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

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Pages 308 to 503

APPEARANCES

Candace Grammond	)Board Counsel
Kathy Kalinowsky	)MPI
Byron Williams	)CAC
Raymond Oakes	)CMMG
Liz Peters	)CAA

TABLE OF CONTENTS

LIST OF UNDERTAKINGS

--- Upon commencing at 9:30 a.m.

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

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

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

And finally I'd like to advise that on Tuesday afternoon because of a personal matter, we -- the Board will adjourn early for the day. It's my intention to -- to start at 9:30 as usual, and finish at approximately 1:00. And we would resume proceedings the Wednesday. So I ask for your forbearance in that matter, but it's one of the things that could happen from time to time as part of these hearings.

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

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

MPI PANEL:

MARILYN MCLAREN, Resumed
HEATHER REICHERT, Resumed
LUKE JOHNSTON, Resumed

CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

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

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

MS. MARILYN MCLAREN: Yes.

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

MS. MARILYN MCLAREN: Yes.

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

MS. MARILYN MCLAREN: Yes.

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

MS. MARILYN MCLAREN: Yes.

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

Is that right?

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

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

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

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

MS. CANDACE GRAMMOND: Thank you. And I do want to get into a little bit of detail with respect to that. So there's a document at Tab 2 of the Board's book of documents. This is the -- the bound, thick book that we filed yesterday. If we go to the second tab, Tab 2, we should see an excerpt from the filing SM-3.2. And if everyone's at Tab 2, SM-3.2, I'd ask them to turn to the second page of that tab, which is actually page 4 at the bottom. And I'm just going to have a few questions for the -- the MPI panel about this page.

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

Is that right?

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

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

MR. LUKE JOHNSTON: Okay, so, as you can see, there's a table at the top of this page. And it shows the -- the vehicle count, the average rate we're currently charging, the proposed average rate based on the experience that we've added in the last year. And then there's an indicated and an experience rate change.

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

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

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

For commercial vehicles, their -- their

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

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

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

Motorcycles, we really saw no significant change in their expected claims from adding another year of experience, nor do we see any big changes in their average premiums. So we saw no -- almost no change at all to their rates.

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

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

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

THE CHAIRPERSON: Can I ask a few questions?

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

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

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

THE CHAIRPERSON: Okay.

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

THE CHAIRPERSON: Right.

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

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

(BRIEF PAUSE)

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

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

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

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

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

CONTINUED BY MS. CANDACE GRAMMOND:

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

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

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

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

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

Is that right?

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

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

MR. LUKE JOHNSTON: Correct.

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

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

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

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

MR. LUKE JOHNSTON: That's correct.

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

Is that right?

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

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

MR. LUKE JOHNSTON: Correct.

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

So we see the -- the very first one on the list is a GMC truck that it looks like would be going up by about a hundred and fifty dollars ($150), from eight hundred and twenty-six (826) to nine hundred and seventy-seven (977). Is that right?

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

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

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

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

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

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

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

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

MS. CANDACE GRAMMOND: Thank you.

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

MR. LUKE JOHNSTON: So when we get --

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

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

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

THE CHAIRPERSON: So --

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

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I've asked Mr. Johnston to find the graph that shows the relationship between our costs and the actual rate groups for all of those thirty-five (35) rate groups for passenger vehicles. Re -- remembering that we have, you know, well over half a million private passenger vehicles in Manitoba, that's still nowhere near enough to assess ourselves the individual risks that those different makes, model, model years bring to the system.

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

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

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

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

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

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

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

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

(BRIEF PAUSE)

THE CHAIRPERSON: What volume is that in again?

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

(BRIEF PAUSE)

THE CHAIRPERSON: Okay.

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

So to simplify it, if -- if we had a -- required an average rate of a thousand dollars, rate group 14 would pay a thousand dollars, and rate group zero would pay about 56 percent of a thousand dollars, at five hundred sixty dollars ($560).

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

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

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

So what we do is we actually look at our composition of coverages and we calculate our own MPI rate group by weighting the -- the -- the rate groups we get from CLEAR. So for example, if -- if physical damage, 80 percent of our losses in Manitoba are from collision, we'll give 80 percent weight to the rate group we get from CLEAR for collision and -- and the remaining to comprehensive.

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

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

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

MS. MARILYN MCLAREN: Every vehicle has to make a contribution to funding no-fault benefits, and a beater that's about to be written off has every potential to do as much serious damage to people, to individuals, as, you know, a brand new BMW. So when you can -- when you look at the relationship between our loss costs per rate group, we're confident in saying Manitobans are paying the right amount.

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

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

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

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

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

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

Do you want to add any...?

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

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

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

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

Saskatchewan, a few years back, started to use a modified version of CLEAR. They had some policy considerations beyond the statistical considerations that -- that took them down that road. They had a mandate for quite some time that -- that no rates should change.

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

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

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

(BRIEF PAUSE)

MS. MARILYN MCLAREN: He doesn't have

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

CONTINUED BY MS. CANDACE GRAMMOND:

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

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

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

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

MR. LUKE JOHNSTON: I -- I can -- I can't comment on the -- the fine details of the -- of the rate group, but it could -- it could involve anything from an increase in their expected accident benefit costs, or -- or comp or collision for that matter. We could -- we could look at that in more -- in more detail, but I don't know what specific component of the rate group received the increase.

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

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

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

(BRIEF PAUSE)

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

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

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

(BRIEF PAUSE)

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

MR. LUKE JOHNSTON: That would generally be because the -- the actual value of the -- of the vehicle declines. Repairs might not necessarily decline, but -- but definitely in the early stages the -- the market value of the vehicle in a total loss would be significantly reduced in the first five (5) to ten (10) years.

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

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

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

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

MS. CANDACE GRAMMOND: The other thing, and -- and I know that this is on the record but just because we're having this conversation about the CLEAR rate groups we should probably say it, is that when MPI receives the rate group data from CLEAR there are, in fact, 99 rate groups which MPI translates into the 35 rate groups that we have at TI.1?

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

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

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

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

And we believe, in --- in the interest

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

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

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

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

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

And the -- the legislative principle

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

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

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

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

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

MS. MARILYN MCLAREN: That's right.

THE CHAIRPERSON: Could I explore that a little bit? In terms of the impact of such a policy decision, the -- obviously, the cost to the -- to the driver would be lower because they wouldn't have to cov -- provide -- pay for that coverage.

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

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

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

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

So I think those are -- I guess the best I can say is in terms of understanding what the impact may or may not be, ICBC might be something to look at.

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

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

CONTINUED BY MS. CANDACE GRAMMOND:

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

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

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

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

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

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

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

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

MS. CANDACE GRAMMOND: Would the capping rules that we've referred to be a factor there as well?

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

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

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

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

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

MR. LUKE JOHNSTON: Correct.

MS. CANDACE GRAMMOND: Now, I -- I

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

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

(BRIEF PAUSE)

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

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

So we think we'll be in a pretty good

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

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

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

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

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

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

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

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

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

Can you comment on the rationale for that particular proposal?

MR. LUKE JOHNSTON: As we discussed

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

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

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

So every year since 2010, since implementation of DSR, every Manitoban has received a renewal notice that had -- had the scale and had messaging, talked about the fact that, you know, that -- that there -- that with the support of the PUB, we would anticipate having higher surcharges, that we were heading this direction.

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

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

So that has taken place. There's been no real reaction or backlash. And I think that the -- the panel can take comfort that this will not be new information, that people will have had adequate notice and adequate time to really understand the -- the growing impact of risky driving behaviour and had the opportunity to change their behaviour, leading up to this last -- last implementation of higher surcharges.

MS. CANDACE GRAMMOND: Are --

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

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

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

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

Tho -- those are two (2) really diametrically opposed thoughts, because for the most part, except for the tiny, tiny single-digit number of people exceptions, there's not a whole bunch of people out there crashing into each other over and over. Most of the accidents are caused by good drivers who screw up once in a very, very long period of time. So you can't really have it both ways.

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

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

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

THE CHAIRPERSON: Now, pursuing that a

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

MR. LUKE JOHNSTON: For an accident, yes.

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

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

MS. MARILYN MCLAREN: For sure, but even in that case it's, you know, sixty-five dollars ($65) a year, like spread over twelve (12) months, twelve (12) easy payments. We have payment plans. And they lose a 10 percent discount, again, which is, you know, it -- it's -- average rate being around eight hundred dollars ($800), that's another eighty dollars ($80). So I mean, if the eighty (80) plus sixty-five (65), it's a little bit more than ten dollars ($10) a month.

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

THE CHAIRPERSON: Pursuing this again a little bit further, I mean, the thing that concerns me personally is the -- the fact that somebody will get an acc -- somebody's been driving for some time -- length of time, gets in an accident, a minor accident. And what that person typically do, will say, Okay, it's going to cost me twenty-five hundred dollars ($2,500) to fix my car. And -- and my -- you know, if I -- if I make a claim I will get a higher -- my insurance will cost me more, my licence will cost me more, ergo I'm going to -- I'm going to do this myself.

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

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

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

The other piece of it, because registration and insurance in this system are so inextricably linked, we need to be sure that people are complying with the law with respect to reporting accidents, reporting collisions, but that's -- and those are -- you know, I mean the -- the law as it stands in terms of reporting accidents really requires serious accidents to be reported.

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

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

CONTINUED BY MS. CANDACE GRAMMOND:

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

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

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

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

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

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

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

(BRIEF PAUSE)

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

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

What's the rationale behind that approach?

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

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

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

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

THE CHAIRPERSON: So in terms of from one (1) year to the next, what's happened to that median? Is it -- you've got the two (2) year data there -- two (2) years of data or...?

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

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

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

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

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

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

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

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

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

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

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

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

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

Because you get one (1) merit for every year of clean driving behaviour, most people get their licences when they're sixteen (16). You've got to be at least thirty-one (31) to be in fifteen (15). So we really need to understand movement with a few -- few more years behind us.

CONTINUED BY MS. CANDACE GRAMMOND:

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

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

You know, we don't want people choosing to not be part of the system, choosing to drive unlicenced because it's a ten thousand dollar ($10,000) top end of the demerit surcharges even though they have that many demerits. Somebody somewhere, a judge or a magistrate or something, has still given them the legal right to drive.

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

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

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

MS. MARILYN MCLAREN: I suspect the registrar has information about the number of active suspensions or prohibitions at any particular time. We certainly don't have any information as to anything more pertinent on any sort of individual basis.

(BRIEF PAUSE)

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

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

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

(BRIEF PAUSE)

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

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

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

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

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

So as of last year, we were solely

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

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

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

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

(BRIEF PAUSE)

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

That said, you are -- you are correct that conviction frequency has increased fair -- fairly substantially close to the beginning of the DSR program. And when we were doing our research, convictions were a lot lower. We've tried to make an adjustment to reflect today's expected conviction rate. But if you go to TI.18, page 15, for -- for example. Minor convictions in '06/'07 were sixty-two thousand (62,000), and in '11/'12 they were seventy-five thousand (75,000). So that's a pretty big increase in conviction counts.

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

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

Is that right?

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

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

Is that right?

MR. LUKE JOHNSTON: Yes, that's

correct.

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

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

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

MS. MARILYN MCLAREN: That's right.

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

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

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

MS. MARILYN MCLAREN: Exactly. And again maybe just for clarity for the new members and for -- for the record, there is -- both the -- the schedule that says an at-fault accident moves someone five (5) points on the DSR scale and all the list of convictions -- there -- there are con -- there are Highway Traffic Act convictions that don't show up on that schedule at all.

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

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

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

(BRIEF PAUSE)

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

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

--- Upon recessing at 10:55 a.m.
--- Upon resuming at 11:07 a.m.

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

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

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

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

MS. KAREN BOTTING: So subsequent to

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

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

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

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

MS. KAREN BOTTING: Okay. Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

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

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

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

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

Is that right?

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

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

THE CHAIRPERSON: Can I ask a question, a related question? In respect of somebody who has a parent who is aging and the, you know, the chi -- the child or the -- and the child is concerned about the parent's ability to drive, is there a -- a way in which that person can make you aware that there's a concern?

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

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

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

CONTINUED BY MS. CANDANCE GRAMMOND:

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

Can you tell us a little bit about that?

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

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

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

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

(BRIEF PAUSE)

MS. MARILYN MCLAREN: The data is

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

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

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

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

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

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

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

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

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

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

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

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

(BRIEF PAUSE)

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

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

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

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

So it's quite -- quite a significant

difference.

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

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

(BRIEF PAUSE)

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

CONTINUED BY MS. CANDACE GRAMMOND:

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

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

(BRIEF PAUSE)

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

Is that right?

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

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

It assumes no changes after the year of the application?

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

MS. CANDACE GRAMMOND: And that was going to be my next question. It's the -- when we look at the -- the Corporation's projections into the future, when we see revenue increasing over time, that's due to the -- the volume and upgrade factors that you've mentioned?

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

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

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

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

MS. MARILYN MCLAREN: If I could, Ms. Grammond, since we're talking about outlook and revenue and rate requirements, might this be an opportune time to direct the panel to TI.15A? If -- if -- it's in volume 2, Tab TI.15.

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

MS. MARILYN MCLAREN: Okay.

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

MS. MARILYN MCLAREN: Sure.

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

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

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

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

You'll see how they increase from seven ninety-two (792) -- 792 million in '13/'14 up as high as 910 million in the outlook year of 2016/'17. If you go down to the next major -- second -- net premiums written, skip over total earned revenues, and go to net claims incurred category, the three (3) -- the third big block of numbers, you'll see that our -- our claims costs are also expected to increase by almost $100 million over that period, both for replacement parts on automobiles, though the increases in replacement parts consistently run well above regular consumer inflation, and as do health care costs.

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

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

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

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

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

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

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

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

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

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

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

MR. LUKE JOHNSTON: That's correct.

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

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

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

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

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And, Mr. Johnston, I do have some questions about the -- the shift in -- that the Corporation has taken, in terms of including HTA units or -- or not. And just before we get to that I'll ask you to go to tab 21 of the Board's book of documents. This is where we have an IR that relates to volume factor and upgrade factor.

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

Is that right?

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

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

Is that right?

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

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

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

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

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

(BRIEF PAUSE)

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

MS. CANDACE GRAMMOND: That's at tab 15 of the Board's book of documents? Yeah. No, tab 15, sorry. The -- you can go to TI.18 if you want, but it's probably just faster if you flip back to Tab 15. And page 6 that Mr. Johnston's referring to is the third page in.

(BRIEF PAUSE)

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

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

We've clearly seen some -- some higher growth rates in the last few years, so we decided to move it up to one point seven five (1.75). And -- and we really just decided to round to a quarter percentage point. That's -- that's the only reason for one point seven five (1.75) instead of one seventy-two (172), for example.

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

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

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

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

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

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

Do you -- are you with me so far?

MR. LUKE JOHNSTON: Yes.

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

(BRIEF PAUSE)

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

In the TI.15A at Tab 21, that number has increased to 800 million.

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

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

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

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

If we go back to the historical chart with respect to upgrade factor, which is at tab 21, this is the first page of tab 21, we see that historically what's happened with upgrade factor is sort of the opposite of what had happened with volume factor. In upgrade, the projections and actuals were generally different except for one year but in the other direction.

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

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

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

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

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

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

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

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

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

(BRIEF PAUSE)

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

MS. CANDACE GRAMMOND: Now, you had taken us to TI.18 with respect to volume factor. I'll ask you to go there for upgrade. This time it's page 9. So this is back to tab 15, and the pages are numbered at the bottom. It's -- it'll be the fifth (5th) page in, which is numbered page 9.

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

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

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

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

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

MS. CANDACE GRAMMOND: What's the basis for that belief? Just the fact that it's -- it's gone down in '09, '10, and '11?

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

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

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

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

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

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

MR. LUKE JOHNSTON: Yeah. I think it -- it'd be hard to deny that there's a trend happening here. But at the same time I -- I don't think it'd be reasonable to just assume that this is going to continue that way. So the --this is a good example of where just fitting a line to the -- the history isn't necessarily the best option.

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

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

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

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

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

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

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

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

Upgrade is not quite as clear, how the -

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

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

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

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

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

MR. LUKE JOHNSTON: That's correct.

MS. CANDACE GRAMMOND: And those two (2) classes represent about 21 percent of units, but only 1 percent of premium dollars.

Is that right?

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

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

MR. LUKE JOHNSTON: That's correct.

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

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, so the -- the combination of volume and upgrade this year compared to the -- the numbers that we forecasted last year is approximately half a percentage point.

So that compounds as -- as time passes. So in the -- as we previously described, 1 percent is about 8 million dollars of rate. So if you have half le -- like half a percent less growth, that's about 4 million dollars. Compound that another year it grows to eight (8), another year it grows to twelve (12). And that's -- that's the -- the basis of -- of these numbers.

MS. CANDACE GRAMMOND: So just following on that then, if this change in calculating the forecasts leads to 22 million less dollars -- so I'm adding your 8 million and your 14 million over the next two (2) years, then that's equivalent to roughly a 3 percent rate change.

Do I have that right?

MR. LUKE JOHNSTON: No, if -- in one (1) particular year if you change rates by 1 percent you'll get a -- a perpetual reduction in -- in the -- of the 8 million. And -- but then, yeah, the -- the incremental amounts that are being added, essentially you'd just have to keep decreasing rates by -- by half a percent each year, like that idea.

MS. CANDACE GRAMMOND: Now, if the Corporation hadn't made these changes with respect to how it is projecting the volume factor and upgrade factor, that is if the HTA units were still -- or sorry, the non-HTA units were still included in the analysis, would it be fair to say that the Corporation would be fair to say that the Corporation would be seeking a rate decrease?

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

(BRIEF PAUSE)

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

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

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

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

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

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

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

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

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

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

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

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

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

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

Can you describe that rate model method?

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

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

MS. CANDACE GRAMMOND: So would it be

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

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

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

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

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

(BRIEF PAUSE)

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

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

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

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

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

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

THE CHAIRPERSON: Thank you. Go ahead.

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

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

(BRIEF PAUSE)

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

So if we were to get, like I mentioned, more new vehicles than we expected, well, these new vehicles have actuarially sound rates. The premium would be higher. But, of course, we'd also expect higher claims from these newer vehicles.

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

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

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

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

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

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

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

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

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

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

MS. CANDACE GRAMMOND: For sure. When we say that the standards, the actuarial standards -- including this new one, Section 2600 -- apply to the work that you're doing in connection with the GRA, would you say that it applies only to the work under the financial forecast method, or would you say that it also includes the rate indications under the exponential and linear forecast methods?

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

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

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

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

MS. CANDACE GRAMMOND: Now it's my understanding that the phrase "best estimate" that we've been using is defined in the standards of practice as, quote, "Without bias, neither conservative nor unconservative," end quote.

Would you agree, subject to check if you wish?

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

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

MR. LUKE JOHNSTON: Yes, I agree.

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

MR. LUKE JOHNSTON: Yes, I agree.

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

MR. LUKE JOHNSTON: I agree.

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

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

(BRIEF PAUSE)

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

Does that sound fair to you?

(BRIEF PAUSE)

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

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

What I'm suggesting is that because AI.10 includes the provision for adverse deviation, or the PFAD, that perhaps that section really isn't on a best-estimate basis and maybe that the section wouldn't apply.

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

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

(BRIEF PAUSE)

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

MR. LUKE JOHNSTON: Yes, I confirm that.

MS. CANDACE GRAMMOND: Now, I understand that Section 2600 of the standards has a reporting requirement for external use -- user reports regarding rate indications, including standard reporting language.

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

(BRIEF PAUSE)

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

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

(BRIEF PAUSE)

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

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

And if yes, can you direct us to it?

MR. LUKE JOHNSTON: It does not include that particular language. It -- it -- the only reference that I have here is on SM.1.2 -- 1.2.A, which simply states that the Corpor -- Corporation's rating approach is based on actuarial principles.

(BRIEF PAUSE)

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

Would that be fair to say?

(BRIEF PAUSE)

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

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

(BRIEF PAUSE)

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

MS. CANDACE GRAMMOND: Okay. Thank you. I'm going to move, then, to some questions about claims incurred and forecasting accuracy. So I'm going to ask you to go to Tab 4 of the book of documents. What you'll find at Tab 4 is TI.4, or part of TI.4. That was included in the filing.

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

(BRIEF PAUSE)

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

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

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

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

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

(BRIEF PAUSE)

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

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

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

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

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

MR. LUKE JOHNSTON: That's correct, and that -- that would -- our revised forecast for this year would be the '12/'13 year, so the rates have already been set for that year. But, of course, we still make a forecast for '12/'13.

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

MR. LUKE JOHNSTON: That's correct.

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

(BRIEF PAUSE)

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

And the main reason for the difference

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

(BRIEF PAUSE)

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

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

But in general, there seems to be a fairly kind of two (2) sided -- it's a sometimes over/sometimes under relationship.

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

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

(BRIEF PAUSE)

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

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

For collision comprehensive property

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

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

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

As we've discussed in our application, the -- the big decreases that you're seeing or the big differences that you're seeing here with the PIPP program are essentially required for us to improve this pattern you're seeing on the sheet in front of you. We have been -- our actual has been lower than our forecast consistently throughout this whole period. In order to improve our forecasts going forward, we need to, of course, reduce or improve our estimates so that, going forward, we can have a -- we can show a much more consistent relationship between actual and forecast.

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

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

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

You can see now in '12/'13 how substantially the PIPP forecast has come down now that we've made the changes that we have to the claim liabilities and the PIPP forecast. It's down to 203 million and a revised forecast at two-o-four (204), so almost -- not almost. About a $50 million decrease from what we were forecasting just into '11/'12.

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

(BRIEF PAUSE)

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

There -- obviously if we -- if we didn't think that we needed to -- to make a $300 million change to make the policy liabilities best estimates, we -- we wouldn't have made it. So we've -- we think we now have policy liabilities on a best-estimate basis, as we've outlined in our Application, which essentially should fix -- fix this issue going forward.

(BRIEF PAUSE)

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

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

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

MS. MARILYN MCLAREN: So treading into a little bit of dangerous territory here, given that I'm not an actuary, and to go back to your init -- original question about the systemic bias, right, with hindsight, I think we've pretty much acknowledged if we knew then what we know now, we would have had different forecasts probably back in about '08 or '09, at least.

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

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

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

MS. CANDACE GRAMMOND: Thank you.

THE CHAIRPERSON: Since we're on the topic of estimates, I'm particularly intrigued by page 2 of 6 in the same tab. I guess this addresses claim severity. And just a simple count of the number of ov -- underestimates relative to the projections was eight (8) out of nine (9) were overestimated relative to actual.

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

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

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

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

So, yeah, as I -- as I mentioned, we're -- because those numbers were overstated, we had this kind of perpetual process of over-forecast. We then review our liabilities, find out that this new claims experience was showing that it wasn't as high as we originally thought, we'd release some more money out of that, so we'd have a double-whammy of over-forecasting and reducing our expected costs at the same time.

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

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

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

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

You had drawn the Board's attention to the 2011 -- or, pardon me, 2010/'11 year and the -- the large downward adjustment that was made for PIPP in that year. Just in terms of terminology so that we're clear, that would also be referred to as a release.

Would that be fair?

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

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

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

(BRIEF PAUSE)

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

(BRIEF PAUSE)

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

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

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

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

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

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

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

(BRIEF PAUSE)

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

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

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

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

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

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

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

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

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

(BRIEF PAUSE)

MS. MARILYN MCLAREN: The financial

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

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

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

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

and our analytical accounting and analytical resources.

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

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

(BRIEF PAUSE)

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

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

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

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

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

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

In a different IR -- and it's not in the book; I can give you the reference if -- if you'd like -- the Corporation has stated that the exponential and linear methods serve only as benchmarks. And in the same IR, the Corporation provided details of the regression fit statistics for the various exponential and linear forecasts by coverage, many of which didn't seem to perform so well.

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

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

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

(BRIEF PAUSE)

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

The -- the linear and exponential relationship are -- are obviously alternate views, and sometimes it's appropriate to use a linear or exponential line. You'll note in our PIPP forecasts this year that we essentially used a linear regression line to forecast PIPP, because we thought that that was the most appropriate method for forecasting.

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

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

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

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

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

MR. LUKE JOHNSTON: Okay, so sorry, can

you now repeat the question now that I --

MS. CANDACE GRAMMOND: Yeah.

MR. LUKE JOHNSTON: Yeah.

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

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

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

So, as we've talked about, a linear trend or an exponential trend or options, financial forecasting method is what we use. So the actuaries' estimates are really like the first piece into trying to project the future costs of those coverages. And so, of course, to the extent that the actuarial estimates are best estimates, that'll flow through into our forecast for the future and, hence, rates.

(BRIEF PAUSE)

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

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

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

MR. LUKE JOHNSTON: Yeah. Yes.

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

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

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

(BRIEF PAUSE)

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

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

(BRIEF PAUSE)

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

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

(BRIEF PAUSE)

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

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

> "A statistic model is a model..."

What did I say, "statistic"? Okay. Thank you:

> "A stochastic model is a model that estimates the probability distribution for a given outcome by allowing certain inputs to be random variables rather than fixed estimates. A random variable is allowed to take on a range of values based on the assumed distribution of that variable. The stochastic model creates a distribution of outcomes by running a large number of simulations

using the random inputs."

End quote. So my question, Mr. Johnston, is: In the context of applying that stochastic modelling process to the forecasting of claims incurred, can you provide some additional description?

(BRIEF PAUSE)

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

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

So there is a -- there are some cases

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

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

(BRIEF PAUSE)

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

(BRIEF PAUSE)

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

There are various reasons why our Claims Forecasting Committee might determine that a different forecast is required other than that which is, say, just the average of the -- the modelling results.

(BRIEF PAUSE)

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

(BRIEF PAUSE)

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

So if -- if we build a model of historical collisions but the director of the physical damage division tells us that, You know what, our financial forecast should have a higher labour component or a higher severity, because they expect, you know, certain trends in the industry, that might be incorporated in the finical forecast method; whereas the stochastic model will simply be saying, Look here's all the history, bring it forward, run a model, look at the distribution.

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

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

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

(BRIEF PAUSE)

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

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Those are generally

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

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

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

(BRIEF PAUSE)

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

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

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

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

(BRIEF PAUSE)

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

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

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

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

(BRIEF PAUSE)

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

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

MR. LUKE JOHNSTON: Sure. So page 73, under "Overall Results", there is a table there that shows the base forecast, the first table, all Basic coverages base forecast. If you then move to page 74, you will see the first table, which says, "Simulated Ultimate Losses," essentially the stochastic model, minus the base forecast.

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

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

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Johnston, I note that the tables that you've referred to on page 74 include the word "cumulative" in the titles. So I assume, obviously, that the data reflected there is cumulative. But in contrast to that, the table that appears at Tab 28, 1-22B, we believe is not cumulative.

Can you confirm that?

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

(BRIEF PAUSE)

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

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

(BRIEF PAUSE)

MR. LUKE JOHNSTON: The -- the mean is

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

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

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

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

MS. CANDACE GRAMMOND: Yes.

MR. LUKE JOHNSTON: I -- I think I -- I think I already described the -- the mean. If -- if we model all possible states of the world and take the average, that might not necessarily be what we think the -- the most likely outcome or our best estimate forecast would be.

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

(BRIEF PAUSE)

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

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

And again what we're really trying to do with our stochastic modelling is obviously make it as realistic as possible. But in some cases we're using a lot of history, and we're trying to generate an understanding of the variability around our estimates. And the -- the Claims Forecasting Committee again might have other reasons for using more current information that makes other forecasts different than what's coming out of this model.

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

(BRIEF PAUSE)

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

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

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

MR. LUKE JOHNSTON: I'll take that as

an undertaking then.

MS. CANDACE GRAMMOND: Thank you.

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

CONTINUED BY MS. CANDACE GRAMMOND:

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

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

MR. LUKE JOHNSTON: Yes. There -- there are some items listed in PUB-1-22. One area that we're definitely looking to have an approved understanding is PIPP reserving. That's obviously a huge risk area.

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

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

(BRIEF PAUSE)

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

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

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

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

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

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

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

Other claims though are more serious. It might be two (2), three (3), four (4) years later until we really understand our liability for that claim. So the actuary's job is to look at what has been reported at certain points in time and estimate what those values will ultimately reach when all claims are closed.

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

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

(BRIEF PAUSE)

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

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

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

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

MR. LUKE JOHNSTON: That's correct.

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

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

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

MR. LUKE JOHNSTON: Yes.

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

Can you explain what that is, please?

(BRIEF PAUSE)

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

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

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

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

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

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

There's also -- I won't go into the details of that. There's also provisions for adverse deviation. Actuarial practice requires actuaries to add provisions for adverse claims development, interest rate margins, and reinsurance collectibility.

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

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

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

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

MS. CANDACE GRAMMOND: Thank you.

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

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

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

Can you explain what gives rise to that line item?

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

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

MR. LUKE JOHNSTON: That's correct.

MS. CANDACE GRAMMOND: So both of those

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

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

MR. LUKE JOHNSTON: That's correct.

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

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

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

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

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

MR. LUKE JOHNSTON: This is the -- the case reserves from all other coverages other than those, the ones that I said: so collision, comp, weekly indemnity; all the -- off of the items listed at the top that aren't PIPP enhancements.

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

(BRIEF PAUSE)

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

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

MR. LUKE JOHNSTON: Thanks.

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

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. So just -- I just have a couple more questions about this document. So we see that the hail catastrophe line item is fully reinsured?

MR. LUKE JOHNSTON: That's correct.

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

MR. LUKE JOHNSTON: That's correct.

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

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

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

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

MS. CANDACE GRAMMOND: Thank you. Mr. Chairman, I'm going to move into a somewhat different area. And we haven't taken the afternoon break, so if now would be a good time.

THE CHAIRPERSON: Okay, let's adjourn. Let's -- pardon me. Let's take a break now for ten (10) minutes, until 3:00.

--- Upon recessing at 2:50 p.m.
--- Upon resuming at 3:04 p.m.

THE CHAIRPERSON: We're ready to -- to return to the proceedings.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Okay. Mr. Johnston, we're still on actuarial matters, but a little bit of a different sort. We're still at tab 18, so I've finished with the document that we were looking at before the break. If you turn the page, there's page 50 out of the same external actuary's report from February of 2012.

So what I'd ask you to do is explain what it is that we're looking at here at a high level that this table represents.

MR. LUKE JOHNSTON: This is basically a comparison of our estimated ultimate losses at different evaluation dates for Basic total, and that's of reinsurance. So just a -- to summarize it at a very high level, you see our -- from our Feb -- February 2007 year-end evaluation going all the way through to 2012, and on the left where it says, "Insurance year ending," those are for accidents occurring in the -- that particular insurance year.

MS. CANDACE GRAMMOND: Now, if we look under the second solid line we see a line item called, "Total" and then the second line item is, "Total excluding 2012."

Are you with me?

MR. LUKE JOHNSTON: Yes.

MS. CANDACE GRAMMOND: And if we look across that line, we see under column 3 the figure of 6.76 billion?

MR. LUKE JOHNSTON: Yes.

MS. CANDACE GRAMMOND: And just next to that, under column 4, the figure of 6.829 billion?

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

MS. CANDACE GRAMMOND: Now, I understand that if we subtract from the number in column 4, the number in column 3, we end up with a difference of about 69 million, which represents favourable runoff during the 2011/'12 fiscal year.

Is that right?

MR. LUKE JOHNSTON: Yes, so for the years -- accident years 1995 to 2011, our estimate of ultimate -- estimates of ultimate losses cumulatively decline by 69 million between the 2011 and 2012 value -- evaluations.

MS. CANDACE GRAMMOND: And how does this favourable runoff impact the 2011/'12 fiscal year incurred losses and net income?

MR. LUKE JOHNSTON: The actuarial adjust -- adjustments are immediately recognized in the -- as -- as a negative in the current year claims incurred.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Just to clarify. So -- so this would be just a straight reduction off the -- the claims incurred that we're expecting in that particular year, what -- like -- so other -- other -- what they otherwise would be without that $69 million immediate reduction.

That will -- to the extent that claims incurred are lower in a particular year, that will be favourable to net income.

MS. CANDACE GRAMMOND: And, Mr.

Johnston, just to clarify, the figures that we're looking at, at Tab 18, are on an undiscounted basis, whereas the numbers that flow through to the financial statement are on a discounted basis.

So the 69 million doesn't flow through dollar for dollar.

MR. LUKE JOHNSTON: Yeah. My apologies. The -- there will be actuarial adjustments. So they're calculated on actuarial present value basis. The -- there will be a reduction, not exactly 69 million, but net of all the other discounting and provisions that we discussed.

MS. CANDACE GRAMMOND: Thank you. I'm going to ask you then to turn to Tab 25 of the book of documents. We see here one of the IRs posed by the Board. It's 1-16, so Tab 25.

And in particular, if you turn to page 2 at Tab 25 -- oh, my apologies. Not -- not the second page. Sorry. We need to go to the first attachment, which is actually the second page from the back. So we're still at Tab 25, second page from the back.

This is the PUB/MPI-1-16(a) Attachment.

MR. LUKE JOHNSTON: I'm there.

MS. CANDACE GRAMMOND: Okay. It's my understanding that -- that this table summarizes the net Basic runoff during the 2011/'12 fiscal year, broken down by line of business and accident year.

Is that right?

MR. LUKE JOHNSTON: By coverage and accident year.

MS. CANDACE GRAMMOND: Sorry, when I said, "line of business," that's what I meant. Now, we see the total as reflected in the bottom right-hand corner of the table is about 79 1/2 million, which includes PIPP enhancements that were not included in the earlier exhibit that we looked at from the external actuary's report.

MR. LUKE JOHNSTON: Yes. Thanks -- thanks for noting that.

MS. CANDACE GRAMMOND: And can you confirm that most of the favourable runoff that we see in this table, about 43 million, arises from the accident benefits weekly indemnity column?

MR. LUKE JOHNSTON: Yes. Weekly indemnity, you'll see, is 43.1 million favourable, and seventeen (17) -- accident benefits, other index -- which is mainly personal care, medical-type expenses -- was favourable by 17.4 million, and PIPP enhancements by 10.5 million.

MS. CANDACE GRAMMOND: Thank you. Now,

still within the same tab, the same IR, I'll ask you to turn back to the Corporation's answer at sub B, which is on the second page. This is, rather than an attachment, part of the narrative of the answer.

Can you discuss the breakdown of the 2011/'12 favourable runoff between...

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Sorry, Mr. Pelly just brought a detail to my attention. So if we look at the answer to sub B here on the second page at Tab 25, and you may also wish to look at what we have at Tab 17 of the book of documents -- it doesn't mean we all have to turn there but you -- you may want to have regard to that in answering the following.

What I'd ask you to do is discuss a breakdown of the -- or, dis -- discuss the breakdown of the 2011/'12 favourable runoff between changes in experience, changes in valuation -- valuation methodology, and changes in valuation assumptions.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: As per the -- the

table in part B, there's three (3) categories for sources of changes: experience, evalua -- evaluation methodology, and evaluation assumptions. I'll start with evaluation methodology, and this is summarized in part D of this -- of this answer on page 3.

So the -- the total -- the total impact from changes in evaluation methodology is 13.7 million, and I'll go through these items. First, we removed IBNR provision for comprehensive.

We had a -- we had a provision in -- in the previous report for a, I guess, hypothetical or potential increase in deductible and how -- how that would lead to increase in reporting of comp claims. When I looked at this with our new appointed actuary this year, there's really -- really found no reason to include such a provision for something that has -- has not been announced or we have no plans on doing. So we took -- we took that provision out.

Second, there's something called here, "Removal of Excess Reserves for Accident Benefits Other." As I mentioned before, we -- we began an auto-reserving process recently with our new claims management system. Although working effectively, it was maybe working a little bit too effectively in putting out claim -- case reserves automatically on all applicable claims.

And this led to an increase in reported losses higher than -- than we typically see, so we have to adjust for -- adjust for that, because we haven't had any increase in exposure. We just have an increase in reporting.

These -- the next item, interest payment on permanent impairment, this is a PIPP enhancement that's basically, we pay interest -- instead of from the date of assessment we -- we pay from the date of loss. This is now incorporated in our claims data, so we removed the provision for that, 4 million.

And finally, PIPP enhancement death benefits, we created a -- a new methodology for this coverage basically by looking at how many serious loss claimants were in a particular year and estimating approximately what their -- their death benefits would be. That new methodology caused a $4 million decline. So that is the changes in the evaluation methodology.

Moving to the -- the bigger-ticket item, as I've -- as I've previously mentioned, we've made significant strides in our PIPP forecasting, and there is many items that we've talked about at these hearings over the last several years in regards to improving our PIPP assumptions, making them best estimates, removing conservatism in some of the assumptions.

We -- we looked at these items very closely with the new appointed actuary and basically revised all loss development factors for fall coverages to what we believe are best estimates. In some cases, things as small as just rounding differences, we actually incorporated the actual history. So that was a big item.

Yes. Moving to -- if you move to page 4, these changes are described in more detail. The first one, changes to the loss development factors for weekly indemnity, including the removal of the 6 percent tail load. In -- in previous hearings, we discussed weekly indemnity coverage, which is income replacement coverage.

And in our previous actuarial reports we essentially had a 6 percent safety margin added to this coverage to protect from the risk of adverse development, so increase cost of claims, new claimants emerging, et cetera.

We -- we took -- we -- we received a lot of criticism on this assumption as being conservative. And what -- what we have said in the past is, look, like there -- this is a very long-tailed coverage, we think there's a lot of risk and how long these claimant are going to live and their entitlements, so we need some kind of protection.

We didn't know the amount, but we knew we needed something. So what we -- what we did is we literally looked at every single one of these claims that we have, serious PIPP claims. And we found that for weekly indemnity, there was really low -- fairly low risk of adverse development.

These claimants had been determined at a certain wage. They're full reserved. We don't expect an influx of new claimants. And based -- based on that analysis, we decided that this 6 percent load was, in -- in fact, not required, and we removed it. And the impact shown there is $40 million.

Further to that, the second point, accident benefits other indexed, here we also had a tail factor, as we call it, to protect -- protect from adverse development. We also looked at the -- all the serious loss claimants that we have. And we found that less than 30 percent of our catastrophically injured claimants actually have a reserve for personal care. And the accident benefits other index is largely for personal care.

So not a lot of our claimants actually have a reserve right now for that -- or for that coverage, and the ones that do or are receiving personal care, they're only receiving about one third (1/3) of their maximum possible entitlement.

So what we concluded here was two (2) things. These are very seriously injured claimants. And if -- if they required personal care, we would -- we would give it to them. And if they needed an increase in personal care, they -- they would also be entitled to that.

So there's -- there's clearly a risk of having more personal care in the future. Do we know the exact like pro -- plausibility or amounts? No, we don't. But what we've done is we've left our -- our safety load in there, but we've created a methodology to gradually run that number off as experience emerges.

So we don't think we should just leave this load in there and then just ignore the prevailing experience. But we do think that there is a risk here, and we need to identify that -- that it is.

Is it a best estimate? Again, I don't have -- I don't have a way of estimating the exact number, but we think it's reasonable and we have a process to -- to adjust for the experience that comes in.

Based on that, we updated the -- our

factors for the latest information, and that was a $10 million reduction. Similarly, we updated our loss development assumptions for collision to make them more reflective of the history. That was a $2 million reduction.

We -- there is a change in the selected IBNR for weekly indemnity -- is that a note on here -- and that's 10 million, and similarly for accident benefits, another 3 -- 3 million.

And these -- the last two (2) points are -- are normal transitions based on the methods that we -- we use. Sometimes they over or under -- understate in this particular case their 13 million reduction. All their changes were a million.

The -- for -- of the -- those are -- that's the majority of the favourable run-off. All other impacts was a -- a negative three hundred thousand dollars ($300,000), approximately.

MS. CANDACE GRAMMOND: Thank you for that, Mr. Johnston. Just a couple of follow-up questions with respect to the chart on page 4 that you just went through.

The two (2) items dealing with change in a selected IBNR for insurance year, there's the one that relates to accident benefits weekly indemnity, and the other accident benefits other. And I think you said this, but these are adjustments that are done every year, is that right?

MR. LUKE JOHNSTON: Yeah. Sorry, I should -- I should expand on that a little bit.

What we do in the first three (3) accident years is we -- we essentially use a higher-of method, we call it, and we look at the experience from the incurred Bornhuetter-Ferguson method and the paid, we'll call it "BF method". And we have been criticised that this is conservative and I would argue that it's not for the following reasons.

If case managers tell me that, you know, put in a significantly higher rate of case reserves and are indicating basically to me that this is a -- a fairly significant loss year, I should probably recognize that, you know, the relevance of the -- of their case reporting and use -- the incurred method. On the other hand, if I have low incurred and have a significant amount of paid reported, I have very stable pay-development factors that -- that I should also consider.

Particularly in the first three (3) years, the case managers don't really know the extend of a claimants' injuries, so it's not clear whether the paid or the incurred method is the most appropriate. But if case -- again, if case managers are putting up significant reserves in the incurred, I should recognize it, I -- I -- I believe, and similarly with paid.

After about three (3) years when we're comfortable with the -- the estimates that the case managers have used, then we convert basically to a method that utilizes their -- their estimates. After all that, this -- these last two (2) adjustments are essentially the movement from going from those first three (3) years where we use a higher-of method to using the incurred method based on the case manager information.

MS. CANDACE GRAMMOND: And, Mr. Johnston, again, just with respect to those two (2) changes relating to the selected IBNR, historically have they been favourable or unfavourable run-off?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, I don't have a history of how -- how that's all unfolded. We haven't used this methodology for a long time. To date, it is generally proven to be favourable, and that's somewhat to be expected given that you're going from a higher-of method to one (1) particular method.

I wouldn't -- if -- if we go through the report -- I'll step back a bit. I'm obviously concerned that there's such a big adjustment that occurred in these numbers. If we go through the report and we believe that we created assumptions that are all on a best-estimate basis, and this is what the -- the information tells us, you know, then I struggle with why there's such a big difference between the two (2) methods. But this is the reality.

I -- I wouldn't expect -- my expectation going forward that -- would be that these numbers more -- more converge, and are -- there's not such a significant difference, but we'll continue investigating that. It could have to do with changes in how certain coverages are being reported. I know under the new system it appears that claims are being paid faster, and that's one (1) example of -- of why perhaps we're using development factors that don't maybe reflect the new reality. But we'll keep investigating.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. Thank you, Mr. Johnston. If we continue in the same document and turn over the page to page 5, we see the Corporation's answer at sub H to this question, wherein the Corporation is talking about some of the changes that have been made and its plans to continue to monitor. And then it says in the last paragraph at sub H that it's confident in the -- the valuations as of February 29th, 2012.

Can you elaborate all on the level of confidence that the Corporation has in these most recent evaluation estimates?

MR. LUKE JOHNSTON: Yeah. As we've discussed, most of the changes or concerns in -- in this report has been around PIPP. I mentioned earlier about how we changed our reserving methodology in 2005. I'm very comfortable with the emerging experience coming out of those changes.

We -- we do have an IR that -- that shows clearly that the reporting has been much more consistent under the new methodology. I do strongly believe that we have selected best estimates based on the available data that we have. I don't anticipate any of those numbers changing significant.

I will say though that one example of

something that perhaps isn't -- isn't within my control is the PFAD provision, for example. I did not go to our new appointed actuary and ask for an increase in the provision for the interest rate margin. Our appointed actuary, however, made a -- I thought, a fairly compelling case for why that margin should be increased, and he asked that we increase it. And I thought that was reasonable. That was the 33 mill -- million dollar change, and that's from a 0.25 percent change in the assumed interest rate.

So that's a very significant change for something that sounds like not that big of an assumption, but I can't guarantee that, for example, the -- the appointed actuary may decide that they no longer need that PFAD that -- that they added last year. That would be a significant change that could happen that -- that -- it would largely be out of my control.

MS. CANDACE GRAMMOND: Thank you. Just shifting gears a little bit but still with respect to claims liabilities, Ms. McLaren, when we were here on Tuesday you had made a statement relative to the fact that PIPP has been in place, or no fault has been in place since 1994, that it'll probably take another thirty (30) years or so until a steady state is achieved and, you know, that would be about fifty (50) years from the beginning of the program. I'm obviously paraphrasing, but that -- that was basically your evidence.

And -- and I don't know if this would be answered by yourself or by Mr. Johnston, but can you tell us in a fiscal year with no unusual or unexpected events by approximately how much the claims liabilities would grow due to the fact that PIPP has not yet achieved a steady state?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Yeah, I mean, ba -- basically what we're talking about here is the fact that every year we have more new PIPP claims than we have closed PIPP claims. So -- and if you consider that, sorry, the average expected cost of PIPP claims, claims incurred for PIPP in a given year at this point is 150 million or so, the majority of that would be added to the outstanding liability.

We would pay very little of that 150 million in a year. The only claims that you would likely expect to have opened and -- and closed in one (1) year when it comes to PIPP would be minor, minor claims and -- and fatalities. So a good chunk of that 150 million, maybe as much as a hundred or maybe more in a particularly year, would actually be added to the accumulating liabilities.

And that's -- there's a reason I'm giving that number, and not Mr. Johnston. That is not an actuarially sound estimate. That is not necessarily even a best estimate.

MS. CANDACE GRAMMOND: Okay, so we'll work with the hundred million. Going forward, can either of you give us an indication of approximately how much of that growth would be attributable to growth in the PFAD?

MS. MARILYN MCLAREN: No. I was thinking in -- in the simplest terms of some -- some large percentage of the total expected cost of the claims, no -- certainly not at all in terms of the PFAD. That -- that was not part of my thought process.

MS. CANDACE GRAMMOND: But if there was growth in the claims liabilities, then wouldn't there also be growth in the PFAD, all other things being equal?

MR. LUKE JOHNSTON: Yes. Yeah. If there's -- if there's growth in the un -- unpaid, there'll be growth in the claims development PFAD, for example, assuming it stays the same.

MS. CANDACE GRAMMOND: And would this growth in the PFAD in any way be recognized in the development of the rate indications that are in TI.19?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: As -- as you know, we -- we set rates by basically setting break even net income in the rating period. So the incurred is essentially all in of -- inclusive of all provisions. So, essentially, the -- the impact of -- of the PFAD in a given year would essentially be the change in our -- our provision in that -- in that particular year.

So -- so, yes, the -- because the statement of operations includes actuarial numbers that include PFAD, we're essentially balancing to break even net income on that basis.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. So then how is that recognized in the development of the rate indication, meaning the growth and the PFAD?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm not totally sure I understand the question, but if you're asking if the change in the provision for adverse deviation going forward is -- does impact the -- that income on the statement of operations and therefore is implicit in the rate -- rate setting, then -- then, yes, that's true.

MS. CANDACE GRAMMOND: I think what we're asking is relative to the growth in the PFAD that relates to the fact that PIPP is continuing to escalate into a steady state, if that's not specifically recognized somewhere in TI.19, then is there a practical consequence of that on the income statement in terms of the breaking even over a two (2) year period?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Let -- let me try it this way, it may not help at all, but -- but let me try it this way. The outstanding claims liabilities have -- grow every year, and part of that is a provision for adverse deviation.

So you have this growing amount of money, which is fully funded by a growing amount of investments to -- to fund those liabilities and the rates that we set each year are really just intended to cover the cost of every single claim that happens in that year.

So every year im -- implicit, or explicit, I'm not sure enough about Mr. Johnston's processes that we -- inherent, included in the claims incurred that we forecast is a consideration for -- I don't think of it as much as PFAD as I do IBNR.

Every year, you know, there is sort of the totally expected claims, and then you have a provision for the ones that'll come late or that will grow beyond what you expected. That's all inc -- included in the claims incurred. So on an annual basis the claims incurred in the claims forecast is really just for that one (1) year period that we were talking about before.

The fact that you have this growing liability was in effect -- is pre-funded, right, I mean, we charge rates to cil -- to cover claims that we won't make the final payment on sometimes for fifty (50) or sixty (60) years and it's funded, investments are there as well.

So the fact that that is growing, the liabilities are growing and the PFAD is growing doesn't have a huge effect on one (1) year's worth of rates. I don't know, maybe -- did that help at all?

MR. LUKE JOHNSTON: We do als -- we do have projections of the PFAD level in the tables to TI.17. So for weekly indemnity or accident benefits, other index, you could -- you can see what we're anticipating the -- this provision to grow by over time and -- and yes, that is in -- included in the incurreds.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Johnston, relative to the answer that you just gave, can you tell us how that approach is consistent with what Section 2600 requires, in terms of best estimate?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Can you just repeat the question for me, please, just to make sure I understand?

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. If I -- if we understand your evidence correctly, your evidence was that TI.17 includes tables that document the expected growth in PfAD.

So how is that consistent with what Section 2600 requires, in terms of best estimate?

MR. LUKE JOHNSTON: Okay. What I understand you're -- you're getting at is why -- why does the rate -- why would the rate include a PFAD if it was as per Section 2600. The -- there's no question that all the forecasts in -- of -- of the rate-setting are on a best-estimate basis; however, the rules in this province say that we set rates based on break-even net income in the rating period. That includes all items that float through the statement of operations, and that's how we determine our overall rate indicator here in this -- in this province for MPI.

It -- the fact that we determine the overall rate change that way I don't think implies that I'm not following, you know, accepted actuarial practice for creating best estimates for rate-making purposes.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. Thank you. Okay. Moving then to current fiscal year evaluations, let's talk a little bit about the first-quarter review. Of course, the Corporation has filed its first-quarter report for current fiscal year. Can you tell us about whether any evidence of favourable or unfavourable run-off of claims liabilities was found in connection with the first-quarter review?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I apologize. I don't know the exact numbers, but I can undertake to provide those for you. I -- there was not, though, significant favourable development. I do know that.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you for advising that there was favourable run-off, and we would take that undertaking that the number will be provided.

--- UNDERTAKING NO. 3: MPI to provide the numbers for run-off of claims liabilities from first-quarter review, as well as the results of the first- and second-quarter reviews

MR. LUKE JOHNSTON: Yeah. I don't -- I -- just to clarify, I don't believe there was any significant favourable runoff, but we'll get you those numbers.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Can you tell us, in terms of the first-quarter review, what level of rigour was applied in the selection of methods and assumptions?

MR. LUKE JOHNSTON: When we do the internal actuarial reviews, which are not reviewed by the appointed actuary, we -- we have to obviously recognize the selections that we've agreed to with the appointed actuary in the -- in the previous review, and we have to feel pretty strongly to -- to change them given that, again, we just agreed upon these assumptions as recently as February.

So you have seen in previous internal reports where we've identified a particular issue and made an adjustment for it, but unless we see a fairly material indication that our assumptions are invalid we typically leave the assumptions unchanged from the February actuarial report. But of course the emerging experience is -- is recognized by a applying the -- the existing assumptions to it.

MS. CANDACE GRAMMOND: And is the process relative to the first-quarter review this year similar to the review for a first-quarter that have been done in past years?

MR. LUKE JOHNSTON: Yes.

MS. CANDACE GRAMMOND: Can you tell us what's planned in connection with the second-quarter review in this regard, and -- and also when the second-quarter results are expected?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I can give you the results of the first and second quarter reviews are part of the undertaking.

MS. CANDACE GRAMMOND: And again with respect to the second-quarter review, is the approach being taken this year the same to -- as it was in previous year?

MR. LUKE JOHNSTON: Yes, that's correct. And basically as -- the same as described for the first quarter.

MS. CANDACE GRAMMOND: Thank you. Okay. I'm going to ask you to turn to Tab 27 of the book of documents. This is PUB/MPI-1-19 and, Mr. Chairman, I can indicate I have a few questions about this. And probably by the time I'm done it'll be 4:00 and then we'll -- I'll start on another section tomorrow.

So this IR deals with the Bornhuetter-Ferguson method, and what we'd ask is that you discuss the -- the basic concepts that underlay the Bornhuetter-Ferguson methodology. Okay, I'll just be calling it BF from now on.

MR. LUKE JOHNSTON: Yes, thanks for converting to the abbreviation before I had to say it. Yeah, before I describe the -- the BF method, there -- there's really I guess five (5) methods we use to calculate IBNR, or ultimate loss costs.

We have a incurred-development methodology, and that looks at the reported incurred losses and essentially how they grow through time. And we used the historical growth patterns to predict how the future claims will develop. There's also a paid methodology that does essentially the same thing, except with paid losses.

Another way of -- of predicting ultimates would be -- or sorry, of predicting ultimate claims costs would be to use just a pure loss ratio method and to look at history and say, Historically our loss ration has been 60 percent, so let's just assume that this year's loss ration is going to be 60 percent.

The BF method essentially is -- considers both the -- the development technique that I previously described and the loss ratio method. And essentially in the early stages of a claim of an accident year, it gives more weight to a loss ratio type estimate of claims because we don't have a lot of information yet about this claimants. So, it makes sense to look at historical losses.

As the -- the particular claim year develops, we start knowing a lot more about this particular year of claimants and the -- the development approach becomes more and more applicable.

The -- the BF method, essentially, weights the -- is a weighting between the -- the loss ratio method and this development method. And that's -

- that's basically it.

MS. CANDACE GRAMMOND: Thank you. So would it be fair to say that, at least in part, the basis for setting the BF expected loss ratio assumptions involves trend assumptions that are derived from fitting regressions to estimated ultimate loss amounts based on another methodology, at least as MPI has applied it?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, I'm not totally sure I -- I understand the question, but, yes. Like if -- if you're saying, essentially, to look at prior ultimate loss and -- and trend them and use all or an average of those particular losses to develop a loss ratio, then -- then, yes, I -- I agree.

MS. CANDACE GRAMMOND: Yes, that's what we're saying. Okay, so we -- we're at Tab 27 in the book of documents, PUB/MPI-1-19.

Can you discuss with -- with reference to the answer here the statistical and predictive strength of the fitted trends derived for accident benefits 'Other' indexed?

MR. LUKE JOHNSTON: I'm referencing the

second last page of this Tab 27. And if you'd just look at the ultimate losses from the incurred and paid development approaches, they're fairly flat over time, fit a regression line through these -- through this history, and you get a fairly weak relationship, 'R' squareds of about point three (.3) or point two (.2), neither -- neither indicating a very strong relationship but -- but some.

MS. CANDACE GRAMMOND: And so what were the fitted annual trends?

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Would it have been .60 -- or .63 percent on an incurred basis and .28 percent on a paid basis?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, the -- the paid -- I got paid -- the paid trend was zero point five four (0.54) and the -- the incurred was zero point seven-seven (0.77). I'm not sure if those are the ones you quoted, but...

MS. CANDACE GRAMMOND: That -- we -- we

accept that. Thank you.

And how do those numbers compare to the selected annual trend assumptions?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Pardon me. The -- we basically selected the incurred trend and we rounded the indicated number to -- to the -- to 1 percent.

MS. CANDACE GRAMMOND: And what was the basis for the selected annual trend assumption of 1 percent?

MR. LUKE JOHNSTON: The -- the incurred trend of zero point seven seven (0.77) was essentially just rounded to 1 percent.

MS. CANDACE GRAMMOND: Now -- so basically it was a judgement adjustment?

MR. LUKE JOHNSTON: Yeah. I guess we -- we could have selected zero point seven seven (0.77). We just -- just decided to -- yeah, judgmentally round to one (1).

MS. CANDACE GRAMMOND: Okay. Now, if one considers the underlying trends for "accident benefits other indexed" to be relatively weak, how sensitive are the valuation results to this trend selection?

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Maybe if I can just be of some assistance. My next question was going to be if perhaps you could provide by way of undertaking a comparison with supporting documents of the selected ultimate loss amounts by accident year and in total for "accident benefits other indexed" from the valuation as at February 2012, versus those which would result from using a zero percent trend assumption, all other things being equal.

MR. LUKE JOHNSTON: Yeah, that wouldn't be helpful. It's hard for me to -- to grasp the exact impact without that, yeah.

--- UNDERTAKING NO.4: MPI to provide a comparison with supporting documents of the selected ultimate loss amounts by accident year and in total for "accident benefits other indexed" from the valuation as at February 2012, versus

those which would result
from using a zero percent
trend assumption

MS. CANDACE GRAMMOND: Great. So thank you for giving us that undertaking.

Mr. Chairman, it is four o'clock. I am moving into a different section of the actuarial nature, so if this would please the Board, we could adjourn for the day.

(PANEL RETIRES)

THE CHAIRPERSON: Are there any logistical matters to attend to before we adjourn?

MS. CANDACE GRAMMOND: I don't think so. We're having Ms. Ruth come tomorrow --

THE CHAIRPERSON: Yes.

MS. CANDACE GRAMMOND: -- right after lunch. We're starting tomorrow at 9:30. I'll continue with some actuarial topics tomorrow morning. I'm about not quite two-thirds (2/3s) of the way through the actuarial stuff.

Those are the only matters that I'm aware of, Mr. Chairman.

THE CHAIRPERSON: Then let's adjourn until tomorrow morning at 9:30. Thank you very much, everyone.

--- Upon adjourning at 4:00 p.m.

Certified correct,

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Wendy Warnock, Ms.

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