMMOND: Thank you, Mr.
10 Chairman. Before I begin with the cross, I'll just
11 state for the record that Brian Pelly has joined us. I
12 mentioned on Tuesday that he would be here. So if
13 anyone doesn't know, he's now seated to my right and
14 most welcomed.

15

16 MPI PANEL:

17

18 MARILYN MCLAREN, Resumed

19 HEATHER REICHERT, Resumed

20 LUKE JOHNSTON, Resumed

21

22 CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

23 MS. CANDACE GRAMMOND: Okay. So to
24 start off the cross, I just have a few questions with
25 respect to onus.

1 So, Ms. McLaren, I don't know if you'll
2 want to take these, but I would ask you to confirm that
3 the Corporation bears the onus of proof in the GRA
4 proceedings?

5 MS. MARILYN MCLAREN: Yes.

6 MS. CANDACE GRAMMOND: In other words,
7 the Corporation has to substantiate the GRA that's
8 before the Board?

9 MS. MARILYN MCLAREN: Yes.

10 MS. CANDACE GRAMMOND: In particular,
11 the Corporation has the onus of establishing that the
12 proposed rates and fees are just and reasonable, or
13 sometimes referred to as fair and reasonable.

14 MS. MARILYN MCLAREN: Yes.

15 MS. CANDACE GRAMMOND: And another way
16 of stating that test, as has been used in the past, is
17 that the rates are to be actuarially sound and
18 statistically driven.

19 MS. MARILYN MCLAREN: Yes.

20 MS. CANDACE GRAMMOND: Okay. So
21 getting into, then, the Application. The Corporation
22 is asking for a no overall rate change, and we've
23 talked about that a little bit on Tuesday. And I
24 understand that the Corporation has used in its
25 application the long-standing, experience based

1 adjustment rules and rate adjustments.

2 Is that right?

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

5 MS. CANDACE GRAMMOND: Now, when we say
6 that the Corporation is applying for an overall no-rate
7 change, that, practically speaking, means that some
8 people's premium goes up, some people go down and --
9 and a few stay the same. Is that right?

10 MS. MARILYN MCLAREN: That's right.
11 The request for no overall change in revenue is really
12 at the aggregate level. The way we continue to make
13 sure Manitobans pay rates that are fair and reasonable
14 and statistically sound and actuarially sound is to
15 adjust them each and every year according to the
16 experience adjustments rules that we've used for many
17 years now.

18 So all else being equal, about 50
19 percent of ratepayers would pay a little more, 50
20 percent would pay a little bit less. For all intents
21 and purposes, in a year like this with no overall
22 change, most of those adjustments are within about
23 twenty dollars (\$20) either way.

24 MS. CANDACE GRAMMOND: Thank you. And
25 I do want to get into a little bit of detail with

1 respect to that. So there's a document at Tab 2 of the
2 Board's book of documents. This is the -- the bound,
3 thick book that we filed yesterday. If we go to the
4 second tab, Tab 2, we should see an excerpt from the
5 filing SM-3.2. And if everyone's at Tab 2, SM-3.2, I'd
6 ask them to turn to the second page of that tab, which
7 is actually page 4 at the bottom. And I'm just going
8 to have a few questions for the -- the MPI panel about
9 this page.

10 So if I understand it correctly, the
11 table at the top of the page reflects the change -- or
12 the indicated rate change and experienced rate changes
13 by major class.

14 Is that right?

15 MR. LUKE JOHNSTON: Yes, that's
16 correct.

17 MS. CANDACE GRAMMOND: And we see
18 underneath that table that there's some commentary with
19 respect to the rate change that's indicated in each of
20 the major classes. What I'd ask you to do, Mr.
21 Johnston, is just give the Board a summary of the --
22 the change in each particular class.

23 MR. LUKE JOHNSTON: Okay, so, as you
24 can see, there's a table at the top of this page. And
25 it shows the -- the vehicle count, the average rate

1 we're currently charging, the proposed average rate
2 based on the experience that we've added in the last
3 year. And then there's an indicated and an experience
4 rate change.

5 And we do have -- in addition to all our
6 rating rules, we have various caps that we use for our
7 rates that -- and will limit the maximum experience
8 change to 15 percent and the maximum change from all
9 factors to 20 percent. So that's why you'll see that
10 indicated and experience don't necessarily match
11 because there are some -- some caps.

12 Going to the -- the text underneath,
13 starting with the private pra -- passenger class, this
14 is really 90 percent of all our premiums. So if the
15 overall -- if the financial statements are showing no
16 rate changes required, private passenger is likely to
17 show the same thing. And that's -- that's what you see
18 there. It's also the most stable class.

19 Commercial vehicles, one of the ways we
20 use experience to set rates is we use a ten (10) year
21 period to -- for averaging serious losses that occur in
22 a certain vehicle class. And we do this to make sure
23 that there's not huge swings in experience from say one
24 (1) or two (2) really large claims in a year.

25 For commercial vehicles, their -- their

1 worst serious loss here ever in their history was
2 2001/2002. And because that's now fallen off their --
3 their ten (10) historical period, that actually changed
4 their indicated rate favourably. And that's the
5 majority of the -- the reason for the decrease of 5
6 percent, 5.4 percent decrease.

7 Turning to public vehicles. This --
8 this one is a little bit interesting because, as we
9 talked about yesterday, we -- certain classes that
10 don't have as many vehicles, we don't give full weight
11 to their indicated experience.

12 And what we do is we -- we give a
13 certain amount of weight to their indicated experience,
14 and we give the remaining weight to the overall rate
15 change. So last year we had an 8 percent
16 decrease, and this group got a portion of that
17 decrease, because we -- we have some weight to the --
18 the overall change. And actually, we gave them
19 slightly bigger rate cha -- decrease than they -- than
20 they actually needed. And -- and all this is really
21 doing is adjusting their -- their rates back to their
22 indicated experience level. So 3.2 percent increase
23 for public.

24 Motorcycles, we really saw no
25 significant change in their expected claims from adding

1 another year of experience, nor do we see any big
2 changes in their average premiums. So we saw no --
3 almost no change at all to their rates.

4 Trailers, there was a -- an increase in
5 hail claims, and that's the main reason for -- for the
6 increase they're seeing, 7.2 percent increase. But as
7 you'll see here, that's about three dollars (\$3).

8 Finally, off-road vehicles, you've
9 likely seen some stories in the news about off-road-
10 vehicle crashes in the last year or two (2), and those
11 -- those losses obviously go into their rating
12 experience. So their -- their average rate indicated a
13 19.7 percent increase. However, again, this is --
14 we're talking about a couple dollars.

15 MS. CANDACE GRAMMOND: Thank you, Mr.
16 Johnston.

17 THE CHAIRPERSON: Can I ask a few
18 questions?

19 With respect to taxis, I just -- I think
20 in my readings I noticed that there was a significant
21 increase in the cost of coverage for taxis. But, you
22 know, I don't -- it seems there was more than 20
23 percent.

24 But I'm -- I guess I'm mistaken then,
25 right?

1 MR. LUKE JOHNSTON: Let me just look up
2 the exact change. I believe it was around 10 to 15
3 percent.

4 THE CHAIRPERSON: Okay.

5 MR. LUKE JOHNSTON: The -- the taxi
6 rate is very significant. It was approximately six
7 thousand dollars (\$6,000).

8 THE CHAIRPERSON: Right.

9 MR. LUKE JOHNSTON: And rising to about
10 seven (7), so, yeah. Any -- any kind of 5 to 10
11 percent change on taxis would be a large dollar number.
12 But I'll just look and get the number.

13 MS. CANDACE GRAMMOND: Mr. Johnston, if
14 I can just be of some assistance, at Tab 3 of the book
15 of documents, there actually are documents that reflect
16 the taxi increases, because I -- that was something I
17 was going to take you to. So I don't know if that's
18 the reference that might help you. It's the last two
19 (2) pages at Tab 3, or if you want to refer him to
20 something else, but I'll just -- thought I would tell
21 you that.

22

23 (BRIEF PAUSE)

24

25 MR. LUKE JOHNSTON: In AP-2 on page 3,

1 I don't know if you -- if you need the reference, but
2 if -- if you'd like, it is -- it's showing a -- a 10
3 percent experience adjustment for taxis. And this is,
4 again, on average.

5 THE CHAIRPERSON: Just another
6 question. I guess with respect to off -- off-road
7 vehicles, did I read correctly that there was no PIPP
8 coverage in respect of off-road vehicles?

9 MR. LUKE JOHNSTON: Yes, that's
10 correct.

11 MS. MARILYN MCLAREN: The only
12 mandatory coverage for off-road vehicles is two hundred
13 thousand dollars (\$200,000) of third-party liability
14 coverage. So there's no mandatory all-perils coverage
15 on the vehicles, there's no accident benefits. The --
16 the only mandatory coverage in -- and, therefore, the
17 only Basic coverage, is two hundred thousand dollars
18 (\$200,000) of liability.

19

20 CONTINUED BY MS. CANDACE GRAMMOND:

21 MS. CANDACE GRAMMOND: Thank you. Just
22 while we're on the subject of taxis, I'll -- I'll come
23 back to Tab 2 in a minute, but let's just go to Tab 3,
24 Mr. Johnston, if you would. This is an excerpt from
25 TI.3 of the filing. So these last two (2) pages at Tab

1 3, which are marked page 22 and 23 at the bottom.

2 These reflect, if I understand it
3 correctly, the -- the top fifty (50) vehicles in the
4 public class -- which, of course, includes taxis --
5 with the greatest increases under the proposed
6 application.

7 MR. LUKE JOHNSTON: Yes, that's
8 correct.

9 MS. CANDACE GRAMMOND: And this shows,
10 if we look at -- starting from the right-hand side of
11 the page and looking left, we see the fourth column in
12 is entitled, "2012 Rate," which would, of course, be
13 current rate, and then the very last column entitled,
14 "2013 Experience-adjusted Rate" is the proposed. So if
15 we compare those two (2), we see how much these rates
16 are going up.

17 Is that right?

18 MR. LUKE JOHNSTON: That's right. And
19 then -- and if you -- you take roughly 10 percent of
20 the -- of last year's rate, you get about six hundred
21 (600) something, and that -- that's about the increase
22 you're seeing there.

23 MS. CANDACE GRAMMOND: Thank you. Most
24 of them seem to be going from about sixty-four hundred
25 dollars (\$6,400) to just over seven thousand (7,000)?

1 MR. LUKE JOHNSTON: Correct.

2 MS. CANDACE GRAMMOND: Thank you. I'll
3 ask you then to just turn back to Tab 2 of the book of
4 documents, where we were, and, in particular, page 5.
5 So thank you for explaining the percentage increases
6 among the major classes. The Corporation has given the
7 Board here, on page 5, a table. So I'm now on page 5
8 at Tab 2 of the book of documents. The Corporation has
9 provided a table that breaks down increases by dollar
10 level.

11 And we see that at the "No change" line,
12 which is right in the middle of the table there, about
13 twenty-three thousand (23,000), or 2.3 percent of
14 vehicles that will have -- actually have no change in
15 rates under the proposed application?

16 MR. LUKE JOHNSTON: That's right.
17 Given -- given all the different rating factors we use,
18 there's typically not a lot of vehicles that stay
19 exactly the stay exactly the same rate, yeah.

20 MS. CANDACE GRAMMOND: It's also
21 provided on page 5 that 42 percent or so of vehicles
22 would have a decrease under what the Corporation's
23 proposing, and about 55 percent of vehicles would have
24 an increase?

25 MR. LUKE JOHNSTON: That's correct.

1 MS. CANDACE GRAMMOND: We see, again
2 looking in -- at the chart, in terms of actual dollars
3 that on the -- the increase side, the -- the bottom
4 side of the table, about 35 percent would have an
5 increase under what's being proposed of less than
6 twenty dollars (\$20), which is I think what Ms. McLaren
7 was commenting on earlier.

8 Is that right?

9 MR. LUKE JOHNSTON: Yeah, that's
10 correct.

11 MS. CANDACE GRAMMOND: And increases of
12 more than fifty dollars (\$50), if we look at the
13 "Increase fifty (50) to a hundred" line and upward, is
14 really about 4.2 percent, according to what's reflected
15 here?

16 MR. LUKE JOHNSTON: Correct.

17 MS. CANDACE GRAMMOND: Now, I'll ask
18 you then to turn again to Tab 3. And this time, stay
19 at the first page. This is -- which is marked, "Page
20 6," at the bottom. This is an excerpt from TI.3 that
21 lists, for the private passenger class, the top fifty
22 (50) increases that are -- that would result under the
23 proposed application.

24 So we see the -- the very first one on
25 the list is a GMC truck that it looks like would be

1 going up by about a hundred and fifty dollars (\$150),
2 from eight hundred and twenty-six (826) to nine hundred
3 and seventy-seven (977). Is that right?

4 MR. LUKE JOHNSTON: Yes, that's
5 correct.

6 MS. CANDACE GRAMMOND: And the second
7 one is actually a Ford Focus, a 2012 model year, that
8 would be going up again by around a hundred and forty
9 dollars (\$140).

10 Can you comment on the kind of factors
11 that would -- would lead to this? I mean, we see the
12 first vehicle is actually a 1997 model year and the
13 second one on the list is -- is a 2012.

14 So if -- if you could give the Board
15 some idea of the kinds of things that drive these types
16 of increases, I'd appreciate it.

17 MR. LUKE JOHNSTON: For -- for
18 passenger vehicles and light trucks, we use a rating
19 system based on what's called the CLEAR system, and it
20 stands for the Canadian Loss Experience Automobile
21 Rating. And basically, CLEAR amalgamates data from
22 Canadian insurers and comes back with rate groups by
23 vehicle type. For a collision we use collision comp
24 and accident benefits.

25 And we then combine those rate groups to

1 produce MPI rage groups. And the reason I'm going into
2 that topic is after the first line here on this table,
3 every vehicle saw a rate group increase. And -- and
4 again, that's -- I'm just making sure I'm correct here.
5 Yeah, every vehicle saw a rate group increase. And
6 that is based on the information we get from -- from
7 CLEAR.

8 Usually rate groups decline over time.
9 As the vehicle gets older, it be -- you know, the
10 physical damage costs are -- are less. But for this
11 particular group of vehicles they saw increases.

12 For the first vehicle on the list, this
13 was actually just a combination of high experience
14 adjustment, I believe 15 percent, and other rate group
15 -- the rate group stays the same, but we -- we also
16 adjust the relationship between the rates by rate
17 group. So this rate group got an increase, and also
18 the fishing all-purpose use saw 15 percent experience
19 adjustment.

20 MS. CANDACE GRAMMOND: Thank you.

21 THE CHAIRPERSON: Could you explain a
22 little bit more? So adjustment, you adjusted the
23 relationship by rate group. Just can you explain that
24 a bit?

25 MR. LUKE JOHNSTON: So when we get --

1 when we get the rate groups -- when we develop the MPI
2 rate groups we don't -- we don't use the loss
3 experience of other Canadian insurers. We use our own
4 -- we apply our own experience to those rate groups.

5 And then we look -- so say -- I believe
6 we're at -- thirty-five (35) -- we have thirty-five
7 (35) rate groups for passenger vehicles. So we look at
8 the loss experienced by rate group based on Manitoba
9 experience, and then we essentially create a trend line
10 through those -- through those points.

11 And as -- as we'd expect from -- from
12 getting the data from CLEAR, as the rate group
13 increases the expected losses increase. And what every
14 year we -- we recalibrate the -- the relative rates by
15 rate group and adjust those based on loss experience,
16 so.

17 THE CHAIRPERSON: So --

18 MS. MARILYN MCLAREN: Sorry, if I could
19 have just a second. Thank you.

20

21 (BRIEF PAUSE)

22

23 MS. MARILYN MCLAREN: I've asked Mr.
24 Johnston to find the graph that shows the relationship
25 between our costs and the actual rate groups for all of

1 those thirty-five (35) rate groups for passenger
2 vehicles. Re -- remembering that we have, you know,
3 well over half a million private passenger vehicles in
4 Manitoba, that's still nowhere near enough to assess
5 ourselves the individual risks that those different
6 makes, model, model years bring to the system.

7 So we use this national data base where
8 they have so many more 2012 Ford Focuses and, you know,
9 2005 whatever because we know through the CLEAR system
10 that the -- the cost of repairs that -- the -- the
11 extent to which individual vehicles protect the
12 occupants, have really good design -- so they're not
13 having, you know, six thousand dollar (\$6,000)
14 electrical wiring harnesses right at the front end
15 where it's likely to be damaged with the most minor of
16 accident, and the extent to which the repairs can be
17 done cost effectively, really varies absolutely
18 materially for all those different vehicles out there.

19 A manufacturer can make one decision in
20 a model year that'll really change the costs for that
21 same make and model but a different model year going
22 forward. There's no way we would ever figure that out
23 in Manitoba with our small group of vehicles. Over
24 half a million is a lot, but it's small when you have
25 to split them into all those different categories.

1 We've often talked here that Manitoba
2 represents -- in terms of auto insurance Manitoba
3 represents about 4 percent of the Canadian auto
4 insurance business. And Canada represents about 4
5 percent of the international auto insurance business.
6 So we're -- we're a very small player in a very small
7 player.

8 So we use the national data to try to
9 understand where we should put these vehicles. And
10 when you see something like the 2012 Focus move up a
11 rate group already it's probably because nationally
12 they now have a year of experience, and it's costing
13 more to repair these things than they thought they
14 would when they were brand new, basing their decision
15 only on manufacturer information.

16 But it's really important to us that we
17 use our claims costs to create that rate line that has
18 that really good relationship between what people pay
19 on each rate group, and what the actual claims costs
20 are in all those different rate groups.

21 THE CHAIRPERSON: Just to deepen my
22 understanding a little bit more. So the rate groups
23 are really -- you're -- established by loss experience
24 fundamentally? Is that -- like so Group 1 is the
25 highest, Group 2 -- am I -- could you explain that to

1 me?

2 MR. LUKE JOHNSTON: Yes, absolutely.
3 They're based completely on loss experience based on
4 the -- the rate-setting rules that we've established
5 here.

6 And if -- if I can assist, on TI.1...

7

8 (BRIEF PAUSE)

9

10 THE CHAIRPERSON: What volume is that
11 in again?

12 MS. CANDACE GRAMMOND: Volume 2, part
13 1. So it's the skinny volume 2 binder.

14

15 (BRIEF PAUSE)

16

17 THE CHAIRPERSON: Okay.

18 MR. LUKE JOHNSTON: Yeah. So on -- if
19 you go the page -- not the first -- not the
20 introduction page, but the -- the first table, which
21 just says "Page 1" on it, passenger vehicle relativity.
22 So this is in -- this is an example of the relative
23 loss experience by rate group.

24 So to simplify it, if -- if we had a --
25 required an average rate of a thousand dollars, rate

1 group 14 would pay a thousand dollars, and rate group
2 zero would pay about 56 percent of a thousand dollars,
3 at five hundred sixty dollars (\$560).

4 And this is similar to -- we have
5 relativities like this for the uses and other factors,
6 but that's basically how they're applied. So this --
7 this set of relativities, you can see the 2012 and the
8 2013 relativities. This is purely just an adjustment
9 based on the updated loss experience by rate group.

10 THE CHAIRPERSON: Now, if -- if CLEAR is
11 giving you one value and your data is giving you
12 another value -- say, for example, CLEAR is coming in
13 lower than what your experience has been -- you would
14 go to your experience?

15 MR. LUKE JOHNSTON: So CLEAR -- CLEAR
16 does provide us with rate groups and relativities like
17 this. Because private insurers often sell these
18 coverages separate, we have -- we get separate
19 collision, comprehensive, accident benefits rate groups
20 from CLEAR.

21 So what we do is we actually look at our
22 composition of coverages and we calculate our own MPI
23 rate group by weighting the -- the -- the rate groups
24 we get from CLEAR. So for example, if -- if physical
25 damage, 80 percent of our losses in Manitoba are from

1 collision, we'll give 80 percent weight to the rate
2 group we get from CLEAR for collision and -- and the
3 remaining to comprehensive.

4 Once we have these rate groups, yeah, we
5 purely use MPI experience to determine the loss
6 relativities. We don't look at all at what CLEAR has
7 provided. But we do know that, as you can see from
8 this table, directionally, we're the same. But we
9 wouldn't -- like, accident benefits is a really good
10 example, because our PIPP program, we've seen it's
11 pretty clear that the relative experience by the rate
12 groups they give us has not much of a relationship to
13 the private sector.

14 THE CHAIRPERSON: Now, partly -- part
15 of where I'm going it trying to understand the issue of
16 drivers who complain to PUB about the fact that they
17 may be drying -- driving an old vehicle, and, you know,
18 the vehicle is basically is a write-off if they have an
19 accident. And they're -- they're saying to us, our
20 insurance rates are higher than the value of the
21 vehicle, and the vehicle has been written off.

22 So could you explain what's -- what
23 would drive that -- that reality?

24 MS. MARILYN MCLAREN: Every vehicle has
25 to make a contribution to funding no-fault benefits,

1 and a beater that's about to be written off has every
2 potential to do as much serious damage to people, to
3 individuals, as, you know, a brand new BMW. So when
4 you can -- when you look at the relationship between
5 our loss costs per rate group, we're confident in
6 saying Manitobans are paying the right amount.

7 I mean, worst-case scenario, if someone
8 really, truly has a vehicle that's absolutely
9 worthless, it still has coverage. If it's in a crash
10 on a street, we'll tow it away for free. But, you
11 know, I mean, it's not uncommon for us to be paying
12 hail damage claims on -- on marginally valued vehicles.

13 People don't stop to think about the
14 premium that they're paying to basically insure them
15 against the risk that, you know, they and their
16 vehicles to do -- could do to other human beings. That
17 don't think about that. They just think about the
18 value of the vehicle.

19 So when we can actually sit down and
20 talk to people about sort of the -- the relationship
21 between the rate that they're paying in relation to
22 what others are paying, and that it truly is based on
23 statistical information, and that we have national
24 evidence that their vehicle is in the right rate group
25 to start with, that -- that tends to resonate and they

1 tend to -- to accept that.

2 The -- you know, back in the day, it was
3 not uncommon when our rate line was -- was not in -- in
4 a good situation, we did not have a lot of analysis,
5 before CLEAR was even created nationally it was not
6 uncommon for somebody to -- you know, to complain or be
7 surprised that they traded in their 1978 something or
8 other for a 1988 and the rate went up about ten dollars
9 (\$10). That'd never happen anymore, you know.

10 I mean, so we truly know that, based on
11 national data, people's vehicles are bucketed
12 appropriately with other similar risk vehicles and that
13 their costs are driven by the costs of claims here in
14 Manitoba for all the vehicles in that rate group.

15 So when you can tie it back to the
16 statistical evidence that we believe is -- is founded
17 on, you know, fair and reasonable approaches, using
18 national data, whenever appropriate, using local data
19 wherever possible, that -- for most people, that --
20 that satisfies the question.

21 Do you want to add any...?

22 MR. LUKE JOHNSTON: Yeah. Just -- just
23 to be extra clear, perhaps, if rate group zero, for
24 example, was only showing that, on average, it costs us
25 twenty dollars (\$20) a vehicle for collision coverage,

1 their rate will refe -- reflect that.

2 So what we typically see is almost
3 completely flat PIPP costs by rate group. Again, the -
4 - off -- often the older vehicles have worse PIPP
5 experience, so they might get say a three hundred
6 dollar (\$300) average PIPP cost coupled with a fairly
7 minor collision or comprehensive cost. And that'll --
8 you know, will add, you know, operating expenses in,
9 all the other factors to that to produce the rate. So
10 their -- their rate definitely reflects their -- their
11 loss experience in that rate group.

12 THE CHAIRPERSON: Do you -- can you
13 tell me if the CLEAR system is used by other provincial
14 insurance bodies that put -- provide car coverage -- or
15 pardon me, vehicle coverage, for example, PEI, for
16 example, in Quebec and...?

17 MS. MARILYN MCLAREN: The -- the public
18 auto insurer in Quebec deals only with the injury
19 compensation system. So individuals buy their
20 collision comprehensive coverage for their vehicles
21 from competing private sector insurers. So they --
22 they wouldn't have any need for it.

23 Saskatchewan, a few years back, started
24 to use a modified version of CLEAR. They had some
25 policy considerations beyond the statistical

1 considerations that -- that took them down that road.
2 They had a mandate for quite some time that -- that no
3 rates should change.

4 And even -- like they had a different
5 policy approach. Like where we tell you that 50
6 percent go up and down and we have a no-change year.
7 They weren't doing that. They were keeping them the
8 same. And they found that they were in quite -- quite
9 a bind to try to undo that after even just a couple of
10 years of that because now everybody has dislocated and
11 it's very hard to change. So they had kind of a
12 modified version.

13 And even earlier than that there was a
14 bit of a difference of views, I guess, a breaking of
15 the way between ICBC and the CLEAR organization. And
16 ICBC believed that they were probably bigger enough --
17 big enough in British Columbia to figure out their own
18 rate groups. And they've broken from there, as well.

19 Now, both of those may have changed.
20 That's a bit dated information on my part. And, Luke,
21 you may have more up-to-date information.

22

23 (BRIEF PAUSE)

24

25 MS. MARILYN MCLAREN: He doesn't have

1 any more updated information. That's where we're
2 sitting.

3

4 CONTINUED BY MS. CANDACE GRAMMOND:

5 MS. CANDACE GRAMMOND: Thank you. Mr.
6 Johnston, just before we leave this document at Tab 3,
7 the -- the top fifty (50) list in terms of private
8 passenger proposed increases, you had commented about
9 the fact that, you know, typically, as a vehicle gets
10 older, typically the premium goes down.

11 I know, Ms. McLaren, you had said in
12 response to the item at number 2, the Ford Focus, that
13 okay it was a 2012 so the collision cost must have been
14 higher than the manufacturer spec, and that's why that
15 one is going up.

16 If we look a little bit lower down in
17 the table we see at lines 25 to 29 a bit of a cluster
18 of really older vehicles: one (1) from 2001, 2003, and
19 then some from 2005.

20 Can you comment on the -- the factors
21 that would be contributing to these eight (8) year plus
22 vehicles having increases at this stage?

23 MR. LUKE JOHNSTON: I -- I can -- I
24 can't comment on the -- the fine details of the -- of
25 the rate group, but it could -- it could involve

1 anything from an increase in their expected accident
2 benefit costs, or -- or comp or collision for that
3 matter. We could -- we could look at that in more --
4 in more detail, but I don't know what specific
5 component of the rate group received the increase.

6 But you're right, typically physical
7 damage does decline with -- with time, but it could be
8 that certain vehicles have more comp or higher costs.
9 Yeah.

10 MS. CANDACE GRAMMOND: Thank you. Now,
11 Mr. Johnston, you had commented on the fact that when
12 MPI looks at the CLEAR rate group data it assigns
13 weightings to the -- the different coverages: collision
14 and -- and comprehensive and so on.

15 I -- I gather that those weightings are
16 something that MPI typically keeps the same year over
17 year?

18

19 (BRIEF PAUSE)

20

21 MR. LUKE JOHNSTON: Preferably we'd
22 keep those factors stable because that's -- that would
23 keep rates stable, but obvi -- obviously it's important
24 that the percentages reflect the actual weights of the
25 coverages.

1 So when we made such significant
2 declines in comp from the theft program, that -- that
3 decreased the weight of comp -- comprehensive losses in
4 -- in the coverage -- in our coverages. So currently
5 comp -- comprehensive is twenty (20). I believe we
6 used to have 22 to 24 percent weight. And -- and
7 collision is 80 percent.

8 For -- and again, for -- for accident
9 benefits or PIPP, we -- we find that the relationship
10 is basically flat across rate groups, so we don't -- we
11 don't make a significant adjustment to the rate groups
12 for -- for PIPP.

13

14 (BRIEF PAUSE)

15

16 MS. CANDACE GRAMMOND: And, Mr.
17 Johnston, when we talk about, typically, collision
18 costs for a vehicle going down over time as the vehicle
19 ages, what's the -- the driving factor behind that?
20 Why does that generally happen?

21 MR. LUKE JOHNSTON: That would
22 generally be because the -- the actual value of the --
23 of the vehicle declines. Repairs might not necessarily
24 decline, but -- but definitely in the early stages the
25 -- the market value of the vehicle in a total loss

1 would be significantly reduced in the first five (5) to
2 ten (10) years.

3 MS. MARILYN MCLAREN: The -- the repair
4 costs would absolutely not decline. We pay exactly the
5 same labour rate to the repair trade regardless of what
6 age a vehicle they're working on. Sometimes with older
7 vehicles it gets harder and therefore more expensive to
8 find replacement parts.

9 And for the most part until -- until
10 vehicles are really, really at that low end of the rate
11 group scale we're fixing a majority and writing off a
12 minority. So the actual ca -- street value of the car
13 is a less -- lesser factor than the repair cost,
14 generally speaking.

15 MS. CANDACE GRAMMOND: So really what
16 we're talking about is the depreciation in the value of
17 the vehicle itself for payout purposes.

18 MS. MARILYN MCLAREN: That's right.
19 Part of the loss cost per rate group.

20 MS. CANDACE GRAMMOND: The other thing,
21 and -- and I know that this is on the record but just
22 because we're having this conversation about the CLEAR
23 rate groups we should probably say it, is that when MPI
24 receives the rate group data from CLEAR there are, in
25 fact, 99 rate groups which MPI translates into the 35

1 rate groups that we have at TI.1?

2 MR. LUKE JOHNSTON: That's correct.
3 There's -- there's a certain portion of vehicles that
4 have extremely high rate groups and collision; for
5 example, like a -- like a Lamborghini or something
6 might be like a ni -- rate group 99.

7 The vast majority of rate groups are
8 under rate group 35. If we do see vehicles that are
9 above that, we essentially just cap them at the maximum
10 MPI rate group. But there's -- there's not a
11 significant number.

12 MS. MARILYN MCLAREN: And having said
13 that though, we have added to the number of rate groups
14 over the years. We used -- for many, many years we had
15 about twenty-eight (28). And because we found that
16 there was a growing percentage of vehicles in that
17 highest rate group, that we were kind of collapsing
18 them all together. We've added rate groups to better
19 differentiate at the high end.

20 I -- I don't know if there are any
21 Lamborghinis in Manitoba right now, but there are a
22 surprising number of other higher-end vehicles that,
23 you know, ten (10) years ago you wouldn't have expected
24 to find in Manitoba. So some of them are existing.

25 And we believe, in --- in the interest

1 of fairness, we needed to expand that top end to better
2 differentiate the really higher-priced vehicles.

3 MS. CANDACE GRAMMOND: Now I -- I do
4 want to come back to the -- the rate distribution just
5 before we -- we leave this topic. But while we're
6 talking about the -- the rate groups and the components
7 that MPI considers when it -- when it classifies the
8 rate groups, I -- I have a question about collision
9 coverage.

10 And I understand that in some
11 jurisdictions collision coverage is not mandatory,
12 where an individual can elect to not purchase collision
13 coverage. You know, if they have an older vehicle that
14 may not have a lot of value and there's a collision,
15 they can just make the choice to eat that, as it were,
16 and -- and not be covered.

17 Has MPI ever considered or had
18 discussions with respect to that option being put
19 forward in Manitoba?

20 MS. MARILYN MCLAREN: It is in the MPIC
21 Act and regulations that collision coverage, as well as
22 comprehensive coverage, is mandatory in Manitoba. The
23 only other place I'm aware of where it is mandatory is
24 Saskatchewan.

25 And the -- the legislative principle

1 behind that, as I understand it, is that you make
2 something like that mandatory largely as a way to
3 provide the guaranteed access. Obligating somebody to
4 buy something and guaranteeing that they have the right
5 to buy it goes hand in hand.

6 And you really -- it's very, very
7 difficult, legislatively and from a policy perspective,
8 to do one (1) without the other. So that is the
9 context in Manitoba. The Manitoba Automobile Insurance
10 Program was modelled on the program in Saskatchewan.

11 In its early history, ICBC had the same
12 format, but they did remove the guaranteed access and
13 mandatory nature of their collision and comprehensive
14 coverage a few years after ICBC began. But that's the
15 concept.

16 And so -- and because it's in the Act
17 and regulations, it's not something MPI has ever looked
18 at, taken a position on with respect to its existence.
19 It is what it is in the Act and regulations.

20 MS. CANDACE GRAMMOND: So any change
21 would have to come from the legislature level?

22 MS. MARILYN MCLAREN: That's right.

23 THE CHAIRPERSON: Could I explore that
24 a little bit? In terms of the impact of such a policy
25 decision, the -- obviously, the cost to the -- to the

1 driver would be lower because they wouldn't have to cov
2 -- provide -- pay for that coverage.

3 Now in terms of the impact to MPI, what
4 would it be? Would it actually reduce costs?

5 MS. MARILYN MCLAREN: Well, I -- you
6 know, I mean, the answers to those questions, I -- I
7 guess the best you could do would be to look at ICBC
8 maybe for some of those answers. I think it's pretty
9 clearly on the public record that ICBC tends to sell
10 the majority of the optional collision and
11 comprehensive in that province.

12 But as long as -- as long as you're
13 dealing with multi-vehicle collisions, more -- more
14 than one (1), and you are the mandatory insurer for the
15 liability coverage, you pretty much need the
16 infrastructure, the systems, the staff, the processes
17 to deal with that piece of the claim anyway. So
18 there's not a huge difference.

19 And I think, I mean, again, from -- in
20 terms of asking that policy question, what -- we do
21 know what Manitobans want. They don't want the lowest-
22 cost product they can get. They want comprehensive
23 coverage. They want complete coverage.

24 So I think those are -- I guess the best
25 I can say is in terms of understanding what the impact

1 may or may not be, ICBC might be something to look at.

2 THE CHAIRPERSON: So Saskatchewan moved
3 away from it because -- what caused the policy change
4 in Saskatchewan?

5 MS. MARILYN MCLAREN: Saskatchewan
6 hasn't moved away from it. British Columbia did back
7 in the late '70s. It's a political decision. It's a
8 legislative decision.

9

10 CONTINUED BY MS. CANDACE GRAMMOND:

11 MS. CANDACE GRAMMOND: Is this
12 something that MPI tends to be questioned about or get
13 feedback from the public, people asking, Why do I have
14 to have this collision coverage for my beater, type
15 thing?

16 MS. MARILYN MCLAREN: Rarely it ties
17 back to the question the Chairman asked a few minutes
18 ago in terms of, like, convince me this is a fair rate
19 for -- why do I have to pay this much? Not, Why do I
20 have to buy it at all, but, Why do I have to pay this
21 much. And if you can address the issue of the fairness
22 of the rate, that's where it ends.

23 MS. CANDACE GRAMMOND: Okay. Thank
24 you. So I had said I just wanted to cover off another
25 point relative to the distribution of the rate changes.

1 So I'd ask you just to turn back to Tab 2 and go to the
2 last page of Tab 2. This is numbered "Page 6" at the
3 bottom of the page.

4 And we -- we have a chart on page 6 that
5 reflects distribution of percentage rate changes. And
6 we see -- and this is similar to what we saw on page 5,
7 that there's sort of a cluster of rate changes both on
8 the decreasing side and the increasing side around the
9 no-rate change. That's where we see the bulk of the --
10 the vehicle population.

11 Can you explain why that is so
12 concentrated around the -- the no-change line?

13 MR. LUKE JOHNSTON: Yeah. The -- the
14 majority of our vehicles are in the private passenger
15 class. We have very credible data, and we use, you
16 know, five (5) to ten (10) years of loss experience to
17 rate those vehicles. We wouldn't expect, you know, the
18 majority of vehicles would change much.

19 And so compared to the dollar changes --
20 which sometimes a 5 percent change applies to a highly
21 rated vehicle, which can create a high-dollar change --
22 this is really just a reflection of the rating system
23 that we have here and how it keeps rates fairly stable.

24 MS. CANDACE GRAMMOND: Would the
25 capping rules that we've referred to be a factor there

1 as well?

2 MR. LUKE JOHNSTON: Yeah. That would
3 also be a factor. And the capping rules typically
4 apply to those groups that don't have a lot of
5 experience, and so they do see swings sometimes. But
6 that's -- it's a lot more rare to have passenger
7 vehicle groups with -- with lots of data to ever really
8 require that capping.

9 MS. CANDACE GRAMMOND: Thank you.
10 Okay. I'm going to move, then, to some questions about
11 driver premiums. I'll ask you to turn to tab 1 of the
12 book of documents. This is where we've given an
13 excerpt of AP-1. So tab 1 of the book of documents,
14 the second page or page 2, reflects the chart of what
15 is being applied for.

16 And we see that the Corporation is not
17 applying for any changes in the vehicle premium
18 discounts?

19 MR. LUKE JOHNSTON: Yes, that's
20 correct.

21 MS. CANDACE GRAMMOND: Similarly, the
22 Corporation is not asking for changes on the merit side
23 of the driver premium scale?

24 MR. LUKE JOHNSTON: Correct.

25 MS. CANDACE GRAMMOND: Now, I -- I

1 recognize that the proposed changes to the demerit side
2 of the scale flow from the transitional plan that was
3 put forward three (3) years ago, when DSR first came
4 into effect.

5 Did the Corporation give any further
6 specific consideration to what -- what it would be
7 asking for in this table this year, in terms of not
8 asking for any changes on the merit side, no changes to
9 vehicle premium discount, and just seeking to implement
10 the third step of the transition on the demerit side?

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: So -- yeah, the
15 first part of your question, the -- the demerit
16 schedule that you see is -- is as we planned at the --
17 the DSR hearing.

18 And we think -- we think it's important
19 to stick to that schedule until we have a decent set of
20 data from Driver Safety Rating. The -- as you know,
21 the -- the discounts at the top of the scale are also
22 new. We're still learning about how drivers behave
23 with the -- you know, at these additional levels and
24 discounts.

25 So we think we'll be in a pretty good

1 position to -- to present the Board with something at
2 the next rate app, in terms of our understanding of the
3 costs and the driver behaviour at each of these levels.

4 MS. CANDACE GRAMMOND: I was going to
5 ask you how long does the Corporation consider it -- or
6 how -- what time period would have to pass before you
7 consider that you had decent DSR data, and you're --
8 you're thinking by next year?

9 MR. LUKE JOHNSTON: Well, the -- the
10 Driver Safety Rating -- Rating System stated in 2010,
11 and so for a driver to -- actually maybe step back.

12 We started with a -- basically a
13 placement of all drivers on the new scale, and we did
14 it in a way that minimized rate dislocation. So
15 they're set on this -- they're put on the scale. One
16 (1) year later in 2011 we get to see the first time
17 that they move, so up or down, and -- and how they
18 react to the -- the movement, whether it's favourable
19 or unfavourable.

20 So we've really only got to see them
21 move once, and we really haven't got to see how they're
22 going to react once they say drop, you know, five (5)
23 steps down the scale from an accident. So by next year
24 we'll have at least one (1) year of movement, and a
25 little bit of a better understanding of what -- what

1 they do once they've moved.

2 MS. CANDACE GRAMMOND: So is it fair to
3 say then that the Corporation will reassess and
4 consider these numbers on a yearly basis, and if it
5 believes that changes are -- are needed it will apply?

6 MR. LUKE JOHNSTON: Definitely we're
7 going to have a lot of quality data by DSR level, and
8 the Board is going to be able to see the loss
9 experience by DSR level. The extent of which -- which
10 changes are made to the rates will be discussed at this
11 hearing, but the -- the information will definitely be
12 available and likely push us toward -- closer toward
13 the expected costs.

14 MS. CANDACE GRAMMOND: Thank you. I do
15 have some more specific questions about some of the
16 proposed premiums on the demerit side.

17 If we look at demerit level 1 at the
18 minus one (1), that driver premium currently is forty-
19 five dollars (\$45). And the proposal is to increase it
20 to a hundred. When we compare the other proposed
21 increases, that's quite a hike in relative terms. It's
22 more than double.

23 Can you comment on the rationale for
24 that particular proposal?

25 MR. LUKE JOHNSTON: As we discussed

1 earlier, the -- there was a phased-in approach to the
2 demerit premiums you see here. And the idea was to
3 give drivers as of the date of slot -- they were
4 slotted on the scale, a chance to move out of the
5 demerit levels before they were hit within these
6 increases. The last -- one of the last steps on that
7 transition was to -- to move the -- the -- like the
8 negative one (1) and negative two (2) level up to the
9 hundred dollar (\$100) target.

10 I recognize that it's almost a doubling
11 of that forty-five dollar (\$45) rate, but it would
12 really only apply to -- to somebody that likely fell
13 down the scale from poor experience. A driver that was
14 at negative one (1) last year that had a good -- that
15 had a clean year would be out of negative one (1) and
16 up to zero.

17 MS. MARILYN MCLAREN: And until we
18 implemented DSR in 2010, there had never been
19 surcharges until someone had six (6) demerits. And it
20 was a very por -- important part of the initial
21 strategy and implementation discussions that we had
22 within MPI and -- and in these proceedings, that it
23 really needed to start at an earlier stage.

24 So every year since 2010, since
25 implementation of DSR, every Manitoban has received a

1 renewal notice that had -- had the scale and had
2 messaging, talked about the fact that, you know, that -
3 - that there -- that with the support of the PUB, we
4 would anticipate having higher surcharges, that we were
5 heading this direction.

6 So there's been a lot of information for
7 people. It has been widely communicated. We've had
8 the information available as to what the very initial
9 higher demerit points. A big part of the conversation
10 around -- in -- in this room through time is that the -
11 - through time, there was a perception that the
12 demerits were really -- the demerit premium, additional
13 premiums, were really inadequate, they needed to be
14 moved higher, and that we should start earlier in the
15 game.

16 So this is really part of the process.
17 This will not surprise anybody. And you can see that
18 people who had five (5), four (4), three (3), have
19 already had some pretty good surcharges applied, and
20 that never would have happened in the past either.

21 So that has taken place. There's been
22 no real reaction or backlash. And I think that the --
23 the panel can take comfort that this will not be new
24 information, that people will have had adequate notice
25 and adequate time to really understand the -- the

1 growing impact of risky driving behaviour and had the
2 opportunity to change their behaviour, leading up to
3 this last -- last implementation of higher surcharges.

4 MS. CANDACE GRAMMOND: Are --

5 THE CHAIRPERSON: One of the comments
6 we receive at the -- at PUB with respect to the -- the
7 scales is the fact -- typically will be something like:
8 I've been a good driver for 'X' number of years and I
9 have an accident, and all of a sudden I drop down
10 precipitously into a different rate scale and my
11 licensing costs go up dramatically.

12 So is that a factual statement? I mean,
13 factually -- generalized statement?

14 MS. MARILYN MCLAREN: Not really. If
15 you -- and I guess -- you know, this is one of the
16 things that we've grappled with the most from that
17 policy perspective.

18 Everyone believes that people who cause
19 accidents should pay more than those who don't. And
20 everyone believes that long-term good drivers should
21 have a first accident in a long period of time and
22 there should be no impact to their rate.

23 Tho -- those are two (2) really
24 diametrically opposed thoughts, because for the most
25 part, except for the tiny, tiny single-digit number of

1 people exceptions, there's not a whole bunch of people
2 out there crashing into each other over and over. Most
3 of the accidents are caused by good drivers who screw
4 up once in a very, very long period of time. So you
5 can't really have it both ways.

6 So what we've tried to do, and what we
7 have with this scale, I think is a reasonable balance.
8 So if you look at somebody who's been a very good
9 driver for a very, very long period of time, if in fact
10 that's true, the way they characterize their driving
11 behaviour -- let's assume it's true -- then they would
12 be at DSR-15. So on this attachment you can see that
13 DSR-15, they would go down to ten (10) for an at-fault
14 accident.

15 So their driver premium would go up by
16 five dollars (\$5). To most people, that's pretty
17 affordable. And in terms of their vehicle premium,
18 they would go from 33 to 26 percent, which is a 7
19 percent change; not out of the ordinary.

20 You have to find a way that people who
21 have been good drivers for very, very long periods of
22 time have some impact, but not a huge impact. I -- I
23 think we're -- we're there. I think it's a reasonable
24 compromise.

25 THE CHAIRPERSON: Now, pursuing that a

1 little bit more, I guess the issue is -- it seems to be
2 around -- would -- would appear to me to be around
3 somebody who was probably at the three (3), two (2)
4 merit level and all of a sudden has an accident and
5 drops down to, say, minus -- I guess you can drop down
6 five (5) -- five (5) rates, five (5) levels? Five (5)
7 rates --

8 MR. LUKE JOHNSTON: For an accident,
9 yes.

10 THE CHAIRPERSON: You can drop down
11 five (5). So you would be -- you were paying thirty-
12 five (35) and all of a sudden you drop down to a
13 hundred bucks. So you increase -- to a hundred
14 dollars, yeah. So that's -- that's probably where some
15 of that concern is coming from.

16 So if you're starting from a -- a lower
17 DSR level and you have an accident, that's where you
18 drop into a -- into a negative DSR level and -- and
19 your rates have gone up dramatically, your licence
20 costs have gone up dramatically.

21 MS. MARILYN MCLAREN: For sure, but
22 even in that case it's, you know, sixty-five dollars
23 (\$65) a year, like spread over twelve (12) months,
24 twelve (12) easy payments. We have payment plans. And
25 they lose a 10 percent discount, again, which is, you

1 know, it -- it's -- average rate being around eight
2 hundred dollars (\$800), that's another eighty dollars
3 (\$80). So I mean, if the eighty (80) plus sixty-five
4 (65), it's a little bit more than ten dollars (\$10) a
5 month.

6 It -- it's not unaffordable, you know.
7 I mean, I think it's -- it's a reasonable balance. I
8 mean, everybody -- and someone who is at three (3) on
9 the DSR scale and has been driving for quite a long
10 time -- you've been driving for a long time and you're
11 sitting at three (3), you've had some issues. If
12 you're a newer driver, and you have managed to stay
13 accident or conviction free, if you've only been
14 driving for three (3) years and you're up at three (3),
15 you're going to come down a bit. But again, you know,
16 it's a little bit more than ten dollars (\$10) a month.
17 I don't think that's --that's really out of line for
18 most people.

19 THE CHAIRPERSON: Pursuing this again a
20 little bit further, I mean, the thing that concerns me
21 personally is the -- the fact that somebody will get an
22 acc -- somebody's been driving for some time -- length
23 of time, gets in an accident, a minor accident. And
24 what that person typically do, will say, Okay, it's
25 going to cost me twenty-five hundred dollars (\$2,500)

1 to fix my car. And -- and my -- you know, if I -- if I
2 make a claim I will get a higher -- my insurance will
3 cost me more, my licence will cost me more, ergo I'm
4 going to -- I'm going to do this myself.

5 And from -- from the standpoint of the
6 insurer, I guess one (1) of the disadvantages I can see
7 immediately would be that you're not getting a true
8 record of the loss experience out there. Could you
9 comment on that, please?

10 MS. MARILYN MCLAREN: I think
11 everybody, no matter what kind of an insurance system
12 you're in, everybody should have the right to decide
13 whether or not they want to use that insurance.

14 In -- in my life a number of times I've
15 made decisions not to use my homeowners insurance
16 because I knew it would -- it would have an impact on
17 my rate going forward, I'd lose my no claims discount.
18 Those are not -- you know, I mean, they're -- they're
19 very similar. I mean, people should have the right to
20 decide when to use their insurance.

21 The other piece of it, because
22 registration and insurance in this system are so
23 inextricably linked, we need to be sure that people are
24 complying with the law with respect to reporting
25 accidents, reporting collisions, but that's -- and

1 those are -- you know, I mean the -- the law as it
2 stands in terms of reporting accidents really requires
3 serious accidents to be reported.

4 And that is an obligation that -- that
5 people have under the law. We can't do anything at MPI
6 to make it easier for them to avoid that legal
7 responsibility. But it's a separate decision for the
8 minor stuff that sort of falls under that cat -- legal
9 category. People have the right to decide to use their
10 coverage or not use their coverage.

11 You're obligated under the law to -- if
12 you hit somebody else, if you damage somebody else's
13 property, there's no que -- you -- no question. It's
14 not discretionary. You have to report. But if it's --
15 you know, if you bump into your own fence or your own
16 garage, or whatever, it's minor, you want to take care
17 of it. Just like if the neighbour breaks your front
18 window, you should be able to decide whether you want
19 to use your coverage or not.

20

21 CONTINUED BY MS. CANDACE GRAMMOND:

22 MS. CANDACE GRAMMOND: Ms. McLaren, I
23 know that there used to be a dollar threshold as well
24 for collisions, that over a certain number they had to
25 be reported to police.

1 Is that still in effect, and do you know
2 what the threshold is?

3 MS. MARILYN MCLAREN: We can look that
4 up. But, no, the dollar threshold is not there any
5 more. It is anything involving injury, hit and run,
6 that -- that sort of thing. Any -- any time there is -
7 - I mean, for example if you're in a -- we'll get the
8 actual language. It's a change to the HTA.

9 But if it's anyone involved or
10 witnessing suspects alcohol involvement it has to be
11 reported, so there's a number of criteria like that --
12 like a verbal kind of threshold. There's no dollars
13 anymore.

14 MS. CANDACE GRAMMOND: Thank you.
15 That's fine. You -- you don't need to look it up. So
16 we were talking about the -- the drivers at the minus
17 one (1) merit level, and that under what's proposed
18 their driver premium would go from forty-five dollars
19 (\$45) to a hundred (100).

20 Can you give me an idea of how many
21 people are at that level?

22 MR. LUKE JOHNSTON: I'm just going to
23 check a reference here. I believe it is in TI.18,
24 revenue forecast book. Let me just find the page.

25

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: I don't -- I don't
4 know if anyone needs to turn to this, but in -- in the
5 appendix to the revenue forecasting book, DSR minus one
6 (1) is expected to have about 1 percent of drivers,
7 which -- I'm trying to think how much that would be.
8 About eight thousand (8,000).

9 MS. CANDACE GRAMMOND: Thank you. Now,
10 looking at, still, the proposed scale of driver
11 premiums, we see that if we look down from level minus
12 one (1) we see for about the first eight (8) levels or
13 ten (10) levels from minus one (1) to minus ten (10),
14 we have more than one (1) level with the same proposed
15 premium. So two (2) at a hundred, two (2) at two
16 hundred (200), and so forth.

17 What's the rationale behind that
18 approach?

19 MR. LUKE JOHNSTON: Yeah. There's
20 really no science behind the selections here. It's
21 really just how we decided to phase in from what was
22 essentially forty-five dollars (\$45) to nine hundred
23 and ninety-nine dollars (\$999) under the old system.
24 And this is our scale going from essentially forty-five
25 (45) to the new maximum of twenty-five hundred (2,500).

1 In the DSR hearings from a few years
2 ago, we were asked to -- what the actual costs were of
3 somebody of -- with twenty (20) demerits. And we found
4 that it was about three thousand dollars (\$3,000). So
5 we definitely wanted to be sure that we weren't
6 overcharging people at the -- the top or the bottom end
7 of this scale. But again, these -- yeah, these were
8 just selected to basically create a -- a range from the
9 base to negative twenty (20). And we'll have more
10 information when we get more DSR data next year.

11 THE CHAIRPERSON: Looking at the -- the
12 population of drivers that -- where would -- where
13 would your median be in terms of the rate scale for
14 your drivers, approximately?

15 MR. LUKE JOHNSTON: I'm just looking
16 at, again, Appendix A Exhibit 1 of TI.18. In '13/'14,
17 we're expecting about 22 percent of drivers at fifteen
18 (15), and then about a percent at fourteen (14), 7
19 percent at thirteen (13), 10 percent at twelve (12), 5
20 percent at eleven (11), 5 percent at ten (10). So it's
21 got to be -- I would assume it's pretty close to the
22 nine (9), ten (10) level where about the halfway point
23 is. Yeah.

24 THE CHAIRPERSON: So in terms of from
25 one (1) year to the next, what's happened to that

1 median? Is it -- you've got the two (2) year data
2 there -- two (2) years of data or...?

3 MR. LUKE JOHNSTON: We -- we forecast
4 out the expected unit distribution out to sixteen (16),
5 seventeen (17). Sorry --

6 THE CHAIRPERSON: So your -- your data
7 from year to year will show a shift. I guess some
8 drivers will be going up, some drivers will be coming -
9 - will be going down. So what's happening to your
10 median point? Is it shifting to -- to -- to a higher
11 level or shifting to a lower level?

12 MR. LUKE JOHNSTON: It's -- it's really
13 a com -- a combination of both, to be honest. There --
14 there are more people moving into demerits. Under the
15 old system there was very few people in demerits. I
16 think it was maybe just
17 -- maybe 2 percent of drivers. And one thing with this
18 system, we thought it -- there's probably more -- more
19 than 2 percent of drivers that could be in demerits or
20 at least in terms -- in the kind of in-between level.

21 However, that said, we are seeing the --
22 the top level, we're expecting that to rise from about
23 22 percent to 25 percent by '15/'16, up to 30 percent
24 by '16/'17 as the drivers move through the system.

25 So there's -- it's definitely a little

1 bit more punitive on the bottom, but, at the same time
2 it's letting -- you know, most drivers have fairly
3 clean experience and it's letting them climb up the
4 ladder. They might have started on the scale at seven
5 (7) because, at the time, they only had seven (7) clean
6 years. But experience shows that we're going to get
7 more people at the top of the scale, as well.

8 So it -- it is -- in terms of our
9 rating, that is a difficulty that we -- we have for --
10 we definitely have. And we're -- we call it DSR
11 upgrade. And essentially we're going to get changes in
12 rate that have nothing to do with how -- the rates
13 we've set but have more to do with the discount levels
14 that people are entitled to and how that changes
15 through time as more people climb up that scale.
16 Because, of course, either way, we have to get the same
17 amount of revenue that we require.

18 MS. ANITA NEVILLE: Could I ask a
19 question, please? Do you have demographic information
20 on the DSR level? And I'm thinking particularly age
21 and gender.

22 And what I am wondering about, we spoke
23 earlier about those who choose not to report an
24 accident or deal with it privately, I'm wondering
25 particularly if that is peculiar to a particular age

1 group?

2 MR. LUKE JOHNSTON: I -- I don't know
3 the answer to that. We do definitely have the
4 information. We don't -- as you know, we don't rate on
5 age or gender. But we could, with a more thorough
6 analysis, show, for example, a certain age band and how
7 they -- the look on the DSR scale.

8 So under twenty-five (25) year-olds
9 would be much more concentrated in the middle because
10 they didn't have a chance to get to -- to the highest
11 levels on the -- on the scale yet. And, yeah,
12 honestly, I don't know what -- if -- if there would be
13 any differences in gender, but.

14 So we can do it, but we -- we don't
15 because -- because we don't use it for -- for rating,
16 typically, but it's -- it's there if -- if necessary.

17 MS. MARILYN MCLAREN: We -- we really
18 need some time with this. Like until 2010, the maximum
19 was five (5) merits. So we've gone like overnight from
20 five (5) to fifteen (15), essentially. So we really do
21 need some time with this.

22 Because you get one (1) merit for every
23 year of clean driving behaviour, most people get their
24 licences when they're sixteen (16). You've got to be
25 at least thirty-one (31) to be in fifteen (15). So we

1 really need to understand movement with a few -- few
2 more years behind us.

3

4 CONTINUED BY MS. CANDACE GRAMMOND:

5 MS. CANDACE GRAMMOND: What can you
6 tell us about the -- the rationale for the cap at
7 twenty-five hundred (2,500). And, you know, why
8 shouldn't the numbers at that -- those really low
9 levels on the -- the demerit side, you know, the -- the
10 minus fifteen (15) and up, why shouldn't those be
11 substantially more than what they are?

12 MS. MARILYN MCLAREN: Well, this is
13 just sort of -- the answer to that is really one of
14 those very lovely little places in times where the --
15 the data kind of aligns really well with policy
16 considerations. It's really important to -- when
17 you're administering, you know, a compulsory guaranteed
18 access legislated plan like this you got to make sure
19 that you don't unintentionally or inordinately or -- or
20 even, I guess, unwisely price things in such a way that
21 people just opt out.

22 You know, we don't want people choosing
23 to not be part of the system, choosing to drive
24 unlicensed because it's a ten thousand dollar (\$10,000)
25 top end of the demerit surcharges even though they have

1 that many demerits. Somebody somewhere, a judge or a
2 magistrate or something, has still given them the legal
3 right to drive.

4 So we need to make sure that the -- the
5 premiums are reasonably -- and -- and this is again,
6 you know, easy monthly payment plans, two hundred
7 dollars (\$200) a month, and they need their car for
8 work, they can still be part of the system.

9 But, as Mr. Johnston also said, doing
10 the analysis, you know, at the top end, generally the -
11 - these people on an individual basis would cost us
12 about three thousand dollars (\$3,000) a year. So it's
13 really close from a statistical perspective, aligns
14 well with what -- the conversations we had during the
15 special DSR hearing and -- and before and since then, in
16 terms of what would constitute something that's not
17 excessive, something that is somewhat reasonable. So
18 they've aligned really well.

19 MS. CANDACE GRAMMOND: Does the
20 Corporation track or have any knowledge of how many
21 unlicensed drivers are out there?

22 MS. MARILYN MCLAREN: I suspect the
23 registrar has information about the number of active
24 suspensions or prohibitions at any particular time. We
25 certainly don't have any information as to anything

1 more pertinent on any sort of individual basis.

2

3 (BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: Now, if I
6 understand it correctly, the -- and I think you said
7 this earlier, Mr. Johnston -- the -- the 2011/2012
8 fiscal year was the first full fiscal year under the
9 new system?

10 MR. LUKE JOHNSTON: The -- the '10 --
11 sorry. I see what you're saying. So even though the
12 program started in the beginning of 2010/'11, it -- it
13 took a full year to get all drivers on the system. So,
14 yeah, by the -- the '11/'12 fiscal year, everyone was
15 on and earning at the DSR system.

16 MS. CANDACE GRAMMOND: Now, last year,
17 the Corporation had forecasted about 37 million for
18 2013/'14 in driver premiums. And that's been updated
19 now to forty four and a half (44 1/2), so about 7 1/2
20 million more. Can you tell us about the reasons why
21 the Corporation is now forecasting more revenue in
22 driver premium than before?

23

24 (BRIEF PAUSE)

25

1 MS. CANDACE GRAMMOND: I can probably
2 help you. I know that there were two (2) reasons that
3 were put forward in the Application. One was that
4 there was higher than expected downward movement by
5 drivers on the scale, and the other was that there was
6 a growth in the number of drivers.

7 So maybe you could comment on those, and
8 if there are any other reasons, tell us as well.

9 MR. LUKE JOHNSTON: Yes. And those
10 reasons, I just wanted to make sure I got them all,
11 were on -- are in SM.3.3.

12 So obviously a main reason, if you have
13 3 percent driver growth when you only expected 1 1/2
14 percent driver growth, you're going to get more
15 premium. You've got -- you've got more drivers than
16 you expected.

17 The other piece of DSR is that when we
18 project the driver movement, we're basically saying
19 what -- we're looking at a certain DSR level and we're
20 saying, What is the likelihood that this person is
21 going to have one (1) accident or one (1) minor
22 conviction or one (1) major conviction? And what we've
23 used up to this point is our research, because we
24 didn't have a DSR system to look at -- at the data.

25 So as of last year, we were solely

1 basing what we -- the probabilities based on our
2 research. We now have real data, and we're trying to
3 incorporate the -- the real expectations as best
4 possible.

5 So at an overall high level, we did see
6 people moving down the scale slightly more than we had
7 predicted originally, but not -- not to a great extent.

8 MS. CANDACE GRAMMOND: Does the
9 Corporation have any thoughts on why individuals are
10 moving down the scale, as you say, slightly more than
11 was anticipated?

12 Is it due to more enforcement by law
13 enforcement or something else?

14

15 (BRIEF PAUSE)

16

17 MR. LUKE JOHNSTON: Yeah. There's --
18 there's several reasons. First reason, again, being
19 improved data. We really didn't have anything like DSR
20 prior to the system going in place, so we now have real
21 data and it's a lot more credible.

22 That said, you are -- you are correct
23 that conviction frequency has increased fair -- fairly
24 substantially close to the beginning of the DSR
25 program. And when we were doing our research,

1 convictions were a lot lower. We've tried to make an
2 adjustment to reflect today's expected conviction rate.
3 But if you go to TI.18, page 15, for -- for example.
4 Minor convictions in '06/'07 were sixty-two thousand
5 (62,000), and in '11/'12 they were seventy-five
6 thousand (75,000). So that's a pretty big increase in
7 conviction counts.

8 So that -- that's one (1) example of --
9 of why maybe our -- our assumptions maybe a little bit
10 understated the downward movement.

11 MS. CANDACE GRAMMOND: While we're
12 talking about convictions, there was some discussion
13 earlier about the fact that an at-fault accident
14 carries with it a drop of five (5) levels on the DSR
15 scale. In addition to that, drivers can -- can drop if
16 they're convicted of Highway Traffic Act offences.

17 Is that right?

18 MR. LUKE JOHNSTON: Yes, that's
19 correct.

20 MS. CANDACE GRAMMOND: Those range,
21 obviously depending on what the offence is. But I -- I
22 believe that the minimum number of -- of demerits for a
23 ticket like a speeding ticket is two (2).

24 Is that right?

25 MR. LUKE JOHNSTON: Yes, that's

1 correct.

2 MS. CANDACE GRAMMOND: And then other
3 offences of a more serious nature, like impaired
4 driving for example, which would obviously be a
5 Criminal Code offence, carries significantly more
6 demerits.

7 MR. LUKE JOHNSTON: Yes. I believe
8 those are ten (10) steps down the scale.

9 MS. CANDACE GRAMMOND: So if -- if a
10 person -- just -- just to use an example, if a person
11 had an at-fault accident in connection with which maybe
12 they had a speeding conviction, they would have a seven
13 (7) point reduction.

14 MS. MARILYN MCLAREN: That's right.

15 MS. CANDACE GRAMMOND: And if they had
16 an impaired driving conviction in connection with an
17 accident, it would be a fifteen (15) point reduction.

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

20 MS. CANDACE GRAMMOND: Just so that
21 we're clear, if a person was already at, let's say, a
22 minus eight (8) and they had a minus fifteen (15) hit,
23 they would just top out at minus twenty (20)?

24 MS. MARILYN MCLAREN: Exactly. And
25 again maybe just for clarity for the new members and

1 for -- for the record, there is -- both the -- the
2 schedule that says an at-fault accident moves someone
3 five (5) points on the DSR scale and all the list of
4 convictions -- there -- there are con -- there are
5 Highway Traffic Act convictions that don't show up on
6 that schedule at all.

7 And for those that do show up on the
8 schedule, whether it's two (2) points, five (5) points,
9 ten (10) points, fifteen (15) points, all of that is a
10 regulation under the MPIC Act. It -- it's not MPI's
11 responsibility, has no authority to decide what kinds
12 of convictions get on that schedule and how many points
13 for -- for each of those events. It -- it is something
14 that the government has responsibility for.

15 MS. CANDACE GRAMMOND: While you're
16 talking about regulation, after the -- the driver
17 premiums are set by the Board, and of course this is
18 true for the vehicle premiums as well, those are
19 codified in regulation by the province.

20 MS. MARILYN MCLAREN: Yes, that's
21 right. The government -- Crown Corporations Public
22 Review and Accountability Act specifies that cabinet
23 cannot pass compulsory automobile insurance rate into
24 law that has not been approved by this PUB.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Mr. Chairman,
4 I'm at a break in my list of topics, so this would be -
5 - maybe a good time for the morning break if that would
6 work.

7 THE CHAIRPERSON: Thank you for that.
8 So let's take ten (10) minutes. Thank you.

9

10 --- Upon recessing at 10:55 a.m.

11 --- Upon resuming at 11:07 a.m.

12

13 THE CHAIRPERSON: We have resumed the
14 proceedings. Ms. Botting has a question.

15 MS. KAREN BOTTING: My question is in
16 regard to photo radar and speeding. My understanding
17 is when they do photo radar and you -- you speed
18 there's no -- the driver is not demerited. Like, we
19 don't know who the driver is.

20 Is there any way we get that data to
21 like identify people?

22 MS. MARILYN MCLAREN: The entire
23 system, I think, is predicated on not identifying the
24 driver, just identifying the vehicles.

25 MS. KAREN BOTTING: So subsequent to

1 that somebody could actually speed quite a few times
2 through a photo radar and never be demerited, so you
3 don't have any record of that individual?

4 MS. MARILYN MCLAREN: Right. The --
5 the driver records don't have any information about
6 photo radar convictions. The Corporation doesn't
7 receive any information about photo radar convictions
8 for vehicles, for drivers, either one, yeah.

9 MS. KAREN BOTTING: Would there be some
10 way that the government could give you that data?

11 MS. MARILYN MCLAREN: Well, the --
12 first of all, the system is designed to not identify
13 drivers, so you -- you would never have that. And the
14 way the legis -- I mean, we get -- we are -- our
15 responsibility under the Drivers and Vehicles Act is to
16 maintain the driver record. So what we have is
17 information that affects the driver record. That's --
18 that's all that we would have under the legislation.

19 MS. KAREN BOTTING: Okay. Thank you.

20

21 CONTINUED BY MS. CANDACE GRAMMOND:

22 MS. CANDACE GRAMMOND: Thank you. Just
23 before I move into a new area I did have a couple of
24 follow-up questions relative to drivers. And those
25 relate to drivers that are more in the elderly age

1 groups.

2 Is there any requirement for drivers of
3 a certain age to be retested?

4 MS. MARILYN MCLAREN: No, the -- the
5 Drivers and Vehicle Act, or the Highway Traffic in
6 Manitoba has no age-related retesting requirements.

7 MS. CANDACE GRAMMOND: And I understand
8 that what -- what occurs from time to time is that a
9 physician may put driver and vehicle licensing on
10 notice that a particular individual should have his or
11 her driving privileges revoked.

12 Is that right?

13 MS. MARILYN MCLAREN: As best as I
14 understand it, the -- the registrar would receive
15 information about a particular medical condition or
16 that a particular medical practitioner has some
17 concerns about someone's fitness to drive.

18 I don't know that doctors had any real
19 ability or -- or certainly legal responsibility to
20 decide whether licences should be revoked, but they --
21 they certainly provide information to the registrar who
22 then is obligated under the Highway Traffic Act to act.

23 THE CHAIRPERSON: Can I ask a question,
24 a related question? In respect of somebody who has a
25 parent who is aging and the, you know, the chi -- the

1 child or the -- and the child is concerned about the
2 parent's ability to drive, is there a -- a way in which
3 that person can make you aware that there's a concern?

4 MS. MARILYN MCLAREN: Absolutely. And
5 that -- that is the source of most of the reported
6 concerns about aging drivers. Most -- most come from
7 concerned family members. And there is -- there is
8 access information in the registrar's information on
9 the website. And in most circumstances that individual
10 would then be called in to be retested, or to at least
11 be interviewed.

12 THE CHAIRPERSON: Now, the -- the
13 source of that information, is that revealed at all?

14 MS. MARILYN MCLAREN: The source would
15 not be shared with the individual.

16

17 CONTINUED BY MS. CANDANCE GRAMMOND:

18 MS. CANDACE GRAMMOND: I understand
19 that there are also situations -- and this could apply
20 to drivers of any age where a -- a person's driving
21 record, whether it's convictions or accidents can lead
22 to that person being called in to speak with the -- the
23 registrar about their driving, or perhaps even have to
24 show why they should be able to keep their licence.

25 Can you tell us a little bit about that?

1 MS. MARILYN MCLAREN: Again, that's
2 under the Drivers and Vehicles Act, as well as the
3 Highway Traffic Act. That would be known as a show
4 cause hearing. It -- certain events in a driver's
5 record trigger those kinds of interview requests and
6 any number of outcomes could -- could flow from that.
7 There could be no action, they could require someone to
8 take a course at the safety council, they could be
9 suspended for some period of time. There's a -- a
10 range of outcomes that would be within the registrar's
11 authority.

12 MS. CANDACE GRAMMOND: And that process
13 applies to drivers of any age?

14 MS. MARILYN MCLAREN: That's right,
15 yes.

16 MS. CANDACE GRAMMOND: Mr. Johnston,
17 you had said earlier in response to a question that the
18 Corporation did have information in terms of ages
19 relative to the DSR levels. It -- can we have that as
20 an undertaking? I don't know that that was
21 specifically said on the record, before.

22

23 (BRIEF PAUSE)

24

25 MS. MARILYN MCLAREN: The data is

1 there. It has never been analyzed in -- in that
2 fashion. As Mr. Johnston said, we don't use age and
3 gender as rating factors. It would take a lot of work
4 to do, take a lot of time to do. We'd have to take
5 each and every one of the thirty-six (36) steps on the
6 DSR scale and analyze each and every step on that scale
7 according to all the bands of ages that are -- you
8 know, age -- categories of age banding through every
9 one of those.

10 So that's something that we could
11 consider doing and -- and filing with the next
12 application. I -- I don't know how long it would take
13 to do it in the middle of these proceedings.

14 MS. CANDACE GRAMMOND: Leave that with
15 us. And if we have any follow-up questions we'll let
16 you know.

17 Okay, I'm going to move then into a
18 different area and get into a discussion about some of
19 the revenue requirement information that's been put
20 forward.

21 I'll ask you to go to Tab 30 of the book
22 of documents. So this is still the Board's book of
23 documents, Tab 30. We have an IR there. And this, at
24 Item A, is reflection of the indicated rate change by
25 major class with each of the three (3) forecasting

1 methods used by the -- the Corporation.

2 Now we understand that the financial
3 forecasting method, which is in the second column, is
4 the one that the Corporation actually goes by in terms
5 of the rate application. Can you tell us why the
6 Corporation runs the numbers in the exponential method
7 and the linear method?

8 MR. LUKE JOHNSTON: Well, really we
9 believe our financial forecasting method encompasses
10 really the best of -- of all the methods. If you go
11 through our claims forecasting book you'll -- we've
12 clearly used, in some cases, exponential trending or
13 linear trending, while at the same time recognizing
14 that certain forecasts aren't necessarily just a
15 reflection of the past.

16 So linear and exponential are -- are
17 really just looking at past trends and -- and assuming
18 that those will continue. And there are certain items,
19 like -- like theft, or comp experience is a good
20 example, where the history is really not entirely
21 relevant to the future. And then in -- in the opposite
22 direction, something like hail we might see in -- in
23 very recent years a increase, and we might want to
24 increase that forecast relative to the historical
25 trends in our -- in our financial forecasting approach.

1 So I definitely agree that, you know,
2 exponential and linear trending of history is
3 important. But there's -- there's clearly other
4 considerations that you need to take into account when
5 you're making a forecast. And that's -- that's what
6 we're doing on the financial forecast method.

7 MS. CANDACE GRAMMOND: Now we see that
8 under both exponential and linear the overall outcome
9 wou -- would have been a rate decrease. In the case of
10 exponential, it was a 1 percent decrease. In the case
11 of linear, it was one point seven (1.7).

12 And I know, Mr. Johnston, when you were
13 testifying yesterday on direct you had stated, I
14 believe when you were reviewing TI.2, that even under
15 the financial method the -- the overall result was a
16 0.3 percent reduction -- or sorry, yeah, 0.3 percent
17 reduction, which led the Corporation to ask for no
18 overall change.

19 Given that and -- and the outcome of the
20 other two (2) methods that we see here, why did the
21 Corporation decide to ask for no overall change rather
22 than a rate decrease?

23

24

(BRIEF PAUSE)

25

1 MS. MARILYN MCLAREN: Because point
2 three (.3) either way is pretty much break even. It
3 doesn't help anyone's understanding or -- or the rate
4 making and the rate review and approval process to try
5 to be focussing the media or anybody else on -- on 0.3
6 percent of an overall change, so. As we talked about
7 before, that it really is, in our view, break even.

8 MS. CANDACE GRAMMOND: So I take it
9 that -- and based on Mr. Johnston's earlier evidence,
10 that the Corporation really attributes no weight to the
11 outcomes of the exponential method and linear method
12 calculations?

13 MR. LUKE JOHNSTON: Yeah. We -- we
14 really believe that the financial forecast is the best-
15 estimate forecast and, again, incorporates aspects of
16 these other methods but doesn't have pure reliance
17 simply on exponential or linear trending.

18 THE CHAIRPERSON: Now, having
19 established that you use -- you're using the financial
20 forecasting, can you explain why you're not using it
21 for the -- particularly for the ORV, the -- for
22 example, your financial forecast is suggesting 20
23 percent approximately, and your requested change is 14
24 percent.

25 So it's quite -- quite a significant

1 difference.

2 MR. LUKE JOHNSTON: Yes. This reflects
3 some of the capping rules we have. So it -- while it's
4 important to show what the overall requirement is, when
5 we apply the capping rules that we have, it might
6 reduce that. Yeah.

7 THE CHAIRPERSON: Now, is that equally
8 true for -- for trailers?

9

10 (BRIEF PAUSE)

11

12 MR. LUKE JOHNSTON: Yeah. Trailers,
13 actually, I just wanted to make sure I understood.
14 But, yes, there's capping, and actually because of the
15 small premiums, there's actually rounding to the
16 nearest dollar, which changes the rate indication.

17

18 CONTINUED BY MS. CANDACE GRAMMOND:

19 MS. CANDACE GRAMMOND: Now, Mr.
20 Johnston, can you tell us what a 1 percent rate change,
21 whether increase or decrease, equates to in dollars, in
22 terms of net income to the Corporation?

23 MR. LUKE JOHNSTON: It's about seven
24 and a half (7 1/2), \$8 million dollars.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Thank you. Now,
4 we know that the Corporation files the GRA, including
5 forecast and -- and projections for years into the
6 future, which we call the "outlook period". And it
7 does so without forecasting any rate changes in those
8 years.

9 Is that right?

10 MR. LUKE JOHNSTON: Actually, can you -
11 - can you repeat the question? I want to make sure I
12 understood what you said.

13 MS. CANDACE GRAMMOND: Sure. It's my
14 understanding that when the Corporation files the --
15 the GRA, including whatever rate application is for the
16 year of the application, the Corporation also files
17 projections and forecasts going forward, but it does
18 not include any rate changes in those projections.

19 It assumes no changes after the year of
20 the application?

21 MR. LUKE JOHNSTON: Yes, that's
22 correct, other -- other than the regular changes that
23 we expect to occur from volume and upgrade.

24 MS. CANDACE GRAMMOND: And that was
25 going to be my next question. It's the -- when we look

1 at the -- the Corporation's projections into the
2 future, when we see revenue increasing over time,
3 that's due to the -- the volume and upgrade factors
4 that you've mentioned?

5 MR. LUKE JOHNSTON: Yes. And perhaps I
6 should explain those terms before I -- I use them.

7 Volume is -- is simply the growth in the
8 fleet, in the number of vehicles. Upgrade occurs when
9 the rate -- the average rate goes up or down, even
10 though the Corporation hasn't changed rates at all.

11 A common way this can happen is if a
12 customer sells an old vehicle and buys a new one with a
13 higher rate. In that case, we haven't changed rates,
14 but the average rate goes up with the purchase of the
15 new vehicle. It can also occur as more people come to
16 Winnipeg, for example. If -- if rates are higher in
17 Winnipeg, again, we get a higher average rate, even
18 though we haven't changed rates at all.

19 And so typically the upgrade is -- is
20 positive for most -- most vehicles. Motorcycles have
21 had negative upgrade in the past, but they're the only
22 ones.

23 MS. MARILYN MCLAREN: If I could,
24 Ms. Grammond, since we're talking about outlook and
25 revenue and rate requirements, might this be an

1 opportune time to direct the panel to TI.15A? If -- if
2 -- it's in volume 2, Tab TI.15.

3 MS. CANDACE GRAMMOND: It's also
4 actually in the book of documents.

5 MS. MARILYN MCLAREN: Okay.

6 MS. CANDACE GRAMMOND: It's probably
7 just easier because --

8 MS. MARILYN MCLAREN: Sure.

9 MS. CANDACE GRAMMOND: -- because they
10 have that in front of them.

11 MS. MARILYN MCLAREN: What tab is it in
12 the document?

13 MS. CANDACE GRAMMOND: It's Tab 13 of
14 the Board's book of documents.

15 MS. MARILYN MCLAREN: So if I can ask
16 the panel members to look at the second page of Tab 13,
17 and what we're talking about is -- is the very top line
18 for the most part, motor vehicle premiums, driver
19 premiums, totalling to the -- the first category of
20 total net premiums written.

21 You'll see how they increase from seven
22 ninety-two (792) -- 792 million in '13/'14 up as high
23 as 910 million in the outlook year of 2016/'17. If you
24 go down to the next major -- second -- net premiums
25 written, skip over total earned revenues, and go to net

1 claims incurred category, the three (3) -- the third
2 big block of numbers, you'll see that our -- our claims
3 costs are also expected to increase by almost \$100
4 million over that period, both for replacement parts on
5 automobiles, though the increases in replacement parts
6 consistently run well above regular consumer inflation,
7 and as do health care costs.

8 Those are the two (2) infla -- the --
9 the criti -- two (2) key inflationary aspects of our
10 claims cost is the price of replacement parts and
11 health care costs for services for people who are
12 injured. So you can see that we are forecasting out
13 into that outlook period for both increases in revenue
14 and increases in claims costs.

15 And then if you just move down -- look
16 to the very, very bottom of that table, "Net income,"
17 in brackets, "Loss," for rating purposes we find some
18 of the information that Mr. Williams and I were both --
19 both commenting on back on our first day. And you see
20 that we expect to lose \$5.6 million in the '13/'14
21 year, and we expect to make \$8.3 million in the '14/'15
22 year.

23 Those are the two (2) years that we have
24 to consider, have to consider for the rates that we're
25 about to -- that we're asking your approval for -- for

1 2013. So if you add up minus five point six (5.6),
2 plus eight point three (8.3), add them up, divide by
3 two (2), you get a small net income, which drives the
4 .3 percent potential rate decrease we could have had
5 and that -- that Ms. Grammond was asking Mr. Johnston
6 about a few minutes ago. So that's very, very close to
7 break even, but it's really essential that you look at
8 those two (2) years.

9 Now, if absolutely nothing changed in
10 these forecasts and we found ourselves here applying
11 for the 2014 rate application, we would be looking at
12 \$8 million net income for '14/'15, twenty-two (22) for
13 the year following, so you add that up. That's \$30
14 million. Divide by two (2), \$15 million income per
15 year for the two (2) year period, now '14/'15, '15/'16.
16 You would expect us to apply for a 2 percent
17 approximately rate decrease in the next application, if
18 none of this changed.

19 So that ties back to what I was talking
20 about when we were talking about whether this panel
21 would be considering to order a rebate or a surcharge
22 if the RSR was either too full or not full enough. You
23 would look at things like this outlook period. We
24 would never come here, ever -- under my watch anyway --
25 asking you to approve rates that would generate \$22

1 million of income.

2 So you can expect that that's a very
3 positive outlook. We are looking for no rate change in
4 the 2013 year. And there's not a lot of risk, if you
5 look at this outlook on this particular page, that
6 things are going to deteriorate so badly in this year,
7 the next year, or the following year to really indicate
8 that there's any sort of risk associated with a no-
9 revenue change for the '13/'14 year.

10 This is -- this is one of the key
11 exhibits in the entire Application, because it gives
12 you a sense as to what we're looking into the future,
13 and it also clearly shows how the two (2) rating years
14 really come into play together and how we need to
15 consider both of those fiscal years.

16 Thanks. I hope that didn't set you off
17 too much.

18 MS. CANDACE GRAMMOND: It's totally
19 fine. So just going back to volume and upgrade factor
20 for a moment that are -- I incorporated into the
21 numbers that Ms. McLaren was speaking about at TI.15.

22 We know, Mr. Johnston, that this year
23 the Corporation is applying for a volume factor of 1.75
24 percent.

25 MR. LUKE JOHNSTON: That's correct.

1 MS. CANDACE GRAMMOND: Last year it was
2 two and a half (2 1/2), I believe?

3 MR. LUKE JOHNSTON: I -- I believe
4 you're -- you're probably referencing two (2) -- two
5 (2) different items. We have something called an HTA
6 volume and that's really the majority of our -- of our
7 vehicles, everything except trailers and ORVs. And
8 it's also about 99 percent of our premium.

9 So trailers and ORVs have really seen
10 explosive growth in units over the last decade and it's
11 been distorting our volume growth numbers, even though
12 the -- the premium that they -- the amount of premium
13 they generate is very small.

14 So we just focus on the HTA units. And
15 last year we had a -- a forecast of 1.5 percent per
16 year and -- and we increased it this year to 1.75
17 percent based on the higher growth rates we've seen in
18 the last several years. Sorry, for HTA units.

19

20 (BRIEF PAUSE)

21

22 MS. CANDACE GRAMMOND: And, Mr.
23 Johnston, I do have some questions about the -- the
24 shift in -- that the Corporation has taken, in terms of
25 including HTA units or -- or not. And just before we

1 get to that I'll ask you to go to tab 21 of the Board's
2 book of documents. This is where we have an IR that
3 relates to volume factor and upgrade factor.

4 So we -- we were just speaking about
5 volume factor. The Corporation this year is -- is
6 applying for 1.75 percent and we see in the chart here
7 on the first page of tab 21, a history of the volume
8 factor applied for by the Corporation versus the actual
9 over the last ten (10) years or so.

10 Is that right?

11 MR. LUKE JOHNSTON: Yes, and this would
12 be the all -- all units volume factor, so including HTA
13 and non-HTA units.

14 MS. CANDACE GRAMMOND: And what we see
15 on that basis for volume factor is that consistently
16 and every year the actual volume factor was higher than
17 the Corporation's projection at the time.

18 Is that right?

19 MR. LUKE JOHNSTON: Yes. It's --
20 clearly there -- there was a little bit of a period
21 where the Corporation was not really expecting some of
22 these higher growth rates to continue when we started
23 moving into the 3 percent a year range. We didn't
24 immediately jump on that as being predictive of the
25 future.

1 But yes, you're correct, there's a --
2 there's a -- we're -- we're typically slightly under.
3 We -- the actual, again, in -- includes a significant
4 unexpected growth from ORVs and trailers. So it's a
5 little bit misleading.

6 If -- if we looked at HTA only, I would
7 suspect it would be a little bit closer.

8 MS. CANDACE GRAMMOND: So when we see
9 here for volume factor that the actual number, if we go
10 back even to the 2005/'06 year it's been more than 2
11 percent consistently every year since then.

12 When the Corporation is now applying for
13 a 1.75 percent volume factor, do you attribute that to
14 the change in analysis in terms of HTA units, or is
15 that still too low?

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: It's -- it's
20 probably important that we look at TI.18, page 6. And
21 -- because this has the -- the historical unit growth
22 for HTA and non-HTA units. So that's Volume II, TI.18,
23 page 6.

24 MS. CANDACE GRAMMOND: That's at tab 15
25 of the Board's book of documents? Yeah. No, tab 15,

1 sorry. The -- you can go to TI.18 if you want, but
2 it's probably just faster if you flip back to Tab 15.
3 And page 6 that Mr. Johnston's referring to is the
4 third page in.

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: Is everyone there?
9 If -- if you -- on page 6 you see a table, and it says,
10 "HTA and non-HTA earned units annual growth," and
11 again, the non-HTA units account for about a percent of
12 total premium. And you can see extraordinary growth, 9
13 percent, you know, an average ten (10) year rate of
14 6.43 percent, true, a large growth, but really
15 unrelated to our premium forecasts in any way.

16 So if you look at HTA units, where 99 --
17 99 percent of the premium is, the three (3) average is
18 one point seven two (1.72), the five (5) year average
19 is one eighty-seven (187), and -- and the ten (10) year
20 average is one point five six (1.56).

21 We've clearly seen some -- some higher
22 growth rates in the last few years, so we decided to
23 move it up to one point seven five (1.75). And -- and
24 we really just decided to round to a quarter percentage
25 point. That's -- that's the only reason for one point

1 seven five (1.75) instead of one seventy-two (172), for
2 example.

3 MS. CANDACE GRAMMOND: So if I
4 understand you correctly then, when we looked at the
5 earlier history that included the HTA units that was
6 consistently over 2 percent, you're saying that that
7 should no longer be the case because the HTA units are
8 being pulled out of the analysis per the chart that
9 you've taken us to at TI.18?

10 MR. LUKE JOHNSTON: Yeah, we -- we
11 realize that the -- these small units were just
12 distorting our numbers so much. And -- and that table
13 really makes us look like we're doing a poor job of
14 forecasting, but it's from items that have nothing to
15 do with the premium really, yeah.

16 MS. CANDACE GRAMMOND: So you tried to
17 find a basis on which the forecasting could be more
18 accurate?

19 MR. LUKE JOHNSTON: Yeah, that's fair.

20 MS. CANDACE GRAMMOND: Now still
21 talking about volume factor, I'd ask you to turn back
22 to Tab 21. I just want to walk through the financial
23 impact with respect to -- that the volume factor can
24 have. So we looked at the first page of Tab 21
25 earlier.

1 I'm going to ask you then to go to the
2 second page at that tab. This is a recasting of the
3 retained earnings of TI.14 if the volume factor was
4 increased from one point seven five (1.75) to two point
5 two five (2.25). So basically what we asked -- our
6 question was to recast the numbers if you upped that
7 one point seven five (1.75) to a two point two five
8 (2.25).

9 Do you -- are you with me so far?

10 MR. LUKE JOHNSTON: Yes.

11 MS. CANDACE GRAMMOND: And what can you
12 tell us about the -- the impact to Basic if that
13 increase was done? And if it's easier for you to refer
14 to the next page, which is TI.15 or TI.15A restated
15 then, that's fine, too.

16

17 (BRIEF PAUSE)

18

19 MS. CANDACE GRAMMOND: I can maybe make
20 it easier. I'm not trying to have you search for
21 documents. When we looked at the TI.15A that Ms.
22 McLaren asked the Board to look at a couple minutes
23 ago, which is the one as filed, the total net premiums
24 written was 792 million. And she did recite that.

25 In the TI.15A at Tab 21, that number has

1 increased to 800 million.

2 MR. LUKE JOHNSTON: Yes, just looking
3 at the -- the restated version, on net income
4 perspective, it's just slightly higher. Most claims-
5 related factors will move with volume, especially
6 physical damage. PIPP, however, if -- as described in
7 our claims forecast book, we've -- we've taken that
8 assumption away, largely, so I'd say most factors but
9 not -- not all factors move directly with the volume.
10 So the net effect as -- as you -- as you've shown,
11 minimal.

12 MS. CANDACE GRAMMOND: So even though
13 it's an extra eight million (8,000,000) in net premiums
14 written, by the time you distill it down to the net
15 income or net loss line, it's only about a five hundred
16 thousand dollar (\$500,000) difference?

17 MR. LUKE JOHNSTON: Yes, that's right.

18 MS. CANDACE GRAMMOND: Okay. So that's
19 volume factor. Let's talk about upgrade factor and see
20 how that works.

21 If we go back to the historical chart
22 with respect to upgrade factor, which is at tab 21,
23 this is the first page of tab 21, we see that
24 historically what's happened with upgrade factor is
25 sort of the opposite of what had happened with volume

1 factor. In upgrade, the projections and actuals were
2 generally different except for one year but in the
3 other direction.

4 In other words, the actual was
5 consistently less than what the Corporation had
6 projected -- sorry, the actual was -- yeah, the actual
7 was consistently less than what the Corporation had
8 projected. I just wanted to make sure I said that
9 right.

10 MR. LUKE JOHNSTON: Yes, that's true.
11 And -- and again, this one -- this comparison is
12 impacted by the same type of HTA/non-HTA discussion
13 that we had on volume.

14 MS. CANDACE GRAMMOND: So the decision
15 that the Corporation made with respect to volume factor
16 to pull out the non-HTA units in its analysis for
17 projection purposes also applies to upgrade?

18 MR. LUKE JOHNSTON: Could -- could you
19 repeat the question just to make sure I...

20 MS. CANDACE GRAMMOND: Sure. I -- I
21 just want to confirm that what we talked about with
22 volume factor that the -- for the first time, as I
23 understand it, the Corporation is pulling out the non-
24 HTA units from its analysis for projection purposes,
25 it's doing the same thing for upgrade?

1 MR. LUKE JOHNSTON: Yes, that's
2 correct. And a good example would be off-road vehicles
3 which have no upgrade. So if we were to see a
4 significant increase in ORVs, it would appear that
5 there's no upgrade at all. They get more weight and
6 the calculation pulls down the real upgrade we're
7 seeing in the -- in the fleet, and it distorts the
8 analysis again.

9 MS. CANDACE GRAMMOND: So again, the
10 Corporation is trying to have a more accurate basis for
11 its projections?

12 MR. LUKE JOHNSTON: Yes, that's
13 correct.

14 MS. CANDACE GRAMMOND: And the upgrade
15 factor that the Corporation is proposing this year is 2
16 1/2 percent?

17

18 (BRIEF PAUSE)

19

20 MR. LUKE JOHNSTON: Yes, that's
21 correct. And it was 2.25 last year.

22 MS. CANDACE GRAMMOND: Now, you had
23 taken us to TI.18 with respect to volume factor. I'll
24 ask you to go there for upgrade. This time it's page
25 9. So this is back to tab 15, and the pages are

1 numbered at the bottom. It's -- it'll be the fifth
2 (5th) page in, which is numbered page 9.

3 MR. LUKE JOHNSTON: I'm there, but I'll
4 --

5 MS. CANDACE GRAMMOND: And I apologize
6 for all the flipping back and forth, but it's kind of
7 unavoidable.

8 So we see on page 9 a historical chart
9 that reflects the overall rate model versus HTA only,
10 and we see some averages there as well. Can you
11 comment on those?

12 MR. LUKE JOHNSTON: Yes. So the -- the
13 rate model overall is, again, all vehicles, and
14 trailers and ORVs have a lower or no upgrade, and so
15 the -- the numbers are lower.

16 When we look at HTA vehicles only, there
17 is a -- a higher upgrade factor. But what you will
18 notice in the table is that it has been trending down
19 from, again, HTA only. '04/'05 we're about 4 percent
20 natural premium growth with no rate changes. That's
21 trended down to about 2.6 percent in the '11/'12, and
22 we're forecasting that that trend will continue but
23 then stabilize at 2 1/2 percent.

24 MS. CANDACE GRAMMOND: What's the basis
25 for that belief? Just the fact that it's -- it's gone

1 down in '09, '10, and '11?

2 MR. LUKE JOHNSTON: One -- one of the
3 reasons that we suspect upgrade has declined, and
4 there's some evidence provided here I can direct in a -
5 - in a moment, is as the portion of -- of PIPP on a
6 policy either grows or -- or we understand it better,
7 that -- that creates a relatively, as we've talked
8 before, flat PIPP rate across all rate groups. And
9 this has really narrowed the -- the band between the
10 highest rated vehicles and the lowest rated vehicles.

11 So in the past when there's a
12 substantial difference between new and old vehicle
13 rates, there'd be a lot of upgrade created from getting
14 rid of your old beater and buying a new car. With a
15 flatter rate line, as we call it, there's not as much
16 upgrade that occurs.

17 And I think if I go -- if you go to the
18 next page in that reference page 10, there's a little
19 bit of history there that shows what the average --
20 like on the first table it shows the average rate of
21 all cars versus the average rate of new cars, and how
22 that's changed over time. So in '02/'03, a new car was
23 about 51 percent more costly to ensure than the average
24 car. And that's fallen to about 20.5 percent today.

25 A couple reasons why we -- we think this

1 will -- this -- this upgrade level will stabilize is --
2 is there -- there is still a difference between new and
3 old car rates. And the other reason is that we've
4 significantly dropped our -- our PIPP forecast, which
5 means less weight in the rate is going to PIPP. And
6 that should create a slightly more steeper rate line,
7 lowering that flat rated component that PIPP comprises.

8 MS. CANDACE GRAMMOND: So when we look
9 back at page 9, I just want to make sure that I
10 understand this, the Corporation's views with respect
11 to the historical averaging is a little bit different
12 for upgrade than it is for volume. When we looked at
13 the historical averages for volume we could see exactly
14 where the -- the one-point-seven-five (1.75) proposal
15 came from.

16 Here, the historical averages are
17 significantly higher than the 2.5 percent that the
18 Corporation's applying for. And those are for the
19 reason -- or that's for the reasons that you've
20 indicated?

21 MR. LUKE JOHNSTON: Yeah. I think it -
22 - it'd be hard to deny that there's a trend happening
23 here. But at the same time I -- I don't think it'd be
24 reasonable to just assume that this is going to
25 continue that way. So the --this is a good example of

1 where just fitting a line to the -- the history isn't
2 necessarily the best option.

3 So as we saw in the other table, there
4 is -- there is still clearly effects from upgrading
5 from an old to a new vehicle. So there should still be
6 upgrade but we have to do -- we have to make a forecast
7 in terms of where we think this -- this trend is going
8 to stop. And -- and we've assumed that 2 1/2 percent
9 is appropriate.

10 MS. CANDACE GRAMMOND: Thank you. Now,
11 let's look at what this means in terms of dollars. If
12 we go back to Tab 21, this is 1-3, we had looked at
13 earlier where we had asked the Corporation to recast
14 some of the financial documents assuming a different
15 volume factor.

16 This time I'd ask you to go within Tab
17 21 to the third page from the back, so it's roughly
18 seven (7) or eight (8) pages in, but if you count from
19 the back it's a little more simple. So third -- so
20 third page from the back, if everyone is there. This
21 is a restated TI.15(a), so the same document that we've
22 looked at.

23 This is where we asked the Corporation
24 to run with a 3 percent upgrade factor, so to up it by
25 a half a percent from two and a half (2 1/2) to three

1 (3) to show the Board what the -- the financials would
2 look like if that change was made. And if we -- we go
3 straight to the net loss line we see the -- the \$5
4 million loss and change that's being included in the --
5 the Application with the 2.5 percent shrinks to a loss
6 of two hundred and forty-three thousand (243,000). Is
7 that right?

8 MR. LUKE JOHNSTON: Yes, that's
9 correct.

10 MS. CANDACE GRAMMOND: So unlike the
11 volume factor where changing it by half a percent only
12 changes the net bottom line by about five hundred
13 thousand dollars (\$500,000), by changing the upgrade
14 factor by half a percent we have about a \$5 million
15 improvement.

16 MR. LUKE JOHNSTON: Yeah, it's a --
17 just a -- a little bit of background on our
18 forecasting. So with -- with volume it's -- it's
19 fairly clear the relationship on -- on claims. So --
20 so obviously if you've got more volume you get more --
21 more premium. And on claims, if we assume consistent
22 claims frequency it's fairly straightforward to
23 forecast how claims will be impacted when volume
24 increases.

25 Upgrade is not quite as clear, how the -

1 - the claims will be impacted by a change in upgrade.
2 This particular restatement on -- with the upgrade has
3 no change in claims incurred at all.

4 So you're getting the benefit of extra
5 premium on the assumption that the claims costs don't
6 change. They likely would be impacted by a higher
7 upgrade factor through possibly higher claims
8 severities, but we haven't incorporated that assumption
9 in claims.

10 So -- so yeah, again, if you're going to
11 get -- if you're getting more premium and the claims
12 stay the same you're going to do better than your base
13 forecast.

14 MS. CANDACE GRAMMOND: So, Mr.
15 Johnston, we've been talking about the volume factor
16 and the upgrade factor and the change that the
17 Corporation has made in predicting those for the year
18 of the Application, and that is to pull out the -- the
19 non-HTA vehicles from the analysis, which are trailers
20 and ORVs.

21 Tho -- those are the only two (2),
22 right?

23 MR. LUKE JOHNSTON: That's correct.

24 MS. CANDACE GRAMMOND: And those two
25 (2) classes represent about 21 percent of units, but

1 only 1 percent of premium dollars.

2 Is that right?

3 MR. LUKE JOHNSTON: That's
4 approximately correct, yes.

5 MS. CANDACE GRAMMOND: That's what you
6 said in your pre-filed testimony.

7 MR. LUKE JOHNSTON: That's correct.

8 MS. CANDACE GRAMMOND: Okay. Now, we -
9 - we talked about dollar impact for vehicle and upgrade
10 factor in terms of changing the percentage by a half in
11 each case. You also gave some -- some pre-filed
12 testimony about the dollar impact of the change that
13 the Corporation is making in terms of pulling out
14 trailers and ORVs from the analysis. And your evidence
15 was that -- that these changes would lead to about 8
16 million less in revenue for 2013/'14, and about 14
17 million less in revenue in 2014/'15 over the way that
18 the Corporation used to do it. And that's on page 4 if
19 you want to look at it.

20

21 (BRIEF PAUSE)

22

23 MR. LUKE JOHNSTON: Yeah, so the -- the
24 combination of volume and upgrade this year compared to
25 the -- the numbers that we forecasted last year is

1 approximately half a percentage point.

2 So that compounds as -- as time passes.

3 So in the -- as we previously described, 1 percent is

4 about 8 million dollars of rate. So if you have half

5 le -- like half a percent less growth, that's about 4

6 million dollars. Compound that another year it grows

7 to eight (8), another year it grows to twelve (12).

8 And that's -- that's the -- the basis of -- of these

9 numbers.

10 MS. CANDACE GRAMMOND: So just

11 following on that then, if this change in calculating

12 the forecasts leads to 22 million less dollars -- so

13 I'm adding your 8 million and your 14 million over the

14 next two (2) years, then that's equivalent to roughly a

15 3 percent rate change.

16 Do I have that right?

17 MR. LUKE JOHNSTON: No, if -- in one

18 (1) particular year if you change rates by 1 percent

19 you'll get a -- a perpetual reduction in -- in the --

20 of the 8 million. And -- but then, yeah, the -- the

21 incremental amounts that are being added, essentially

22 you'd just have to keep decreasing rates by -- by half

23 a percent each year, like that idea.

24 MS. CANDACE GRAMMOND: Now, if the

25 Corporation hadn't made these changes with respect to

1 how it is projecting the volume factor and upgrade
2 factor, that is if the HTA units were still -- or
3 sorry, the non-HTA units were still included in the
4 analysis, would it be fair to say that the Corporation
5 would be fair to say that the Corporation would be
6 seeking a rate decrease?

7 MR. LUKE JOHNSTON: Well, not -- I
8 don't have the -- the old way in -- in front of me, so
9 I'm -- how that would have worked out I'm not totally
10 certain. But at the end of the day, we've looked at
11 the -- the evidence provided for why we're forecasting
12 the volume and the upgrade that way. And, at least in
13 my opinion, I don't see any issues with -- you know,
14 that -- that that's not a best estimate forecast. And
15 so the...

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: So, yeah, like I --
20 I don't know what else to say to that other than like
21 we -- we're committed to making a best estimate of
22 these numbers, and we've improved our process to do
23 that.

24 How an old way that we've decided is
25 kind of distorting our forecast is applicable? I'm not

1 sure.

2 MS. CANDACE GRAMMOND: So you're saying
3 that the way that the Corporation is now doing it
4 represents a best estimate, in your view?

5 MR. LUKE JOHNSTON: Well, of -- of
6 course we're always -- we're always trying to make a
7 best estimate and -- and -- but in this particular
8 case, we've realized that the old way of doing things
9 wasn't giving us the best forecast. And so we've con -
10 - we've converted to a way that we think will be more
11 accurate and -- and less variable.

12 THE CHAIRPERSON: From my reading of
13 the information we've been looking at, it's clear the -
14 - a change in the upgrade factors has a more
15 significant result -- impact rather on the financial
16 results going forward. In other words, one (1) -- a
17 change in the volume factor seems to be -- seems to
18 have modest impact on the financial results, but a
19 change in the upgrade factor has a significant impact.

20 And I think the reason for that is
21 because you're not changing the claims costs relative
22 to the increased premiums you're getting from the new
23 vehicle. Now I -- let's -- I want to explore that one
24 a little bit more.

25 Can you -- can you -- like it seems to

1 me intuitively that you get a new car relative to an
2 old car. You're going to have higher collision costs
3 because it's a new vehicle, more expensive to repair.
4 Is that a fair assumption?

5 MS. MARILYN MCLAREN: Sorry, if I could
6 just jump in here a little bit. We've answered these
7 information requests on two (2) different bases. It's
8 very easy -- when you're faced with several hundred
9 questions and three (3) weeks to answer them, it's
10 really easy to demonstrate the impact of a change in
11 volume.

12 You absolutely put the same 1 1/2
13 percent increase in your revenue as you put in your
14 claims cost. And it is much more difficult to predict
15 and include in a forecast the impact to a change in
16 assumption about upgrade. So we put the revenue in.
17 We put -- didn't put any impact in our claims cost.

18 So, in reality, if we had a change in
19 upgrade would it make a bigger difference in our
20 financial results than an increase in volume? Not
21 necessarily. We'd have to really do an awful lot more
22 work to demonstrate that. So we've given you one (1)
23 set of answers with no impact on claims costs and
24 another one with a straight flowthrough on claims
25 costs.

1 I -- I would -- I would ask you not to
2 draw the conclusion that that automatically means if
3 upgrade changes, it's a much bigger impact on net
4 income. We're -- we don't know that.

5

6 (BRIEF PAUSE)

7

8 CONTINUED BY MS. CANDACE GRAMMOND:

9 MS. CANDACE GRAMMOND: Mr. Johnston, we
10 just have a few more questions about the upgrade factor
11 and the -- the calculation of it. In TI.18 there's
12 reference to the fact that the upgrade is estimated
13 using the rate model method.

14 Can you describe that rate model method?

15 MR. LUKE JOHNSTON: Yes. The rate
16 model method -- well, first of all, the rate model is
17 basically a snapshot collection of all of our vehicles
18 and now drivers at a particular point in time.

19 So when we're -- we're using the -- the
20 rate model method, we're essentially comparing the
21 snapshot from two (2) different years and looking at
22 how the average rate changes between two (2) particular
23 groups of vehicles given that they're all on the same
24 rate basis.

25 MS. CANDACE GRAMMOND: So would it be

1 fair to say that it's a premium-driven calculation?

2 MR. LUKE JOHNSTON: Yes. It's looking
3 at the -- the change in the average premium overall by
4 class. We do it by class as well.

5 MS. CANDACE GRAMMOND: So what we need
6 to understand, Mr. Johnston, is given that and the fact
7 that the non-HTA units represent only about a percent
8 of premium, how did they distort the calculation for
9 upgrade factor?

10 MR. LUKE JOHNSTON: It's a little bit
11 difficult to describe in words, but -- so if we're --
12 if we're calculating average premium, we're -- we're
13 clearly using the -- the premium and the vehicle counts
14 of each class. When you experience a substantial
15 increase in the counts of a class that has no premium
16 almost at all, say like twenty dollar (\$20) premiums,
17 you get this pull-down in your average rate simply
18 because you've added a bunch of counts to the average
19 rate calculation that carry no premium.

20 So you look at it and -- and it looks
21 like your upgrade has declined, but all you've really
22 done is added a -- a whole bunch of trailers and ORVs
23 to your count and it brought down your average.

24

25 (BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: Mr. Chairman,
2 I'm at a -- a point where it would probably be a
3 reasonable break, and it's noon, so if it would please
4 the Board, we can have the lunch break at this point.

5 THE CHAIRPERSON: Thank you. Why don't
6 we adjourn now until 1:15 and resume at that time.
7 Thank you very much.

8

9 --- Upon recessing at 12:02 p.m.

10 --- Upon resuming at 1:18 p.m.

11

12 THE CHAIRPERSON: I'd like to resume
13 the proceedings, please. Are there any matters to
14 attend to before we continue with your cross-
15 examination?

16 MS. CANDACE GRAMMOND: The only one,
17 Mr. Chairman, is I'm just advised that Mr. Johnston has
18 a little bit more evidence of clarification that he
19 would like to give from some of the matters covered
20 this morning. So other than that, no, I'm prepared to
21 continue with the cross.

22 THE CHAIRPERSON: Thank you. Go ahead.

23 MR. LUKE JOHNSTON: Yes, I -- I just
24 wanted to clarify a discussion we had before the break
25 because I wasn't sure that everyone understood

1 correctly what -- what I was saying.

2 So in regards to this Tab 21, and part
3 B, where the question was: What would -- what would
4 the impact be if the upgrade factor was 3 percent? And
5 I -- I think -- I think the Board Chair touched on
6 this. If you go to -- at the same time -- if you go to
7 TI.2, that's Volume 2.

8

9 (BRIEF PAUSE)

10

11 MR. LUKE JOHNSTON: We've already
12 looked at TI.2, but as you -- as you see here, the --
13 we set rates on a per unit basis by a rating
14 classification, and so if -- if we had say a large
15 influx of new vehicle purchases, or a big shift into
16 the number of people living in Manitoba, something that
17 would generate upgrade, the actuarial soundness of
18 these rates would -- would not change. The rates would
19 still be appropriate. And since -- since they are
20 appropriate, you'd also see a similar increase or
21 decrease in claims costs consistent with the extra
22 upgrade you're getting.

23 So if we were to get, like I mentioned,
24 more new vehicles than we expected, well, these new
25 vehicles have actuarially sound rates. The premium

1 would be higher. But, of course, we'd also expect
2 higher claims from these newer vehicles.

3 So the answer that we have in -- in PUB-
4 1-3B is -- is a little bit misleading. We did simply
5 just apply the upgrade to the premium with no
6 adjustment to claims. And that's really now what would
7 happen in -- in reality. So I don't want the Board to
8 think that a slight change in its assumption is going
9 to generate a significant extra net income.

10

11 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

12 MS. CANDACE GRAMMOND: Thank you. I'm
13 going to be moving to cross-examination with respect
14 some specifically actuarial matters. So, Mr. Johnston,
15 you have to stay on the hot seat going forward.

16 So, first, I have some questions that
17 deal with the concept of best estimate. That's a
18 phrase that we've already used a little bit in the
19 hearing. So my first question is whether, Mr.
20 Johnston, you're generally familiar with Section 2600
21 of the standards of practice of the Canadian Institute
22 of Actuaries and the Actuarial Standards Board?

23 This is the new section that deals with
24 property and casualty insurance rate-making and came
25 into effect in January of this year.

1 MR. LUKE JOHNSTON: I don't have that
2 in front of me, but I'm generally familiar with the
3 standards, yes.

4 MS. CANDACE GRAMMOND: And do you agree
5 that Section 2600 applies to your work on the
6 preparation of the rate indications that underlie the
7 GRA?

8 MR. LUKE JOHNSTON: Yes, all actuarial
9 standards of practice would apply to the actuarial work
10 that I do at MPI.

11 MS. CANDACE GRAMMOND: And in your
12 view, would the application of the standards to your
13 work encompass just the rate indications based on the
14 financial forecast method, or would it extend to the
15 rate indications based on exponential and linear
16 forecast methods that we talked about a little bit
17 before?

18 MR. LUKE JOHNSTON: Would you mind
19 repeating that question, please?

20 MS. CANDACE GRAMMOND: For sure. When
21 we say that the standards, the actuarial standards --
22 including this new one, Section 2600 -- apply to the
23 work that you're doing in connection with the GRA,
24 would you say that it applies only to the work under
25 the financial forecast method, or would you say that it

1 also includes the rate indications under the
2 exponential and linear forecast methods?

3 MR. LUKE JOHNSTON: I'm not sure if I -
4 - if I understand the question. So definitely act --
5 actuarial standards of practice apply to me, if -- if I
6 were talking in terms of creating a best estimate.
7 Then that is what the financial forecast is
8 representing.

9 As -- as previously mentioned, linear
10 and exponential methods really are simply a reflection
11 of the history without a lot of additional insight. So
12 there's -- yeah, there's further judgments in the
13 financial forecast that -- that make it our best
14 estimate.

15 MS. CANDACE GRAMMOND: Now, would you
16 agree that the main binding guidance from the standard
17 of practice, Section 2600, is that the rate indications
18 be prepared based on underlying assumptions which are
19 prepared on a best-estimate basis?

20 MR. LUKE JOHNSTON: Yes, I would agree
21 with that.

22 MS. CANDACE GRAMMOND: Now it's my
23 understanding that the phrase "best estimate" that
24 we've been using is defined in the standards of
25 practice as, quote, "Without bias, neither conservative

1 nor unconservative," end quote.

2 Would you agree, subject to check if you
3 wish?

4 MR. LUKE JOHNSTON: That's a fair
5 assessment. I'll agree with that.

6 MS. CANDACE GRAMMOND: Now, would you
7 agree that this requirement for a best estimate applies
8 to TI.19 of the application, which is the Basic rate-
9 make -- rate-making methodology?

10 MR. LUKE JOHNSTON: Yes, I agree.

11 MS. CANDACE GRAMMOND: Would you agree
12 that it applies to TI.17, which is the claims forecast
13 data book?

14 MR. LUKE JOHNSTON: Yes, I agree.

15 MS. CANDACE GRAMMOND: Would you agree
16 that the standard applies to TI.18, which is the
17 revenue forecast data book?

18 MR. LUKE JOHNSTON: I agree.

19 MS. CANDACE GRAMMOND: And would you
20 consider any other sections of the application to be
21 subject to the Standard 2600?

22 MR. LUKE JOHNSTON: The evaluation of
23 policy liabilities, another actuarial exercise. That's
24 -- heavily influences the -- the rate -- the rates that
25 we forecast.

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Mr. Johnston,
4 just with respect to the evaluation of policy
5 liabilities, which I understand is AI.10 in the filing,
6 it's my understanding that that data includes the
7 provision for adverse deviation, which would not be
8 part of rate-making and, hence, not under the Section
9 2600 standard.

10 Does that sound fair to you?

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: Can you restate the
15 question, please?

16 MS. CANDACE GRAMMOND: For sure. So
17 you've agreed that Section 2600 of the Standards of
18 Practice, which deal with rate-making, apply to TI.17,
19 TI.18, and TI.19. Then I had asked if there were any
20 other parts of the application that you thought the
21 standard would apply to. And you said the valuation --
22 or the evaluation of policy liabilities, which would be
23 AI.10.

24 What I'm suggesting is that because
25 AI.10 includes the provision for adverse deviation, or

1 the PFAD, that perhaps that section really isn't on a
2 best-estimate basis and maybe that the section wouldn't
3 apply.

4 MR. LUKE JOHNSTON: Okay. I -- I
5 understand now. So, yeah, like a big part of the rate-
6 setting process is, of course, the -- the estimates of
7 prior years' ultimate loss costs. For example, for
8 PIPP we use the -- the history as a basis for
9 projecting future rates.

10 But yes, I -- I agree with your
11 assessment in regards to PFADs, or provisions for
12 adverse deviation.

13

14 (BRIEF PAUSE)

15

16 MS. CANDACE GRAMMOND: Now, with
17 respect to the sections of the -- the GRA that we've
18 agreed are subject to Section 2600 of the standards, do
19 you confirm that those sections have been prepared in
20 accordance with the Standard of Practice and in
21 accordance with Accepted Actuarial Practice in Canada?

22 MR. LUKE JOHNSTON: Yes, I confirm
23 that.

24 MS. CANDACE GRAMMOND: Now, I
25 understand that Section 2600 of the standards has a

1 reporting requirement for external use -- user reports
2 regarding rate indications, including standard
3 reporting language.

4 Would you agree with that, again subject
5 to check if you wish?

6

7 (BRIEF PAUSE)

8

9 MR. LUKE JOHNSTON: I agree with that,
10 yep.

11 MS. CANDACE GRAMMOND: Now, would you
12 say that the presentation of your rate indications
13 within the GRA constitute an external user report, as
14 contemplated by the Standards of Practice?

15

16 (BRIEF PAUSE)

17

18 MR. LUKE JOHNSTON: Yes, I would agree
19 with that.

20 MS. CANDACE GRAMMOND: And does the
21 GRA, as filed, include the standard reporting language
22 that's expected under Section 2600?

23 And if yes, can you direct us to it?

24 MR. LUKE JOHNSTON: It does not include
25 that particular language. It -- it -- the only

1 reference that I have here is on SM.1.2 -- 1.2.A, which
2 simply states that the Corpor -- Corporation's rating
3 approach is based on actuarial principles.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: So what's
8 contemplated under Standard 2600 is a little bit
9 different. It's, like, a signed opinion.

10 Would that be fair to say?

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: Yeah, I think
15 that's fair.

16 MS. CANDACE GRAMMOND: Is that
17 something that you would contemplate providing in the
18 future in connection with the GRA filing?

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: We can certainly
23 look at -- at doing that in the future.

24 MS. CANDACE GRAMMOND: Okay. Thank
25 you. I'm going to move, then, to some questions about

1 claims incurred and forecasting accuracy. So I'm going
2 to ask you to go to Tab 4 of the book of documents.
3 What you'll find at Tab 4 is TI.4, or part of TI.4.
4 That was included in the filing.

5 And what I'll ask you to do is to
6 describe the -- the information that we see on these
7 pages.

8

9 (BRIEF PAUSE)

10

11 MR. LUKE JOHNSTON: Okay. I will start
12 just at a -- at a high level. Page 1 is -- it's called
13 the ten (10) year claims frequency comparison. It is
14 essentially an incident count. Pardon me, it's a claim
15 count by coverage.

16 The -- if you go to the third page --
17 I'll just skip a page here -- you see the claims
18 incurred by coverage by year. And the -- the middle
19 page is claim severity, or claims incurred divided by
20 claims counts.

21 That's a high-level summary. I'm not
22 sure if you want me to go through all of the details of
23 the numbers.

24 MS. CANDACE GRAMMOND: That's -- that's
25 good. I have some specific questions that I'll ask.

1 We see that the tables are divided by
2 fiscal year. Can you define, for the record, the term
3 "insurance year"? And that's used, obviously, in the
4 title of the document.

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: Yeah, the -- the
9 insurance years are fiscal year Mar -- March 1st till
10 February 28th or 29th of -- of each year.

11 MS. CANDACE GRAMMOND: And we see,
12 under each, year three (3) columns. The first one (1)
13 is entitled, "Original Projected."

14 That represents, I take it, a first
15 estimate that was made at the time of the Application
16 for that year?

17 MR. LUKE JOHNSTON: That's right. So
18 that would be the 2013/'14 estimate included in this
19 Rate Application, for example.

20 MS. CANDACE GRAMMOND: Thank you. And
21 the second column under each year is called, "Revised
22 Forecast." That represents a second updated estimate
23 made early during the year?

24 MR. LUKE JOHNSTON: That's correct, and
25 that -- that would -- our revised forecast for this

1 year would be the '12/'13 year, so the rates have
2 already been set for that year. But, of course, we
3 still make a forecast for '12/'13.

4 MS. CANDACE GRAMMOND: And then the
5 third column, "Actual," is what the financial
6 statements actually show at the end of a given year?

7 MR. LUKE JOHNSTON: That's correct.

8 MS. CANDACE GRAMMOND: Okay. With
9 respect to the first page then that, as you said,
10 relates to claims frequency, can you talk about the --
11 the forecasting accuracy for each of the coverages?

12

13 (BRIEF PAUSE)

14

15 MR. LUKE JOHNSTON: At a very high
16 level, just looking through the history, it does appear
17 that we have fluctuated between being over and under on
18 our forecast. In the -- in the most recent year, where
19 we have all three (3) pieces of information, the actual
20 number of claims was three hundred and thirty-eight
21 thousand (338,000) relative to original projected of
22 three hundred and ten thousand (310,000), and revised
23 forecast of three hundred and thirteen thousand
24 (313,000).

25 And the main reason for the difference

1 is in -- in PIPP. You'll see the actual is about
2 twenty-two thousand (22,000) higher than the -- the
3 forecast, which essentially is the entire difference at
4 the bottom. One second. And the main reason for that,
5 which is -- we'll probably talk about this later in the
6 hearings, is auto -- is -- is implementation of auto
7 claim reserving for PIPP. So the claim counts jump
8 substantially when we began using auto reserving for
9 PIPP claims.

10

11

(BRIEF PAUSE)

12

13

MS. CANDACE GRAMMOND: Mr. Johnston,
14 would you say, based on still just the first page, that
15 there is any evidence of systemic bias in the
16 forecasting of claims frequency for any of the
17 coverages?

18

MR. LUKE JOHNSTON: I don't -- I don't
19 think so. There's -- or -- or, no. There is clearly
20 things that -- that happen that we haven't predicted,
21 like we did not anticipate auto reserving to -- to pump
22 our PIPP claims count so significantly. Maybe we
23 should have, but we didn't.

24

But in general, there seems to be a
25 fairly kind of two (2) sided -- it's a sometimes

1 over/sometimes under relationship.

2 MS. CANDACE GRAMMOND: Thank you. I'd
3 ask you then to turn to the third page, so the last
4 page of this tab, which, as you had indicated, is a
5 similar type of table. But this reflects claims
6 incurred rather than frequencies that we were looking
7 at.

8 Again, I'd ask you to have a look over
9 this and discuss generally the forecasting accuracy for
10 each of the coverages.

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: I'll start with the
15 physical damage, because I think that one's a little
16 bit easier.

17 On physical damage, I'd say the actual
18 versus the forecast is relatively consistent or close
19 over the period shown here from '03 to '04. If you
20 look at -- again, I'll use '11/'12 as an example; we
21 originally projected 284.8 million for collision
22 compared to the revised forecast at two eighty-one
23 point nine (281.9), and the actual was two eighty
24 (280).

25 For collision comprehensive property

1 damage, we're generally pretty -- pretty close to our
2 forecast, just, again, looking at a high level.

3 For PIPP, the -- I won't go through
4 every -- every number here, but at -- at glance here,
5 we -- we appear to be -- have an actual less than our
6 forecast in every year from '04/'05 till 2010/'11, if I
7 read that correct. In 2010/'11 -- there it is. In
8 2010/'11, for example, you'll see that the original
9 PIPP forecast was \$253 million approximately, and the
10 actual was negative 59 million. This -- this reflects
11 a very significant change we made to claim liabilities
12 in that year. And in fact, several of the years prior
13 to that also reflect changes we've made in our PIPP
14 estimates.

15 Even though when we -- when we change
16 our PIPP assumptions, they can essentially affect every
17 single year of the PIPP program. However, those
18 changes are recorded in the year which they occur. In
19 cases such as '10/'11, we made a change in excess of
20 \$250 million, which flowed through the results for that
21 year. And that's the reason for the big -- big
22 decline.

23 As we've discussed in our application,
24 the -- the big decreases that you're seeing or the big
25 differences that you're seeing here with the PIPP

1 program are essentially required for us to improve this
2 pattern you're seeing on the sheet in front of you. We
3 have been -- our actual has been lower than our
4 forecast consistently throughout this whole period. In
5 order to improve our forecasts going forward, we need
6 to, of course, reduce or improve our estimates so that,
7 going forward, we can have a -- we can show a much more
8 consistent relationship between actual and forecast.

9 MS. CANDACE GRAMMOND: So, Mr.
10 Johnston, if we look at the 2012/'13 year and the PIPP
11 line, we see a change from the original projected
12 number of about 203.5 million up to two hundred and
13 four point two (204.2) in the revised forecast.

14 Is that an example of what you were just
15 referring to?

16 MR. LUKE JOHNSTON: Perhaps maybe a
17 better example to show how -- how much we've changed
18 the PIPP forecast is just to take some of the years
19 prior to -- to that. If you go to '08/'09, you'll see
20 that we were predicting \$242 million in PIPP in the
21 original. In '09/'10, we were predicting 249 million.
22 In '10/'11, we were predicting 252 million; '11/'12,
23 253 million.

24 You can see now in '12/'13 how
25 substantially the PIPP forecast has come down now that

1 we've made the changes that we have to the claim
2 liabilities and the PIPP forecast. It's down to 203
3 million and a revised forecast at two-o-four (204), so
4 almost -- not almost. About a \$50 million decrease
5 from what we were forecasting just into '11/'12.

6 MS. CANDACE GRAMMOND: Mr. Johnston,
7 would you say over the historical period that you've
8 been discussing and the consistent original projections
9 being higher than actual, that there was systemic bias
10 in the forecasting over those years?

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: So, as -- as I --
15 as I previously mentioned, our rate-setting is highly
16 integrated with our review of policy liabilities. And
17 the -- the impact of the -- the very significant
18 changes we've made has clearly affect -- affected this
19 forecast, as I've just described.

20 There -- obviously if we -- if we didn't
21 think that we needed to -- to make a \$300 million
22 change to make the policy liabilities best estimates,
23 we -- we wouldn't have made it. So we've -- we think
24 we now have policy liabilities on a best-estimate
25 basis, as we've outlined in our Application, which

1 essentially should fix -- fix this issue going forward.

2

3

(BRIEF PAUSE)

4

5 MR. LUKE JOHNSTON: And with -- with
6 the esti -- with the historical estimates from the
7 liability review essentially improved, that'll feed
8 directly into the -- the claims forecast.

9 So in -- prior to the -- the large
10 change we made to liabilities, those historical
11 estimates were essentially being used to forecast the
12 future as well, meaning that you had, you know,
13 somewhat overstated history which was leading to an
14 overstated future, which was creating kind of a
15 perpetual problem of overstating your forecast.

16 So we're -- we believe now that we have
17 our claim liabilities on a best-estimate basis. And
18 then that's going to really help the forecast going
19 forward. It should now be a lot more reflective of the
20 actual experience here you're going to see.

21 MS. MARILYN MCLAREN: So treading into
22 a little bit of dangerous territory here, given that
23 I'm not an actuary, and to go back to your init --
24 original question about the systemic bias, right, with
25 hindsight, I think we've pretty much acknowledged if we

1 knew then what we know now, we would have had different
2 forecasts probably back in about '08 or '09, at least.

3 So again, with hindsight, someone might
4 look at that, and -- and a different actuary might have
5 said, Yeah, I think there's probably some systemic bias
6 there. But I think we really have addressed this in a
7 very, very solid fashion going forward.

8 And it -- it is another one of the ways
9 that this insurance fund is really quite different from
10 any other automobile insurers and automobile rate-
11 setting processes where, you know, the reserving
12 actuary, the -- the actuary responsible for assessing
13 the magnitude of outstanding liabilities has very
14 little to do with the rate-making actuary who's
15 responsible for issues going forward.

16 But because there is no profit margin
17 here because the retained earnings and the rates are so
18 integrated here and because this is a monopoly where
19 our -- our pool is the entire fleet of vehicles in this
20 province, they're highly integrated in a way that you
21 might not find in other systems.

22 MS. CANDACE GRAMMOND: Thank you.

23 THE CHAIRPERSON: Since we're on the
24 topic of estimates, I'm particularly intrigued by page
25 2 of 6 in the same tab. I guess this addresses claim

1 severity. And just a simple count of the number of ov
2 -- underestimates relative to the projections was eight
3 (8) out of nine (9) were overestimated relative to
4 actual.

5 So I'm just wondering what was going on
6 there that -- and there doesn't seem to be any
7 improvement in the estimates here.

8 So could you -- could you talk about
9 that a bit?

10 MR. LUKE JOHNSTON: The -- yeah, the
11 main -- the main issue with the -- the forecast
12 deviations in -- involves PIPP. And really what the
13 history of it is back in 2005 we introduced new
14 reserving guidelines and methodology for our cl -- case
15 managers.

16 And gradually we got experience under
17 that new approach, and it was quite a bit different
18 than our historical information. And although we
19 recognized some of it, prior to 2010, the -- the
20 majority of the -- our new trends under PIPP were
21 recognized through a very large reduction in '10 --
22 '10/'11.

23 So, yeah, as I -- as I mentioned, we're
24 -- because those numbers were overstated, we had this
25 kind of perpetual process of over-forecast. We then

1 review our liabilities, find out that this new claims
2 experience was showing that it wasn't as high as we
3 originally thought, we'd release some more money out of
4 that, so we'd have a double-whammy of over-forecasting
5 and reducing our expected costs at the same time.

6 That's why you get a negative number in
7 that one (1) year, because we actually reduced it by so
8 -- so much.

9 So again, we're -- we're really
10 optimistic that the -- the new approach is going to
11 forecast much more accurately in the past than the --
12 yeah, the eight (8) out of the nine (9) phenomenon
13 shouldn't -- shouldn't exist any longer.

14

15 (BRIEF PAUSE)

16

17 CONTINUED BY MS. CANDACE GRAMMOND:

18 MS. CANDACE GRAMMOND: Thank you. Mr.
19 Johnston, if we just go back to Schedule 1 for a
20 moment, you had -- oh, I'm sorry, not Schedule 1;
21 Schedule 3, the third page.

22 You had drawn the Board's attention to
23 the 2011 -- or, pardon me, 2010/'11 year and the -- the
24 large downward adjustment that was made for PIPP in
25 that year. Just in terms of terminology so that we're

1 clear, that would also be referred to as a release.

2 Would that be fair?

3 MR. LUKE JOHNSTON: Yeah, a release
4 essentially is a -- we have a -- a booked value that
5 we're expecting in the -- from an accounting
6 perspective. We redo -- we do the review and we come
7 with an indicated amount and if -- if the indicated is
8 less than the amount we have booked out that would be a
9 release.

10 MS. CANDACE GRAMMOND: Thank you. One
11 (1) last question with respect to this document.

12 How, if -- if at all, is this exhibit
13 affected by benefit enhancements that may come down the
14 pike?

15

16 (BRIEF PAUSE)

17

18 MR. LUKE JOHNSTON: PIPP enhancements
19 are included in -- in the PIPP line. Like all the
20 other coverages, we forecast PIPP enhancements and --
21 and to the extent that they're on -- on target or -- or
22 not will be included in -- in these numbers.

23

24 (BRIEF PAUSE)

25

1 MR. LUKE JOHNSTON: I might have
2 another point on that actually. Can -- can you mind --
3 do you remind repeating the question?

4 MS. CANDACE GRAMMOND: For sure. I --
5 and I can probably just rephrase it in a little bit of
6 a more particular way.

7 If, let's say, in a given year the
8 original projection had been arrived at and then PIPP
9 enhancements came into play, that may be another reason
10 why the numbers changed for -- in -- even in the
11 revised forecast, for example?

12 MR. LUKE JOHNSTON: Yes, sorry, that
13 was my point. So yeah, if -- if we didn't know about
14 PIPP enhancements when we made the forecast, then --
15 then sure, yeah, it would -- the actual numbers may
16 have PIPP enhancements in the numbers, but the -- the
17 original projected may not have contemplated that they
18 would have existed.

19 MS. CANDACE GRAMMOND: Thank you.
20 Okay. I'm going to move then to a different tab at the
21 book, tab 29. This is a -- one of our IRs from the
22 First Round, number 24.

23 So what I'm going to ask you to do, Mr.
24 Johnston, is turn to the second page at that tab, which
25 is the sub A attachment.

1 And if you can explain to the Board what
2 it is that we see here reflected in this table?

3

4 (BRIEF PAUSE)

5

6 MR. LUKE JOHNSTON: The table shows a
7 history of claims incurred, initial forecast relative
8 to actual. There's the financial forecasting method,
9 which is the Corporation's forecast. There's also a
10 linear and exponential method that's shown. On the
11 right side you'll see the variances between actual and
12 initial forecast.

13 The -- again, as we've previously
14 discussed the -- the linear method is essentially
15 looking at the history and drawing a linear regression
16 line through the history. Exponential -- similarly
17 with a exponential trend line. So the -- the forecast
18 created by those methods are -- are purely just
19 calculation.

20 In the -- yeah, on the right you'll see
21 that in recent years all the -- all the methods have
22 performed fairly poorly. And again, that reflects some
23 of the numbers you just looked at on the other exhibit
24 that we were at that showed the big adjustments to
25 PIPP.

1 MS. CANDACE GRAMMOND: Now, we've had a
2 bit of discussion about the -- the three (3) methods,
3 and we know that the financial method is the one that
4 the Corporation uses.

5 I'm going to ask you to just turn back
6 one (1) page to the narrative part of this answer. The
7 Corporation has stated under 'A', after it refers to
8 the table, the Corporation has stated, quote:

9 "Relatively there is little
10 indication that one method is
11 performing better than the other."

12 End quote. And then in the last
13 paragraph of that answer, the Corporation has stated,
14 quote:

15 "The Corporation continues to
16 maintain that the financial forecast
17 method is more thorough and complete
18 and is the preferred choice among the
19 three (3) methods."

20 End quote. Can you reconcile those two
21 (2) statements?

22

23 (BRIEF PAUSE)

24

25 MS. MARILYN MCLAREN: The financial

1 forecast process has been used by the Corporation in --
2 in its earliest years in a much less sophisticated
3 manner from the time before we had an actuary on staff.

4 We -- we hired our first actuary in --
5 in large part as an outcome of the Kopstein Commission
6 back in 1988, but we always had a financial forecast
7 method at the Corporation which was very inclusive and
8 very collaborative. It -- it is a process that
9 involves people who handle physical damage claims who
10 are our primary resource and expert in handling total
11 losses. It involves people in the front lines of parts
12 acquisition, making -- making decisions and assumptions
13 about whether or not our use of after-market parts will
14 increase or decrease next year based on their knowledge
15 of the market.

16 So it's a very -- there's probably a
17 couple of dozen people in the Corporation in senior
18 technical functions who are all part of that process.
19 We really believe in that consultative process a lot.

20 Having said that, and with my years of
21 being involved in the Corporation, and watching sort of
22 this process evolve, at the end of the day each and
23 every year we probably rely somewhat less on the
24 intelligence brought forth by all of those players in
25 that process, except for our actuarial resources and --

1 and our analytical accounting and analytical resources.

2 So it is -- we -- we believe in that
3 process. We will continue to have a very large
4 consultative inclusive process that is our financial
5 forecast method, but in time we have evolved more and
6 more to relying on the expertise of actuaries.

7 So they're -- they're kind of a little
8 contradictory but in terms of the way we -- we behave
9 and think about it at the Corporation, that's -- that's
10 the explanation I would provide.

11

12 (BRIEF PAUSE)

13

14 MS. CANDACE GRAMMOND: Ms. McLaren,
15 just to clarify -- I thank you for your answer -- is it
16 the case that the -- the linear method and the -- the
17 exponential method are at all the product of work of
18 the actuarial staff?

19 MR. LUKE JOHNSTON: Yeah. The -- the
20 calculations can be done by the actuarial staff, but
21 they don't -- they don't have to be done by the
22 actuarial staff.

23 MS. CANDACE GRAMMOND: And so would it
24 be fair to say, then, that that is reflective of the
25 increased reliance by the Corporation on the role of

1 the actuaries?

2 MR. LUKE JOHNSTON: Again, just -- just
3 looking at this -- this table on page 2, in your
4 previous question you referenced that -- that I had
5 stated or the Corporation had stated that there's
6 little indication that one method is performing better
7 than the other. And I would -- I would say that's very
8 true. There -- none of them are really performing all
9 that well in the last handful of years. And again,
10 this is -- these are the changes that we have to make
11 to get PIPP back on track.

12 If you look at prior to '05 financial
13 method, you do see some of the ups and downs,
14 under/over, that you -- you'd expect to -- to happen if
15 you had a best-estimate forecast. So again, we're
16 confident that, going forward, we have a best estimate.
17 But to get there, we needed to take the negative
18 fifteen (15), the negative seventeen (17), the negative
19 forty-six (46). Otherwise, we'd never -- we'd never
20 get back to the best estimate that -- that we're trying
21 to get to.

22 MS. CANDACE GRAMMOND: Thank you. Just
23 a couple of more questions relative to the exponential
24 and linear methods.

25 In a different IR -- and it's not in the

1 book; I can give you the reference if -- if you'd like
2 -- the Corporation has stated that the exponential and
3 linear methods serve only as benchmarks. And in the
4 same IR, the Corporation provided details of the
5 regression fit statistics for the various exponential
6 and linear forecasts by coverage, many of which didn't
7 seem to perform so well.

8 So can you describe the manner in which
9 these -- the two (2) forecast methods -- exponential
10 and linear -- are used as benchmarks by the
11 Corporation?

12 MR. LUKE JOHNSTON: Can I get that
13 reference, please?

14 MS. CANDACE GRAMMOND: Sure. It's 1-
15 21, posed by the Board.

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: So clearly there
20 are -- there's definitely cases where looking at the
21 linear and exponential relationship -- sorry, do you
22 have the reference? I'm at PUB-1-21, but I don't think
23 we need it.

24 The -- the linear and exponential
25 relationship are -- are obviously alternate views, and

1 sometimes it's appropriate to use a linear or
2 exponential line. You'll note in our PIPP forecasts
3 this year that we essentially used a linear regression
4 line to forecast PIPP, because we thought that that was
5 the most appropriate method for forecasting.

6 Outside of that, though, yeah, we rely
7 on the financial forecast method for the -- the reasons
8 previously described. And the exponential and linear,
9 in some ways, is provided as information for -- for
10 this Board.

11 But we do occasionally look at the
12 results to see if our forecast is reasonable relative
13 to what just a linear trend would -- would indicate.

14 MS. CANDACE GRAMMOND: Thank you.
15 Okay, moving to a little bit more of the valuation
16 context. Mr. Johnston, can you tell us about the
17 interdependence or the relationship between the claims
18 inferred -- claims incurred forecast in the application
19 and the 2011/'12 results as of year end?

20 MR. LUKE JOHNSTON: Do you mean the
21 2011/'12 results of the valuation of policy liabilities
22 or...?

23 MS. CANDACE GRAMMOND: Yes. Sorry if I
24 wasn't clear.

25 MR. LUKE JOHNSTON: Okay, so sorry, can

1 you now repeat the question now that I --

2 MS. CANDACE GRAMMOND: Yeah.

3 MR. LUKE JOHNSTON: Yeah.

4 MS. CANDACE GRAMMOND: For sure. I
5 just -- I want you to talk about the -- the nature and
6 extent of the relationship between the claims incurred
7 forecast in the Application and the 2011/'12 year-end
8 valuation.

9 MR. LUKE JOHNSTON: So the -- the
10 valuation of policy liabilities is essentially looking
11 at our -- our claim liabilities from the valuation
12 date. And since -- for PIPP -- for PIPP, for example,
13 there's -- many of these claims are still open, and
14 we're updating our estimates constantly.

15 Prior to -- as an example, prior -- as
16 I've mentioned, prior to the recent changes we made in
17 our estimates, we produced a report that generates
18 estimated ultimate losses by coverage in all previous
19 years. And a fairly common way to forecast the future
20 would be, of course, to look at the prior years
21 experience.

22 So, as we've talked about, a linear
23 trend or an exponential trend or options, financial
24 forecasting method is what we use. So the actuaries'
25 estimates are really like the first piece into trying

1 to project the future costs of those coverages. And
2 so, of course, to the extent that the actuarial
3 estimates are best estimates, that'll flow through into
4 our forecast for the future and, hence, rates.

5

6 (BRIEF PAUSE)

7

8 MS. CANDACE GRAMMOND: So, Mr.
9 Johnston, would you say that there's any aspect of the
10 valuation on which the Corporation relies that does not
11 reflect a best-estimate basis of estimation as
12 contemplated under Standard 2600?

13 MR. LUKE JOHNSTON: I'm make sure I
14 answer your question. The -- I do not think we're
15 relying on anything that is not a best estimate. Is
16 that...?

17 MS. CANDACE GRAMMOND: So what you --
18 the Corporation is relying on is a best estimate, just
19 to take out the negatives?

20 MR. LUKE JOHNSTON: Yeah. Yes.

21 MS. CANDACE GRAMMOND: Perfect. Thank
22 you. Okay, I'm going to ask you then to go to TI.17.
23 And I have apologies, because there is an excerpt of
24 TI.17 in the book of documents. Mr. Pelly asked me to
25 put in pages 73 through 76 of TI.17, which I did. But

1 I guess there are two (2) sets of pages that are 73 to
2 76, and I put in the wrong set.

3 So we need you to go to the actual
4 TI.17, which is in Volume 2, part 2; so Volume 2, the
5 fatter binder.

6

7 (BRIEF PAUSE)

8

9 MR. LUKE JOHNSTON: I'm sorry, what was
10 the page reference again?

11 MS. CANDACE GRAMMOND: So it's page --
12 we'll start at page 73. And what we want to look at is
13 the narrative part, not the attachment.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: Ms. Grammond,
18 could I just get you to repeat the page number, please?

19 MS. CANDACE GRAMMOND: For sure. Page
20 73. So I'm in TI.17, page 73; but the first page 73,
21 which is in the narrative part, not the page 73 that's
22 in the tables.

23

24 (BRIEF PAUSE)

25

1 MS. CANDACE GRAMMOND: So I'll -- I'll
2 let -- now that you've got that open, I'll let you
3 refer to what you need to refer to in your answer. But
4 here's the -- the first question with respect to this
5 area, which is stochastic modelling.

6 In an earlier part of TI.17, on page 53
7 -- and you -- you can go there if you want, but I don't
8 -- don't think you have to -- the -- the term
9 "stochastic modelling" is defined. And the -- the
10 definition that we see there is as follows -- I'll read
11 it in and then I'll -- I'll ask my question -- quote:

12 "A statistic model is a model..."

13 What did I say, "statistic"? Okay.

14 Thank you:

15 "A stochastic model is a model that
16 estimates the probability
17 distribution for a given outcome by
18 allowing certain inputs to be random
19 variables rather than fixed
20 estimates. A random variable is
21 allowed to take on a range of values
22 based on the assumed distribution of
23 that variable. The stochastic model
24 creates a distribution of outcomes by
25 running a large number of simulations

1 using the random inputs."

2 End quote. So my question, Mr.

3 Johnston, is: In the context of applying that

4 stochastic modelling process to the forecasting of

5 claims incurred, can you provide some additional

6 description?

7

8 (BRIEF PAUSE)

9

10 MR. LUKE JOHNSTON: So at -- at the
11 moment stochastic modelling is not used specifically to
12 create our claims forecast. We perform the financial
13 forecasting method, and stochastic modelling is used to
14 provide the Corporation and other users with a -- a
15 range around our estimates.

16 It's also used for DCAT modelling
17 purposes. When we do our stochastic modelling, we do
18 not attempt to ma -- force it to the financial
19 forecast, if it's being made. So in other words, I
20 don't -- I don't adjust the stochastic model so that
21 the forecast that we've made is the 50th percentile or
22 the median or anything like that. We just do it. We
23 just let it run and show the results that are
24 indicated.

25 So there is a -- there are some cases

1 where the -- the forecasts made by the Claims
2 Forecasting Committee appears to be, say, slightly
3 higher than -- than the stochastic modelling would
4 indicate as the average. I believe hail is an example.
5 I'll -- I'll double-check.

6 But again, we're -- we're trying to run
7 this independently, not just force it to what --
8 whatever the Claims Forecasting Committee decides.

9

10 (BRIEF PAUSE)

11

12 MS. CANDACE GRAMMOND: And as per our
13 earlier discussion, Mr. Johnston, and the fact that
14 Section 2600 of the standards applies to TI.17, what we
15 see here would be on a best-estimate basis?

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: The forecasts in
20 TI.17 are on a best-estimate basis. The stochastic
21 model is attempting to model the range of outcomes for
22 a particular cover -- or, for all the coverages.

23 There are various reasons why our Claims
24 Forecasting Committee might determine that a different
25 forecast is required other than that which is, say,

1 just the average of the -- the modelling results.

2

3 (BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: Would it be fair
6 to say that in the selection of the stochastic
7 modelling assumptions, or -- they are picked to reflect
8 best estimates?

9

10 (BRIEF PAUSE)

11

12 MR. LUKE JOHNSTON: Yes, the -- the
13 stochastic modelling data is -- we're designing it to,
14 of course, produce a best estimate. We're not
15 attempting to include any bias in our -- in our models;
16 again though there -- there might be different reasons
17 that the -- that are through the financial forecasting
18 method to not use the results of the stochastic model.

19 So if -- if we build a model of
20 historical collisions but the director of the physical
21 damage division tells us that, You know what, our
22 financial forecast should have a higher labour
23 component or a higher severity, because they expect,
24 you know, certain trends in the industry, that might be
25 incorporated in the financial forecast method; whereas

1 the stochastic model will simply be saying, Look here's
2 all the history, bring it forward, run a model, look at
3 the distribution.

4 So it's -- absolutely the stochastic
5 model is not conducted to have any kind of bias in it,
6 but there's -- there's other considerations that --
7 that we do in financial forecasting to produce a best
8 estimate.

9 MS. CANDACE GRAMMOND: Thank you. Now,
10 I read in the definition of "stochastic model", and it
11 includes the use of random variables.

12 Can you, at a high level, describe the
13 random variables that were modelled in this exercise by
14 the Corporation for each coverage?

15

16 (BRIEF PAUSE)

17

18 MR. LUKE JOHNSTON: Yeah. The ran --
19 the random variables are generally claims frequency,
20 claims severity, development from the first year
21 reporting to -- to ultimate.

22

23 (BRIEF PAUSE)

24

25 MR. LUKE JOHNSTON: Those are generally

1 the - - the items. I'm trying -- I'm trying to
2 determine right now if we stochastically model volume
3 growth. I can't -- I can't -- off the top of my head,
4 I can't remember but I'll -- I'll have a look.

5 MS. CANDACE GRAMMOND: Mr. Williams
6 says you do.

7 MR. LUKE JOHNSTON: Yes, as per page
8 53.

9

10 (BRIEF PAUSE)

11

12 MS. CANDACE GRAMMOND: Mr. Johnston,
13 just for the completeness of the record, if you could
14 just describe what you mean by "frequency" and
15 "severity"?

16 MR. LUKE JOHNSTON: The Board saw
17 another table that said "frequency" and -- and it was -
18 - it was just -- it was claim counts. That's not what
19 we're talking about here. We're talking about claim
20 counts per -- per unit, or per thousand units. The --
21 so the frequency of claims per exposure unit.
22 Severity would be the average cost per claim, or per
23 coverage, or cover as we call it at MPI.

24 MS. CANDACE GRAMMOND: Thank you.
25 Okay. Thank you, Mr. Johnston.

1 Again, at a high level, can you explain
2 the considerations that are involved in combining the
3 stochastic modelling results at a coverage level to
4 produce results for all coverages combined?

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: The stochastic
9 model starts by simulating accidents, and it then
10 simulates whether those accidents have PIPP. So not
11 all -- not all the accidents involve injuries.

12 But basically what we do is we look at
13 the -- first we simulate how many accidents happen.
14 Then we simulate how many of these claim -- accidents
15 will have injuries. From that, we simulate the
16 severity of the injuries, et cetera, by coverage, again
17 based on historical experience. Similarly, for -- for
18 collisions, we -- we simulate the severity of
19 collisions.

20 So basically, the -- the simulation is
21 really just a massive list of accidents in a particular
22 year, summed up. The relationships between the
23 coverages are essentially built into the -- the
24 underlying simulation based on the probabilities of --
25 of given coverages or -- coming into effect in a given

1 accident.

2 MS. CANDACE GRAMMOND: Thank you. Now,
3 with reference to the pages at TI.17 that I had
4 referred you to, which were pages 73 to 76 of the
5 narrative, and with reference to PUB/MPI-1-22, which is
6 at Tab 28 of the book of documents, can you explain and
7 interpret the results of the stochastic modelling for
8 all Basic coverages combined?

9

10 (BRIEF PAUSE)

11

12 MR. LUKE JOHNSTON: Just to clarify,
13 the question was to basically explain the overall
14 results section on 73 and 74?

15 MS. CANDACE GRAMMOND: Yeah. To -- to
16 explain and interpret the results of the stochastic
17 modelling for the coverages combined. And just, if you
18 want me to be a little bit more detailed, if you could
19 include in your response a discussion of the comparison
20 of the level of forecasted claims in the application --
21 or, sorry, claims incurred in the application for
22 2013/'14, compared to the results of the stochastic
23 modelling.

24 MR. LUKE JOHNSTON: Sure. So page 73,
25 under "Overall Results", there is a table there that

1 shows the base forecast, the first table, all Basic
2 coverages base forecast. If you then move to page 74,
3 you will see the first table, which says, "Simulated
4 Ultimate Losses," essentially the stochastic model,
5 minus the base forecast.

6 So it's indicating that the -- at the
7 50th percentile, that the base forecast is slightly
8 higher in '12/'13 and about 6 million higher in '13/'14
9 than the stochastic model indicates. Those differences
10 are also shown in percentage form in the table below.

11 So at the 50th percentile, our financial
12 forecast is slightly higher than that indicated by
13 stochastic modelling. But as I've described before,
14 there's various reasons in the financial forecast
15 approach that the forecast will equal the stochastic
16 model. And if we -- if we went through every single
17 forecast for every coverage, which I don't think we're
18 going to do, we'd see that those forecasts are best
19 estimates, and they just, in this case, happen to be
20 slightly higher than indicated by this model.

21

22 (BRIEF PAUSE)

23

24 MS. CANDACE GRAMMOND: Mr. Johnston, I
25 note that the tables that you've referred to on page 74

1 include the word "cumulative" in the titles. So I
2 assume, obviously, that the data reflected there is
3 cumulative. But in contrast to that, the table that
4 appears at Tab 28, 1-22B, we believe is not cumulative.

5 Can you confirm that?

6 MR. LUKE JOHNSTON: Yes, I can confirm
7 that.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE GRAMMOND: And just hold
12 your book open there at Tab 28, because we'll come back
13 to that table in a moment. Before we do, I just want
14 to have you define a couple of terms that you may need
15 to use for the answer to the following question, which
16 is if you can tell us what would constitute a best
17 estimate drawn from the probability distribution
18 created from the stochastic modelling and the terms
19 that you may need to use?

20 And, if so, I'd ask you to define them,
21 would be "median" and "mean"?

22

23 (BRIEF PAUSE)

24

25 MR. LUKE JOHNSTON: The -- the mean is

1 essentially from -- for stochastic modelling would be
2 the average of all the outcomes produced by that model.
3 That's not necessarily the best-estimate forecast.

4 The -- for example, comprehensive hail
5 may include probabilities of enormous storms in its
6 distribution. But our -- our Forecasting Committee
7 likely would not forecast just the straight average of
8 all possible outcomes.

9 Similarly, there may be a slightly
10 longer -- or a higher risk of an adverse PIPP year.
11 For example, say you have thirty (30) or forty (40)
12 more serious losses than -- than you typically have.
13 Again, the -- the Claims Forecasting Committee likely
14 wouldn't simply forecast the average of all possible
15 outcomes; rather what they believe to be is the most
16 likely based on -- based on our history.

17 The median is essentially the midpoint
18 where half of all the observations are above and below
19 the -- that point which is the 50th percentile on this
20 chart. And just to clarify, the -- I believe the
21 question was to explain how a best estimate is relative
22 to those two (2) numbers.

23 MS. CANDACE GRAMMOND: Yes.

24 MR. LUKE JOHNSTON: I -- I think I -- I
25 think I already described the -- the mean. If -- if we

1 model all possible states of the world and take the
2 average, that might not necessarily be what we think
3 the -- the most likely outcome or our best estimate
4 forecast would be.

5 And again, similarly, with the -- with
6 the median, right, there -- the -- our most likely
7 outcome...

8

9 (BRIEF PAUSE)

10

11 MR. LUKE JOHNSTON: Similarly, with the
12 median there might be a sig -- very significant
13 likelihood that observations fall in some lower level,
14 but a portion of those observations that are very
15 significant, again like -- like hail losses, for
16 example.

17 So I wouldn't -- I wouldn't expect our
18 best fore -- our best-estimate forecast to deviate too
19 -- too significantly from either the average or the
20 50th percentile. But again if we look through the
21 claims forecast data book I can say, that all those
22 forecasts are best estimates.

23 And again what we're really trying to do
24 with our stochastic modelling is obviously make it as
25 realistic as possible. But in some cases we're using a

1 lot of history, and we're trying to generate an
2 understanding of the variability around our estimates.
3 And the -- the Claims Forecasting Committee again might
4 have other reasons for using more current information
5 that makes other forecasts different than what's coming
6 out of this model.

7 But that said, I -- I do think the model
8 does its job in that it shows -- it shows the -- the
9 variability around the -- the estimate, and that type
10 of information is -- is good to understand the risk,
11 and -- and for things like -- like DCAT.

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE GRAMMOND: Okay. So, Mr.
16 Johnston, relative to PUB/MPI-1-22, which is at Tab 28,
17 we see that the base number reflected for the year of
18 the Application, 2013/'14, is 574 million.

19 Can you tell us on an isolated basis,
20 not on a cumulative basis, where that number sits
21 relative to each of the mean and the median of the
22 output of the stochastic modelling?

23 And if you need to answer that by
24 undertaking, that's okay.

25 MR. LUKE JOHNSTON: I'll take that as

1 an undertaking then.

2 MS. CANDACE GRAMMOND: Thank you.

3

4 --- UNDERTAKING NO. 1: MPI to provide, on an
5 isolated basis, where the
6 base number reflected for
7 the year of the
8 Application, 2013/'14, sits
9 relative to each of the
10 mean and the median of the
11 output of the stochastic
12 modelling

13

14 CONTINUED BY MS. CANDACE GRAMMOND:

15 MS. CANDACE GRAMMOND: Okay. Now, Mr.
16 Johnston, you've commented on the efforts that the
17 Corporation takes to -- to try to make the stochastic
18 modelling process as accurate as possible, in terms of
19 best estimate.

20 Can you elaborate on any areas of
21 expected improvement as the stochastic modelling
22 process evolves in the future?

23 MR. LUKE JOHNSTON: Yes. There --
24 there are some items listed in PUB-1-22. One area that
25 we're definitely looking to have an approved

1 understanding is PIPP reserving. That's obviously a
2 huge risk area.

3 We don't -- we -- we now have about
4 eighteen (18), nineteen (19) years of PIPP experience,
5 but we're probably going to have another thirty (30) or
6 forty (40) more on top of that. So we want to
7 understand how to simulate the variability of that
8 development going forward, and that's not an -- not an
9 easy task.

10 The -- another item would be driver
11 safety rating simulations, and also how our claims cost
12 relate to other external indicators like inflation, or
13 industrial average wage.

14

15 (BRIEF PAUSE)

16

17 MS. CANDACE GRAMMOND: Okay. Thank
18 you, Mr. Johnston. I'm going to move away from
19 stochastic modelling into a different actuarial area.
20 I'll ask you to go to Tab 18 of the book of documents.

21 This is -- in -- in my copy the first
22 page is blank. I'm not sure why that is. But if we
23 look on the -- the second sheet under Tab 18, we'll
24 find an excerpt from AI.10.B, which is the external
25 actuary's report from February of 2012.

1 So we -- we see here a -- a series of
2 pieces of information. I'd ask you to direct your
3 attention to the one that's item 1, which is incurred
4 by not reported claims.

5 Can you explain to the Board what this
6 provision is for and we commonly refer to it as IBNR?

7 MR. LUKE JOHNSTON: At a high level
8 this is basically our -- our estimated unpaid -- we
9 estimate our unpaid claims for a given coverage and
10 subtract off the case reserves we're holding, and that
11 gives us our incurred by not reported claims.

12 So we -- we have a certain amount that
13 our case managers have put up for given claims. We
14 know the amounts we've paid. When we do the actuarial
15 analysis we look at the historical kind of evolution,
16 or we call development of losses, from the time claims
17 come in until the time they ultimately settle.

18 Typically, at least for MPI, and for
19 most coverages, this is a -- a growing pattern. So
20 PIPP claims will come in and we'll know relatively
21 little about the claim. An initially reserve will be
22 posted and often the -- most injury claims will settle
23 fairly quickly and they'll be closed.

24 Other claims though are more serious.
25 It might be two (2), three (3), four (4) years later

1 until we really understand our liability for that
2 claim. So the actuary's job is to look at what has
3 been reported at certain points in time and estimate
4 what those values will ultimately reach when all claims
5 are closed.

6 The difference between -- again, the
7 difference between what has been reported to date and
8 the -- the ultimate value is the incurred but not
9 reported. Yeah, I'll leave it at that.

10 MS. CANDACE GRAMMOND: Thank you. And
11 if we look at...

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE GRAMMOND: Thank you for
16 that response, Mr. Johnston. Just to -- to clarify and
17 confirm, would it be fair to say that IBNR -- the IBNR
18 provision relates to development on known claims as
19 well as the emergence of late reported claims?

20 MR. LUKE JOHNSTON: That's -- that's
21 fair, yep.

22 MS. CANDACE GRAMMOND: Now, on the
23 document that we're looking at on Tab 18, we see under
24 the incurred by not reported section a series of
25 coverages listed.

1 It certainly appears that accident
2 benefits weekly indemnity make up the largest share out
3 of all of those line items, being about 75 million?

4 MR. LUKE JOHNSTON: That's correct.

5 MS. CANDACE GRAMMOND: And then the
6 total, of course, under the IBNR line is about 142
7 million?

8 MR. LUKE JOHNSTON: Yes, that's
9 correct.

10 MS. CANDACE GRAMMOND: And this is on a
11 net of reinsurance basis?

12 MR. LUKE JOHNSTON: Yes.

13 MS. CANDACE GRAMMOND: Moving down just
14 to the end of that first section we see the -- the line
15 item, "Ultimate Gross Internal Adjustment Expense
16 Provision."

17 Can you explain what that is, please?

18

19 (BRIEF PAUSE)

20

21 MR. LUKE JOHNSTON: There's essentially
22 two (2) types of claims adjustment expenses. Claims --
23 I'm sorry, expenses that can be allocated directly to
24 the claim and so that we know that a particular expense
25 is as a result of that claim. Those are included in

1 the -- in the reported numbers.

2 There's also other claims adjustment
3 costs that we can't tie to a particular claim, such as
4 staffing; costs of, say, the PIPP claims department.
5 And these -- these amounts are -- obviously, if the
6 Corporation ceased operations today, we would need
7 someone to handle these claims until they close. And
8 so these are those -- reserved for those costs

9 MS. CANDACE GRAMMOND: Thank you. And
10 the amount attributed to that provision is about 119
11 million?

12 MR. LUKE JOHNSTON: Yes, that's
13 correct.

14 MS. CANDACE GRAMMOND: Okay. The next
15 section of the document at number 2 is entitled, "CIA
16 Rules Adjustments". What is this for?

17 MR. LUKE JOHNSTON: This section is
18 essentially applying -- adjusting the -- the results to
19 reflect an actuarial present-value basis. So in the
20 first line you'll see that the results are discounted
21 for the time value of money. So it's the present
22 value, and there's a large negative there.

23 There's also -- I won't go into the
24 details of that. There's also provisions for adverse
25 deviation. Actuarial practice requires actuaries to

1 add provisions for adverse claims development, interest
2 rate margins, and reinsurance collectibility.

3 MS. CANDACE GRAMMOND: Thank you. Now,
4 can you confirm that the net effect of these CIA rules,
5 on a net of reinsurance basis, is to increase claims
6 liabilities by about 90 million, with the reduction due
7 to discounting of 183 million being more than offset by
8 the provision for adverse deviation of about 274
9 million?

10 MR. LUKE JOHNSTON: I didn't
11 recalculate those, but I'll -- I'll take those as
12 accurate; 90 million -- 90 point -- ninety million,
13 four hundred and nineteen thousand (90,419,000) is
14 correct.

15 MS. CANDACE GRAMMOND: And -- yeah.
16 The other two (2) numbers when I had indicated the
17 reduction due to discounting of 183 million, that was
18 just adding together item 1 and item 2 on the list and
19 then -- that sub-item 1 and sub-item 2, and the 274
20 million relative to the provision for adverse deviation
21 was -- was adding together items -- Roman numeral III
22 and IV.

23 MR. LUKE JOHNSTON: Yes, that's
24 correct. And they sounded correct, so I -- yeah.

25 MS. CANDACE GRAMMOND: Thank you.

1 So moving down, then, the results for
2 the incurred but not reported claims at item 1 and the
3 CIA rules at item 2, which are reflected at lines 3 and
4 4 of this document, total 351 million on a net of
5 reinsurance basis, and that's the 222 plus the 128?

6 MR. LUKE JOHNSTON: Yes, that's
7 correct.

8 MS. CANDACE GRAMMOND: Now, line 5, the
9 next line, we see is -- is called "Adjusted IBNR PIPP
10 Enhancement."

11 Can you explain what gives rise to that
12 line item?

13 MR. LUKE JOHNSTON: The -- the PIPP
14 enhancements are included in lines 5 and 6. These are
15 relatively new coverages, and although some but not all
16 have been fully incorporated into our claims data, and
17 by that I mean that some we have reserved for, some we
18 have not put case reserves in yet. But yeah, so these
19 are performed outside of the regular analysis in an
20 appendices.

21 MS. CANDACE GRAMMOND: Thank you. And
22 line 5, as we see, is another approximately 39 million,
23 and line 6 is about 27 million?

24 MR. LUKE JOHNSTON: That's correct.

25 MS. CANDACE GRAMMOND: So both of those

1 numbers are being added, which gives us at item 7 the
2 total actuarial liabilities of about 417 million.

3 And again, that's on a net of
4 reinsurance basis?

5 MR. LUKE JOHNSTON: That's correct.

6 MS. CANDACE GRAMMOND: Moving down at
7 line 8, we see the -- the item, "Case reserve
8 outstanding." Can you explain what gives rise to --
9 not every item then on that list.

10 But can you explain what gives rise to
11 the PIPP enhancement item, which is the line F, I
12 guess, the -- the fourth line in, which is "Other
13 than", as well as the inter-company recovery?

14 MR. LUKE JOHNSTON: Yeah, these are
15 essentially the outstanding amounts that we have case-
16 reserved or reserved by our claims department by --
17 PIPP enhancements is just pulled out of the overall
18 claims case reserves.

19 MS. CANDACE GRAMMOND: So on the -- the
20 line that's, "Other than, catastrophe and enhancement,"
21 what's -- what's included?

22 Like what's left once you take out
23 enhancement and catastrophe?

24 MR. LUKE JOHNSTON: This is the -- the
25 case reserves from all other coverages other than

1 those, the ones that I said: so collision, comp, weekly
2 indemnity; all the -- off of the items listed at the
3 top that aren't PIPP enhancements.

4 MS. CANDACE GRAMMOND: Thank you. And
5 what's included in the "Inter-company Recovery" line?

6

7 (BRIEF PAUSE)

8

9 MR. LUKE JOHNSTON: This is largely a
10 recovery -- like a reinsurance type recovery between
11 our different lines of business. I'm -- I'm struggling
12 to get you an exact definition. I -- I can come back
13 with that and exactly what that number is.

14 MS. CANDACE GRAMMOND: If you could,
15 that would be great. Thank you.

16 MR. LUKE JOHNSTON: Thanks.

17

18 --- UNDERTAKING NO. 2: MPI to provide what's
19 included in the "Inter-
20 company Recovery" line

21

22 CONTINUED BY MS. CANDACE GRAMMOND:

23 MS. CANDACE GRAMMOND: Okay. So just -
24 - I just have a couple more questions about this
25 document. So we see that the hail catastrophe line

1 item is fully reinsured?

2 MR. LUKE JOHNSTON: That's correct.

3 MS. CANDACE GRAMMOND: And, therefore,
4 the -- the total amount, so I'm at the last line of
5 item 8 under the -- the net column, is about 928
6 million?

7 MR. LUKE JOHNSTON: That's correct.

8 MS. CANDACE GRAMMOND: And that then
9 contributes to the total at item 9 of claims
10 liabilities, which is about 1.3 billion?

11 MR. LUKE JOHNSTON: Yes, that's
12 correct.

13 MS. CANDACE GRAMMOND: And if we
14 compare that number -- I'm looking at the -- the 1.345
15 billion under the "Net" column -- and compare that with
16 the number in the far right-hand column just next to
17 is, which is what MPI carried before the review, we see
18 that they're different by about a million dollars?

19 MR. LUKE JOHNSTON: Yes, that's
20 correct. So that would be as a \$1 million or so
21 release that we talked about.

22 MS. CANDACE GRAMMOND: Thank you. Mr.
23 Chairman, I'm going to move into a somewhat different
24 area. And we haven't taken the afternoon break, so if
25 now would be a good time.

1 THE CHAIRPERSON: Okay, let's adjourn.

2 Let's -- pardon me. Let's take a break now for ten

3 (10) minutes, until 3:00.

4

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

6 --- Upon resuming at 3:04 p.m.

7

8 THE CHAIRPERSON: We're ready to -- to

9 return to the proceedings.

10

11 CONTINUED BY MS. CANDACE GRAMMOND:

12 MS. CANDACE GRAMMOND: Thank you.

13 Okay. Mr. Johnston, we're still on actuarial matters,

14 but a little bit of a different sort. We're still at

15 tab 18, so I've finished with the document that we were

16 looking at before the break. If you turn the page,

17 there's page 50 out of the same external actuary's

18 report from February of 2012.

19 So what I'd ask you to do is explain

20 what it is that we're looking at here at a high level

21 that this table represents.

22 MR. LUKE JOHNSTON: This is basically a

23 comparison of our estimated ultimate losses at

24 different evaluation dates for Basic total, and that's

25 of reinsurance. So just a -- to summarize it at a very

1 high level, you see our -- from our Feb -- February
2 2007 year-end evaluation going all the way through to
3 2012, and on the left where it says, "Insurance year
4 ending," those are for accidents occurring in the --
5 that particular insurance year.

6 MS. CANDACE GRAMMOND: Now, if we look
7 under the second solid line we see a line item called,
8 "Total" and then the second line item is, "Total
9 excluding 2012."

10 Are you with me?

11 MR. LUKE JOHNSTON: Yes.

12 MS. CANDACE GRAMMOND: And if we look
13 across that line, we see under column 3 the figure of
14 6.76 billion?

15 MR. LUKE JOHNSTON: Yes.

16 MS. CANDACE GRAMMOND: And just next to
17 that, under column 4, the figure of 6.829 billion?

18 MR. LUKE JOHNSTON: Yes, that's
19 correct.

20 MS. CANDACE GRAMMOND: Now, I
21 understand that if we subtract from the number in
22 column 4, the number in column 3, we end up with a
23 difference of about 69 million, which represents
24 favourable runoff during the 2011/'12 fiscal year.

25 Is that right?

1 MR. LUKE JOHNSTON: Yes, so for the
2 years -- accident years 1995 to 2011, our estimate of
3 ultimate -- estimates of ultimate losses cumulatively
4 decline by 69 million between the 2011 and 2012 value -
5 - evaluations.

6 MS. CANDACE GRAMMOND: And how does
7 this favourable runoff impact the 2011/'12 fiscal year
8 incurred losses and net income?

9 MR. LUKE JOHNSTON: The actuarial
10 adjust -- adjustments are immediately recognized in the
11 -- as -- as a negative in the current year claims
12 incurred.

13

14 (BRIEF PAUSE)

15

16 MR. LUKE JOHNSTON: Just to clarify.
17 So -- so this would be just a straight reduction off
18 the -- the claims incurred that we're expecting in that
19 particular year, what -- like -- so other -- other --
20 what they otherwise would be without that \$69 million
21 immediate reduction.

22 That will -- to the extent that claims
23 incurred are lower in a particular year, that will be
24 favourable to net income.

25 MS. CANDACE GRAMMOND: And, Mr.

1 Johnston, just to clarify, the figures that we're
2 looking at, at Tab 18, are on an undiscounted basis,
3 whereas the numbers that flow through to the financial
4 statement are on a discounted basis.

5 So the 69 million doesn't flow through
6 dollar for dollar.

7 MR. LUKE JOHNSTON: Yeah. My
8 apologies. The -- there will be actuarial adjustments.
9 So they're calculated on actuarial present value basis.
10 The -- there will be a reduction, not exactly 69
11 million, but net of all the other discounting and
12 provisions that we discussed.

13 MS. CANDACE GRAMMOND: Thank you. I'm
14 going to ask you then to turn to Tab 25 of the book of
15 documents. We see here one of the IRs posed by the
16 Board. It's 1-16, so Tab 25.

17 And in particular, if you turn to page 2
18 at Tab 25 -- oh, my apologies. Not -- not the second
19 page. Sorry. We need to go to the first attachment,
20 which is actually the second page from the back. So
21 we're still at Tab 25, second page from the back.

22 This is the PUB/MPI-1-16(a) Attachment.

23 MR. LUKE JOHNSTON: I'm there.

24 MS. CANDACE GRAMMOND: Okay. It's my
25 understanding that -- that this table summarizes the

1 net Basic runoff during the 2011/'12 fiscal year,
2 broken down by line of business and accident year.

3 Is that right?

4 MR. LUKE JOHNSTON: By coverage and
5 accident year.

6 MS. CANDACE GRAMMOND: Sorry, when I
7 said, "line of business," that's what I meant. Now, we
8 see the total as reflected in the bottom right-hand
9 corner of the table is about 79 1/2 million, which
10 includes PIPP enhancements that were not included in
11 the earlier exhibit that we looked at from the external
12 actuary's report.

13 MR. LUKE JOHNSTON: Yes. Thanks --
14 thanks for noting that.

15 MS. CANDACE GRAMMOND: And can you
16 confirm that most of the favourable runoff that we see
17 in this table, about 43 million, arises from the
18 accident benefits weekly indemnity column?

19 MR. LUKE JOHNSTON: Yes. Weekly
20 indemnity, you'll see, is 43.1 million favourable, and
21 seventeen (17) -- accident benefits, other index --
22 which is mainly personal care, medical-type expenses --
23 was favourable by 17.4 million, and PIPP enhancements
24 by 10.5 million.

25 MS. CANDACE GRAMMOND: Thank you. Now,

1 still within the same tab, the same IR, I'll ask you to
2 turn back to the Corporation's answer at sub B, which
3 is on the second page. This is, rather than an
4 attachment, part of the narrative of the answer.

5 Can you discuss the breakdown of the
6 2011/'12 favourable runoff between...

7

8 (BRIEF PAUSE)

9

10 MS. CANDACE GRAMMOND: Sorry, Mr. Pelly
11 just brought a detail to my attention. So if we look
12 at the answer to sub B here on the second page at Tab
13 25, and you may also wish to look at what we have at
14 Tab 17 of the book of documents -- it doesn't mean we
15 all have to turn there but you -- you may want to have
16 regard to that in answering the following.

17 What I'd ask you to do is discuss a
18 breakdown of the -- or, dis -- discuss the breakdown of
19 the 2011/'12 favourable runoff between changes in
20 experience, changes in valuation -- valuation
21 methodology, and changes in valuation assumptions.

22

23 (BRIEF PAUSE)

24

25 MR. LUKE JOHNSTON: As per the -- the

1 table in part B, there's three (3) categories for
2 sources of changes: experience, evalua -- evaluation
3 methodology, and evaluation assumptions. I'll start
4 with evaluation methodology, and this is summarized in
5 part D of this -- of this answer on page 3.

6 So the -- the total -- the total impact
7 from changes in evaluation methodology is 13.7 million,
8 and I'll go through these items. First, we removed
9 IBNR provision for comprehensive.

10 We had a -- we had a provision in -- in
11 the previous report for a, I guess, hypothetical or
12 potential increase in deductible and how -- how that
13 would lead to increase in reporting of comp claims.
14 When I looked at this with our new appointed actuary
15 this year, there's really -- really found no reason to
16 include such a provision for something that has -- has
17 not been announced or we have no plans on doing. So we
18 took -- we took that provision out.

19 Second, there's something called here,
20 "Removal of Excess Reserves for Accident Benefits
21 Other." As I mentioned before, we -- we began an auto-
22 reserving process recently with our new claims
23 management system. Although working effectively, it
24 was maybe working a little bit too effectively in
25 putting out claim -- case reserves automatically on all

1 applicable claims.

2 And this led to an increase in reported
3 losses higher than -- than we typically see, so we have
4 to adjust for -- adjust for that, because we haven't
5 had any increase in exposure. We just have an increase
6 in reporting.

7 These -- the next item, interest payment
8 on permanent impairment, this is a PIPP enhancement
9 that's basically, we pay interest -- instead of from
10 the date of assessment we -- we pay from the date of
11 loss. This is now incorporated in our claims data, so
12 we removed the provision for that, 4 million.

13 And finally, PIPP enhancement death
14 benefits, we created a -- a new methodology for this
15 coverage basically by looking at how many serious loss
16 claimants were in a particular year and estimating
17 approximately what their -- their death benefits would
18 be. That new methodology caused a \$4 million decline.
19 So that is the changes in the evaluation methodology.

20 Moving to the -- the bigger-ticket item,
21 as I've -- as I've previously mentioned, we've made
22 significant strides in our PIPP forecasting, and there
23 is many items that we've talked about at these hearings
24 over the last several years in regards to improving our
25 PIPP assumptions, making them best estimates, removing

1 conservatism in some of the assumptions.

2 We -- we looked at these items very
3 closely with the new appointed actuary and basically
4 revised all loss development factors for fall coverages
5 to what we believe are best estimates. In some cases,
6 things as small as just rounding differences, we
7 actually incorporated the actual history. So that was
8 a big item.

9 Yes. Moving to -- if you move to page
10 4, these changes are described in more detail. The
11 first one, changes to the loss development factors for
12 weekly indemnity, including the removal of the 6
13 percent tail load. In -- in previous hearings, we
14 discussed weekly indemnity coverage, which is income
15 replacement coverage.

16 And in our previous actuarial reports we
17 essentially had a 6 percent safety margin added to this
18 coverage to protect from the risk of adverse
19 development, so increase cost of claims, new claimants
20 emerging, et cetera.

21 We -- we took -- we -- we received a lot
22 of criticism on this assumption as being conservative.
23 And what -- what we have said in the past is, look,
24 like there -- this is a very long-tailed coverage, we
25 think there's a lot of risk and how long these claimant

1 are going to live and their entitlements, so we need
2 some kind of protection.

3 We didn't know the amount, but we knew
4 we needed something. So what we -- what we did is we
5 literally looked at every single one of these claims
6 that we have, serious PIPP claims. And we found that
7 for weekly indemnity, there was really low -- fairly
8 low risk of adverse development.

9 These claimants had been determined at a
10 certain wage. They're full reserved. We don't expect
11 an influx of new claimants. And based -- based on that
12 analysis, we decided that this 6 percent load was, in -
13 - in fact, not required, and we removed it. And the
14 impact shown there is \$40 million.

15 Further to that, the second point,
16 accident benefits other indexed, here we also had a
17 tail factor, as we call it, to protect -- protect from
18 adverse development. We also looked at the -- all the
19 serious loss claimants that we have. And we found that
20 less than 30 percent of our catastrophically injured
21 claimants actually have a reserve for personal care.
22 And the accident benefits other index is largely for
23 personal care.

24 So not a lot of our claimants actually
25 have a reserve right now for that -- or for that

1 coverage, and the ones that do or are receiving
2 personal care, they're only receiving about one third
3 (1/3) of their maximum possible entitlement.

4 So what we concluded here was two (2)
5 things. These are very seriously injured claimants.
6 And if -- if they required personal care, we would --
7 we would give it to them. And if they needed an
8 increase in personal care, they -- they would also be
9 entitled to that.

10 So there's -- there's clearly a risk of
11 having more personal care in the future. Do we know
12 the exact like pro -- plausibility or amounts? No, we
13 don't. But what we've done is we've left our -- our
14 safety load in there, but we've created a methodology
15 to gradually run that number off as experience emerges.

16 So we don't think we should just leave
17 this load in there and then just ignore the prevailing
18 experience. But we do think that there is a risk here,
19 and we need to identify that -- that it is.

20 Is it a best estimate? Again, I don't
21 have -- I don't have a way of estimating the exact
22 number, but we think it's reasonable and we have a
23 process to -- to adjust for the experience that comes
24 in.

25 Based on that, we updated the -- our

1 factors for the latest information, and that was a \$10
2 million reduction. Similarly, we updated our loss
3 development assumptions for collision to make them more
4 reflective of the history. That was a \$2 million
5 reduction.

6 We -- there is a change in the selected
7 IBNR for weekly indemnity -- is that a note on here --
8 and that's 10 million, and similarly for accident
9 benefits, another 3 -- 3 million.

10 And these -- the last two (2) points are
11 -- are normal transitions based on the methods that we
12 -- we use. Sometimes they over or under -- understate
13 in this particular case their 13 million reduction.
14 All their changes were a million.

15 The -- for -- of the -- those are --
16 that's the majority of the favourable run-off. All
17 other impacts was a -- a negative three hundred
18 thousand dollars (\$300,000), approximately.

19 MS. CANDACE GRAMMOND: Thank you for
20 that, Mr. Johnston. Just a couple of follow-up
21 questions with respect to the chart on page 4 that you
22 just went through.

23 The two (2) items dealing with change in
24 a selected IBNR for insurance year, there's the one
25 that relates to accident benefits weekly indemnity, and

1 the other accident benefits other. And I think you
2 said this, but these are adjustments that are done
3 every year, is that right?

4 MR. LUKE JOHNSTON: Yeah. Sorry, I
5 should -- I should expand on that a little bit.

6 What we do in the first three (3)
7 accident years is we -- we essentially use a higher-of
8 method, we call it, and we look at the experience from
9 the incurred Bornhuetter-Ferguson method and the paid,
10 we'll call it "BF method". And we have been criticised
11 that this is conservative and I would argue that it's
12 not for the following reasons.

13 If case managers tell me that, you know,
14 put in a significantly higher rate of case reserves and
15 are indicating basically to me that this is a -- a
16 fairly significant loss year, I should probably
17 recognize that, you know, the relevance of the -- of
18 their case reporting and use -- the incurred method.
19 On the other hand, if I have low incurred and have a
20 significant amount of paid reported, I have very stable
21 pay-development factors that -- that I should also
22 consider.

23 Particularly in the first three (3)
24 years, the case managers don't really know the extend
25 of a claimants' injuries, so it's not clear whether the

1 paid or the incurred method is the most appropriate.
2 But if case -- again, if case managers are putting up
3 significant reserves in the incurred, I should
4 recognize it, I -- I -- I believe, and similarly with
5 paid.

6 After about three (3) years when we're
7 comfortable with the -- the estimates that the case
8 managers have used, then we convert basically to a
9 method that utilizes their -- their estimates. After
10 all that, this -- these last two (2) adjustments are
11 essentially the movement from going from those first
12 three (3) years where we use a higher-of method to
13 using the incurred method based on the case manager
14 information.

15 MS. CANDACE GRAMMOND: And, Mr.
16 Johnston, again, just with respect to those two (2)
17 changes relating to the selected IBNR, historically
18 have they been favourable or unfavourable run-off?

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: Yeah, I don't have a
23 history of how -- how that's all unfolded. We haven't
24 used this methodology for a long time. To date, it is
25 generally proven to be favourable, and that's somewhat

1 to be expected given that you're going from a higher-of
2 method to one (1) particular method.

3 I wouldn't -- if -- if we go through the
4 report -- I'll step back a bit. I'm obviously
5 concerned that there's such a big adjustment that
6 occurred in these numbers. If we go through the report
7 and we believe that we created assumptions that are all
8 on a best-estimate basis, and this is what the -- the
9 information tells us, you know, then I struggle with
10 why there's such a big difference between the two (2)
11 methods. But this is the reality.

12 I -- I wouldn't expect -- my expectation
13 going forward that -- would be that these numbers more
14 -- more converge, and are -- there's not such a
15 significant difference, but we'll continue
16 investigating that. It could have to do with changes
17 in how certain coverages are being reported. I know
18 under the new system it appears that claims are being
19 paid faster, and that's one (1) example of -- of why
20 perhaps we're using development factors that don't
21 maybe reflect the new reality. But we'll keep
22 investigating.

23

24

(BRIEF PAUSE)

25

1 MS. CANDACE GRAMMOND: Okay. Thank
2 you, Mr. Johnston. If we continue in the same document
3 and turn over the page to page 5, we see the
4 Corporation's answer at sub H to this question, wherein
5 the Corporation is talking about some of the changes
6 that have been made and its plans to continue to
7 monitor. And then it says in the last paragraph at sub
8 H that it's confident in the -- the valuations as of
9 February 29th, 2012.

10 Can you elaborate all on the level of
11 confidence that the Corporation has in these most
12 recent evaluation estimates?

13 MR. LUKE JOHNSTON: Yeah. As we've
14 discussed, most of the changes or concerns in -- in
15 this report has been around PIPP. I mentioned earlier
16 about how we changed our reserving methodology in 2005.
17 I'm very comfortable with the emerging experience
18 coming out of those changes.

19 We -- we do have an IR that -- that
20 shows clearly that the reporting has been much more
21 consistent under the new methodology. I do strongly
22 believe that we have selected best estimates based on
23 the available data that we have. I don't anticipate
24 any of those numbers changing significant.

25 I will say though that one example of

1 something that perhaps isn't -- isn't within my control
2 is the PFAD provision, for example. I did not go to
3 our new appointed actuary and ask for an increase in
4 the provision for the interest rate margin. Our
5 appointed actuary, however, made a -- I thought, a
6 fairly compelling case for why that margin should be
7 increased, and he asked that we increase it. And I
8 thought that was reasonable. That was the 33 mill --
9 million dollar change, and that's from a 0.25 percent
10 change in the assumed interest rate.

11 So that's a very significant change for
12 something that sounds like not that big of an
13 assumption, but I can't guarantee that, for example,
14 the -- the appointed actuary may decide that they no
15 longer need that PFAD that -- that they added last
16 year. That would be a significant change that could
17 happen that -- that -- it would largely be out of my
18 control.

19 MS. CANDACE GRAMMOND: Thank you. Just
20 shifting gears a little bit but still with respect to
21 claims liabilities, Ms. McLaren, when we were here on
22 Tuesday you had made a statement relative to the fact
23 that PIPP has been in place, or no fault has been in
24 place since 1994, that it'll probably take another
25 thirty (30) years or so until a steady state is

1 achieved and, you know, that would be about fifty (50)
2 years from the beginning of the program. I'm obviously
3 paraphrasing, but that -- that was basically your
4 evidence.

5 And -- and I don't know if this would be
6 answered by yourself or by Mr. Johnston, but can you
7 tell us in a fiscal year with no unusual or unexpected
8 events by approximately how much the claims liabilities
9 would grow due to the fact that PIPP has not yet
10 achieved a steady state?

11

12 (BRIEF PAUSE)

13

14 MS. MARILYN MCLAREN: Yeah, I mean, ba
15 -- basically what we're talking about here is the fact
16 that every year we have more new PIPP claims than we
17 have closed PIPP claims. So -- and if you consider
18 that, sorry, the average expected cost of PIPP claims,
19 claims incurred for PIPP in a given year at this point
20 is 150 million or so, the majority of that would be
21 added to the outstanding liability.

22 We would pay very little of that 150
23 million in a year. The only claims that you would
24 likely expect to have opened and -- and closed in one
25 (1) year when it comes to PIPP would be minor, minor

1 claims and -- and fatalities. So a good chunk of that
2 150 million, maybe as much as a hundred or maybe more
3 in a particularly year, would actually be added to the
4 accumulating liabilities.

5 And that's -- there's a reason I'm
6 giving that number, and not Mr. Johnston. That is not
7 an actuarially sound estimate. That is not necessarily
8 even a best estimate.

9 MS. CANDACE GRAMMOND: Okay, so we'll
10 work with the hundred million. Going forward, can
11 either of you give us an indication of approximately
12 how much of that growth would be attributable to growth
13 in the PFAD?

14 MS. MARILYN MCLAREN: No. I was
15 thinking in -- in the simplest terms of some -- some
16 large percentage of the total expected cost of the
17 claims, no -- certainly not at all in terms of the
18 PFAD. That -- that was not part of my thought process.

19 MS. CANDACE GRAMMOND: But if there was
20 growth in the claims liabilities, then wouldn't there
21 also be growth in the PFAD, all other things being
22 equal?

23 MR. LUKE JOHNSTON: Yes. Yeah. If
24 there's -- if there's growth in the un -- unpaid,
25 there'll be growth in the claims development PFAD, for

1 example, assuming it stays the same.

2 MS. CANDACE GRAMMOND: And would this
3 growth in the PFAD in any way be recognized in the
4 development of the rate indications that are in TI.19?

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: As -- as you know,
9 we -- we set rates by basically setting break even net
10 income in the rating period. So the incurred is
11 essentially all in of -- inclusive of all provisions.
12 So, essentially, the -- the impact of -- of the PFAD in
13 a given year would essentially be the change in our --
14 our provision in that -- in that particular year.

15 So -- so, yes, the -- because the
16 statement of operations includes actuarial numbers that
17 include PFAD, we're essentially balancing to break even
18 net income on that basis.

19

20 (BRIEF PAUSE)

21

22 MS. CANDACE GRAMMOND: Okay. So then
23 how is that recognized in the development of the rate
24 indication, meaning the growth and the PFAD?

25

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: I'm not totally
4 sure I understand the question, but if you're asking if
5 the change in the provision for adverse deviation going
6 forward is -- does impact the -- that income on the
7 statement of operations and therefore is implicit in
8 the rate -- rate setting, then -- then, yes, that's
9 true.

10 MS. CANDACE GRAMMOND: I think what
11 we're asking is relative to the growth in the PFAD that
12 relates to the fact that PIPP is continuing to escalate
13 into a steady state, if that's not specifically
14 recognized somewhere in TI.19, then is there a
15 practical consequence of that on the income statement
16 in terms of the breaking even over a two (2) year
17 period?

18

19 (BRIEF PAUSE)

20

21 MS. MARILYN MCLAREN: Let -- let me try
22 it this way, it may not help at all, but -- but let me
23 try it this way. The outstanding claims liabilities
24 have -- grow every year, and part of that is a
25 provision for adverse deviation.

1 So you have this growing amount of
2 money, which is fully funded by a growing amount of
3 investments to -- to fund those liabilities and the
4 rates that we set each year are really just intended to
5 cover the cost of every single claim that happens in
6 that year.

7 So every year im -- implicit, or
8 explicit, I'm not sure enough about Mr. Johnston's
9 processes that we -- inherent, included in the claims
10 incurred that we forecast is a consideration for -- I
11 don't think of it as much as PFAD as I do IBNR.

12 Every year, you know, there is sort of
13 the totally expected claims, and then you have a
14 provision for the ones that'll come late or that will
15 grow beyond what you expected. That's all inc --
16 included in the claims incurred. So on an annual basis
17 the claims incurred in the claims forecast is really
18 just for that one (1) year period that we were talking
19 about before.

20 The fact that you have this growing
21 liability was in effect -- is pre-funded, right, I
22 mean, we charge rates to cil -- to cover claims that we
23 won't make the final payment on sometimes for fifty
24 (50) or sixty (60) years and it's funded, investments
25 are there as well.

1 So the fact that that is growing, the
2 liabilities are growing and the PFAD is growing doesn't
3 have a huge effect on one (1) year's worth of rates. I
4 don't know, maybe -- did that help at all?

5 MR. LUKE JOHNSTON: We do als -- we do
6 have projections of the PFAD level in the tables to
7 TI.17. So for weekly indemnity or accident benefits,
8 other index, you could -- you can see what we're
9 anticipating the -- this provision to grow by over time
10 and -- and yes, that is in -- included in the
11 incurreds.

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE GRAMMOND: Mr. Johnston,
16 relative to the answer that you just gave, can you tell
17 us how that approach is consistent with what Section
18 2600 requires, in terms of best estimate?

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: Can you just repeat
23 the question for me, please, just to make sure I
24 understand?

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Okay. If I --
4 if we understand your evidence correctly, your evidence
5 was that TI.17 includes tables that document the
6 expected growth in PfAD.

7 So how is that consistent with what
8 Section 2600 requires, in terms of best estimate?

9 MR. LUKE JOHNSTON: Okay. What I
10 understand you're -- you're getting at is why -- why
11 does the rate -- why would the rate include a PFAD if
12 it was as per Section 2600. The -- there's no question
13 that all the forecasts in -- of -- of the rate-setting
14 are on a best-estimate basis; however, the rules in
15 this province say that we set rates based on break-even
16 net income in the rating period. That includes all
17 items that float through the statement of operations,
18 and that's how we determine our overall rate indicator
19 here in this -- in this province for MPI.

20 It -- the fact that we determine the
21 overall rate change that way I don't think implies that
22 I'm not following, you know, accepted actuarial
23 practice for creating best estimates for rate-making
24 purposes.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Okay. Thank
4 you. Okay. Moving then to current fiscal year
5 evaluations, let's talk a little bit about the first-
6 quarter review. Of course, the Corporation has filed
7 its first-quarter report for current fiscal year. Can
8 you tell us about whether any evidence of favourable or
9 unfavourable run-off of claims liabilities was found in
10 connection with the first-quarter review?

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: I apologize. I
15 don't know the exact numbers, but I can undertake to
16 provide those for you. I -- there was not, though,
17 significant favourable development. I do know that.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE GRAMMOND: Thank you for
22 advising that there was favourable run-off, and we
23 would take that undertaking that the number will be
24 provided.

25

1 --- UNDERTAKING NO. 3: MPI to provide the numbers
2 for run-off of claims
3 liabilities from first-
4 quarter review, as well as
5 the results of the first-
6 and second-quarter reviews
7

8 MR. LUKE JOHNSTON: Yeah. I don't -- I
9 -- just to clarify, I don't believe there was any
10 significant favourable runoff, but we'll get you those
11 numbers.
12

13 CONTINUED BY MS. CANDACE GRAMMOND:

14 MS. CANDACE GRAMMOND: Thank you. Can
15 you tell us, in terms of the first-quarter review, what
16 level of rigour was applied in the selection of methods
17 and assumptions?

18 MR. LUKE JOHNSTON: When we do the
19 internal actuarial reviews, which are not reviewed by
20 the appointed actuary, we -- we have to obviously
21 recognize the selections that we've agreed to with the
22 appointed actuary in the -- in the previous review, and
23 we have to feel pretty strongly to -- to change them
24 given that, again, we just agreed upon these
25 assumptions as recently as February.

1 So you have seen in previous internal
2 reports where we've identified a particular issue and
3 made an adjustment for it, but unless we see a fairly
4 material indication that our assumptions are invalid we
5 typically leave the assumptions unchanged from the
6 February actuarial report. But of course the emerging
7 experience is -- is recognized by a applying the -- the
8 existing assumptions to it.

9 MS. CANDACE GRAMMOND: And is the
10 process relative to the first-quarter review this year
11 similar to the review for a first-quarter that have
12 been done in past years?

13 MR. LUKE JOHNSTON: Yes.

14 MS. CANDACE GRAMMOND: Can you tell us
15 what's planned in connection with the second-quarter
16 review in this regard, and -- and also when the second-
17 quarter results are expected?

18

19 (BRIEF PAUSE)

20

21 MR. LUKE JOHNSTON: I can give you the
22 results of the first and second quarter reviews are
23 part of the undertaking.

24 MS. CANDACE GRAMMOND: And again with
25 respect to the second-quarter review, is the approach

1 being taken this year the same to -- as it was in
2 previous year?

3 MR. LUKE JOHNSTON: Yes, that's
4 correct. And basically as -- the same as described for
5 the first quarter.

6 MS. CANDACE GRAMMOND: Thank you.
7 Okay. I'm going to ask you to turn to Tab 27 of the
8 book of documents. This is PUB/MPI-1-19 and, Mr.
9 Chairman, I can indicate I have a few questions about
10 this. And probably by the time I'm done it'll be 4:00
11 and then we'll -- I'll start on another section
12 tomorrow.

13 So this IR deals with the Bornhuetter-
14 Ferguson method, and what we'd ask is that you discuss
15 the -- the basic concepts that underlay the
16 Bornhuetter-Ferguson methodology. Okay, I'll just be
17 calling it BF from now on.

18 MR. LUKE JOHNSTON: Yes, thanks for
19 converting to the abbreviation before I had to say it.
20 Yeah, before I describe the -- the BF method, there --
21 there's really I guess five (5) methods we use to
22 calculate IBNR, or ultimate loss costs.

23 We have a incurred-development
24 methodology, and that looks at the reported incurred
25 losses and essentially how they grow through time. And

1 we used the historical growth patterns to predict how
2 the future claims will develop. There's also a paid
3 methodology that does essentially the same thing,
4 except with paid losses.

5 Another way of -- of predicting
6 ultimates would be -- or sorry, of predicting ultimate
7 claims costs would be to use just a pure loss ratio
8 method and to look at history and say, Historically our
9 loss ration has been 60 percent, so let's just assume
10 that this year's loss ration is going to be 60 percent.

11 The BF method essentially is --
12 considers both the -- the development technique that I
13 previously described and the loss ratio method. And
14 essentially in the early stages of a claim of an
15 accident year, it gives more weight to a loss ratio
16 type estimate of claims because we don't have a lot of
17 information yet about this claimants. So, it makes
18 sense to look at historical losses.

19 As the -- the particular claim year
20 develops, we start knowing a lot more about this
21 particular year of claimants and the -- the development
22 approach becomes more and more applicable.

23 The -- the BF method, essentially,
24 weights the -- is a weighting between the -- the loss
25 ratio method and this development method. And that's -

1 - that's basically it.

2 MS. CANDACE GRAMMOND: Thank you. So
3 would it be fair to say that, at least in part, the
4 basis for setting the BF expected loss ratio
5 assumptions involves trend assumptions that are derived
6 from fitting regressions to estimated ultimate loss
7 amounts based on another methodology, at least as MPI
8 has applied it?

9

10 (BRIEF PAUSE)

11

12 MR. LUKE JOHNSTON: Yeah, I'm not
13 totally sure I -- I understand the question, but, yes.
14 Like if -- if you're saying, essentially, to look at
15 prior ultimate loss and -- and trend them and use all
16 or an average of those particular losses to develop a
17 loss ratio, then -- then, yes, I -- I agree.

18 MS. CANDACE GRAMMOND: Yes, that's what
19 we're saying. Okay, so we -- we're at Tab 27 in the
20 book of documents, PUB/MPI-1-19.

21 Can you discuss with -- with reference
22 to the answer here the statistical and predictive
23 strength of the fitted trends derived for accident
24 benefits 'Other' indexed?

25 MR. LUKE JOHNSTON: I'm referencing the

1 second last page of this Tab 27. And if you'd just
2 look at the ultimate losses from the incurred and paid
3 development approaches, they're fairly flat over time,
4 fit a regression line through these -- through this
5 history, and you get a fairly weak relationship, 'R'
6 squareds of about point three (.3) or point two (.2),
7 neither -- neither indicating a very strong
8 relationship but -- but some.

9 MS. CANDACE GRAMMOND: And so what were
10 the fitted annual trends?

11

12 (BRIEF PAUSE)

13

14 MS. CANDACE GRAMMOND: Would it have
15 been .60 -- or .63 percent on an incurred basis and .28
16 percent on a paid basis?

17

18 (BRIEF PAUSE)

19

20 MR. LUKE JOHNSTON: Yes, the -- the
21 paid -- I got paid -- the paid trend was zero point
22 five four (0.54) and the -- the incurred was zero point
23 seven-seven (0.77). I'm not sure if those are the ones
24 you quoted, but...

25 MS. CANDACE GRAMMOND: That -- we -- we

1 accept that. Thank you.

2 And how do those numbers compare to the
3 selected annual trend assumptions?

4

5 (BRIEF PAUSE)

6

7 MR. LUKE JOHNSTON: Pardon me. The --
8 we basically selected the incurred trend and we rounded
9 the indicated number to -- to the -- to 1 percent.

10 MS. CANDACE GRAMMOND: And what was the
11 basis for the selected annual trend assumption of 1
12 percent?

13 MR. LUKE JOHNSTON: The -- the incurred
14 trend of zero point seven seven (0.77) was essentially
15 just rounded to 1 percent.

16 MS. CANDACE GRAMMOND: Now -- so
17 basically it was a judgement adjustment?

18 MR. LUKE JOHNSTON: Yeah. I guess we -
19 - we could have selected zero point seven seven (0.77).
20 We just -- just decided to -- yeah, judgmentally round
21 to one (1).

22 MS. CANDACE GRAMMOND: Okay. Now, if
23 one considers the underlying trends for "accident
24 benefits other indexed" to be relatively weak, how
25 sensitive are the valuation results to this trend

1 selection?

2

3

(BRIEF PAUSE)

4

5

MS. CANDACE GRAMMOND: Maybe if I can
6 just be of some assistance. My next question was going
7 to be if perhaps you could provide by way of
8 undertaking a comparison with supporting documents of
9 the selected ultimate loss amounts by accident year and
10 in total for "accident benefits other indexed" from the
11 valuation as at February 2012, versus those which would
12 result from using a zero percent trend assumption, all
13 other things being equal.

14

MR. LUKE JOHNSTON: Yeah, that wouldn't
15 be helpful. It's hard for me to -- to grasp the exact
16 impact without that, yeah.

17

18

--- UNDERTAKING NO.4: MPI to provide a comparison
19 with supporting documents
20 of the selected ultimate
21 loss amounts by accident
22 year and in total for
23 "accident benefits other
24 indexed" from the valuation
25 as at February 2012, versus

1 those which would result
2 from using a zero percent
3 trend assumption

4
5 MS. CANDACE GRAMMOND: Great. So thank
6 you for giving us that undertaking.

7 Mr. Chairman, it is four o'clock. I am
8 moving into a different section of the actuarial
9 nature, so if this would please the Board, we could
10 adjourn for the day.

11

12 (PANEL RETIRES)

13

14 THE CHAIRPERSON: Are there any
15 logistical matters to attend to before we adjourn?

16 MS. CANDACE GRAMMOND: I don't think
17 so. We're having Ms. Ruth come tomorrow --

18 THE CHAIRPERSON: Yes.

19 MS. CANDACE GRAMMOND: -- right after
20 lunch. We're starting tomorrow at 9:30. I'll continue
21 with some actuarial topics tomorrow morning. I'm about
22 not quite two-thirds (2/3s) of the way through the
23 actuarial stuff.

24 Those are the only matters that I'm
25 aware of, Mr. Chairman.

1 THE CHAIRPERSON: Then let's adjourn
2 until tomorrow morning at 9:30. Thank you very much,
3 everyone.

4

5 --- Upon adjourning at 4:00 p.m.

6

7

8

9

10 Certified correct,

11

12

13

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15

16 _____

17 Wendy Warnock, Ms.

18

19

20

21

22

23

24

25

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