MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION

2016/17 INSURANCE YEAR

Before Board Panel:

Karen Botting - Board Chairperson

Regis Gosselin - Board Member

Anita Neville - Board Member

Susan Proven - Board Member

Allan Morin - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 21, 2015

Pages 1848 to 2008

1 APPEARANCES

2

3 Candace Grammond)Board Counsel

4 Kathleen McCandless)

5

6 Kathy Kalinowsky)MPI

7

8 Byron Williams)CAC (Manitoba)

9

10 Raymond Oakes)CMMG

11

12 Liz Kulyk)CAA Manitoba

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14 Christian Monnin)Bike Winnipeg

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16 David Schioler (np))IBAM

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1 LIST OF EXHIBITS

1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning,

4 everyone. Today we'll reconvene the MPI GRA hearings

5 for 2016/'17. And to begin with, I'd like to call

6 upon Ms. Kalinowsky.

7 MS. KATHY KALINOWSKY: Good morning.

8 We've finished the undertakings now and can advise

9 that Undertaking number 38 should be marked as MPI

10 Exhibit number 61. That's the combined scenarios

11 which were run over the last number of days and

12 actually just finished at 8:30 this morning, so just

13 in time for today's advance of the closing hearing,

14 and an awful lot of work was done. So I just want to

15 make sure Board members realize how much work goes

16 into going through these multiple simulations.

17

18 --- EXHIBIT NO. MPI-61: Response to Undertaking 38

19

20 MS. KATHY KALINOWSKY: Undertaking

21 number 46 should be marked as MPI Exhibit 62.

22

23 --- EXHIBIT NO. MPI-62: Response to Undertaking 46

24

25 MS. KATHY KALINOWSKY: Undertaking

1 number 45 should be marked as MPI Exhibit number 63.
2
3 --- EXHIBIT NO. MPI-63: Response to Undertaking 45
4
5 MS. KATHY KALINOWSKY: And Undertaking
6 number 44 should be marked as MPI Exhibit number 64.
7
8 --- EXHIBIT NO. MPI-64: Response to Undertaking 44
9
10 MS. KATHY KALINOWSKY: And I do know
11 that Mr. Johnston will be speaking to a couple of
12 these. And I also know that Mr. Guimond has an
13 undertaking that he'll just orally enter into the
14 transcript right now at this point. Thank you.
15 THE CHAIRPERSON: Okay, thank you.
16
17 MPI PANEL RESUMED:
18 HEATHER REICHERT, Previously Affirmed
19 LUKE JOHNSTON, Previously Affirmed
20 DAN GUIMOND, Previously Sworn
21
22 MR. DAN GUIMOND: Yes, the undertaking
23 regarding the number of drafts of the report from the
24 consultant. So the Corporation received four (4)
25 draft of Mrs. Kroeker-Hall road safety assessment

1 report as she progressed with her work on the
2 engagement, excluding topography and formatting
3 changes, et cetera. The final report was dated and
4 received on May 21, 2015.
5 THE CHAIRPERSON: Thank you -- thank
6 you, Mr. Guimond.
7 Mr. Johnston...?
8 MR. LUKE JOHNSTON: Yes, just a -- a
9 couple of quick notes. Exhibit 64, or Undertaking 44,
10 as I mentioned yesterday, we -- we don't have time to
11 redo the whole rate-making procedure, so what's
12 reflected here is just what would happen if we changed
13 the selected rate change to one point six (1.6).
14 And basically, you're -- you're seeing
15 that pretty -- the result is basically that everyone
16 would -- rate change would basically go up by 1.6
17 percent, approximately. The reason it doesn't -- they
18 are not all exactly one point six (1.6) is because we
19 have a -- a credibility weighting scheme that says,
20 you know, your experience versus the overall, so it
21 makes it not exactly one point six (1.6), but very --
22 very close.
23 And then Exhibit 61, Undertaking 38,
24 hopefully we got to kind of the point that Mr.
25 Williams was looking for here, but we focussed on the

1 four (4) year, which is the time horizon that CAC has
2 talked a little bit about in their evidence, and then
3 we also did the two (2) year, because that's the
4 scenario that results in the DCAT recommendation, so
5 we thought those were the two (2) most important ones
6 to look at.
7 For the four (4) year, the correlation
8 coef -- between equities and interest rates is almost
9 zero anyways. So you can see the last line, the
10 difference is basically 1 -- 1 million, and that's
11 really just noise around a simulation. For the two
12 (2) year, the -- the history has a slight positive
13 correlation, and -- and all that means is that if --
14 if equities go up, there's an increased likelihood
15 that interest rates will go up. The higher the
16 correlation coefficient, the more they would move
17 together. If it was zero, it -- there would be no
18 relationship.
19 So as a result of that, on the bottom
20 chart, you see in '17/'18 that when you include
21 positive correlation, the results are a little bit
22 worse. So our -- our current scenario is about $21
23 million worse than what it would be if you assumed
24 that they were independent. And that's to be
25 expected, if you assume they're independent.

1 In regards to the correlations in
2 general, I get where Mr. Williams is going, that it's
3 true that maybe the true number for these is that
4 they're independent. But we've always been going on
5 the assumption that we were supposed to use the
6 historical data, supposed to use the observed
7 correlations in that data, and I don't think we've
8 ever heard otherwise, so -- yeah, during -- during any
9 -- any of the collaborations, so. Thanks.
10 MS. HEATHER REICHERT: And I -- I
11 wasn't -- I won't spend a lot of time, but if we can
12 look at Exhibit number 62, I just wanted to draw
13 attention. I said that we would run the -- the base
14 forecast for '16/'17 with a plus one hundred (100) and
15 a minus one hundred (100) interest rate change, but
16 because there was already an assumed interest rate
17 change within '16/'17, that didn't give the true
18 variance of what a hundred basis points up or down
19 would look like.
20 So you'll see on the table at the
21 bottom where we have also done the flat, so assuming
22 zero interest rate change, and then comparing that to
23 a plus one hundred (100) or a minus one hundred (100).
24 And the -- the bullets above explain that plus one
25 hundred (100) increases net income by thirty-three

1 (33). Minus one hundred (100) decreases net income by
2 forty-three (43).
3 And this is what we talked about
4 yesterday. They're not symmetrical, because when you
5 get to a very low interest rate at minus -- or, pardon
6 me, at one point zero-four (1.04) the convexity
7 impacts, and it's not as symmetrical. So I'll leave
8 it at that.
9 MR. REGIS GOSSELIN: I'm -- I'm
10 surprised how sensitive the -- the drop in interest
11 rates -- the result -- financial results are sensitive
12 to a drop in interest rates. I mean, I would have
13 expected something smaller than that, than -- it --
14 can you --
15 MS. HEATHER REICHERT: Well, the minus
16 one hundred (100) is extremely large, and it's
17 bringing it down to, like, a one-o-four (104), so that
18 does have an impact. If not for the fact that we are
19 more perfectly matched, that change of a hundred basis
20 points would have been, like, a hundred million. Or I
21 -- I shouldn't say a hundred mill, but close -- close
22 to that. It used to be ten (10) basis points was a 10
23 million swing, so. So it still is doing what we are
24 wanting it to do.
25 THE CHAIRPERSON: I'll -- I'll call

1 upon Mr. Williams.
2
3 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:
4 MR. BYRON WILLIAMS: Mr. Johnston, and
5 if you'll pass on to your staff, and I'm sure some of
6 Ms. Reichert's as well, we -- we quite appreciate the
7 effort that went in. If I could just turn your
8 attention to MPI Exhibit 61, and to the two (2) year
9 combined one (1) in forty (40) scenario.
10 And just starting -- just to make sure
11 that I understand it and can advise my client, sir,
12 for the 2015/'16 year, the starting place, both
13 assuming correlation and assu -- assuming they're
14 independent, is the 262 million of total equity.
15 Is that correct, sir?
16 MR. LUKE JOHNSTON: Yes, all -- all
17 the scenarios we run start effective the beginning of
18 the 2016/'17 year.
19 MR. BYRON WILLIAMS: And assuming
20 correlation, sir, we see a deterioration in the
21 2016/'17 year from two sixty-two (262) to one thirty-
22 nine (139).
23 Is that right, sir?
24 MR. LUKE JOHNSTON: We do, but I --
25 I'd caution a little bit. When we -- when we run the

1 two (2) year scenario we take the result at the end of
2 two (2) years and sort. So there's a whole, you know,
3 combination of things that can happen. So if we
4 picked a different scenario right near this one (1),
5 it -- it might have had a -- a positive result there,
6 but the same result at the end. Yeah.
7 MR. BYRON WILLIAMS: So your advice to
8 me is to jump to the end of the story then, is --
9 MR. LUKE JOHNSTON: Agreed. Yeah.
10 MR. BYRON WILLIAMS: And am I correct
11 in suggesting that the total equity assuming
12 independence is 53 million, as compared to thirty-one
13 (31), assuming correlation, sir?
14 MR. LUKE JOHNSTON: Correct. And
15 keeping in mind that the -- the floor impacts some of
16 the potential movement that could happen. But that is
17 -- that is the result, yes.
18 MR. BYRON WILLIAMS: So there's a $20
19 million difference, and assuming no correlation, it's
20 more -- more favourable in terms of total equity, sir.
21 Is that correct?
22 MR. LUKE JOHNSTON: That's correct.
23 MR. BYRON WILLIAMS: Okay. Thank you.
24
25 (BRIEF PAUSE)

1 THE CHAIRPERSON: Mr. Williams has no
2 thur -- further questions. Thank you very much.
3 I now am going to turn the mic over to
4 Ms. Grammond, who is going to give her closing
5 comments.
6
7 (PANEL STANDS DOWN)
8
9 CLOSING COMMENTS BY BOARD COUNSEL:
10 MS. CANDACE GRAMMOND: Thank you,
11 Madam Chair. We have now completed the evidentiary
12 part of this hearing with respect to the 2016/'17
13 general rate application, or GRA, filed with the Board
14 by Manitoba Public Insurance. After hearing the
15 balance of submissions, the Board will deliberate upon
16 the application for the base rates and premiums to be
17 charged for compulsory vehicle and driver insurance,
18 to take effect March 1st, 2016.
19 As counsel for the Board, neither I nor
20 Ms. McCandless take any position on the merits of the
21 application filed by MPI, or the positions taken by
22 any of the Intervenors. Our role is to summarize the
23 matters that are before the Board and outline issues
24 that the Board may wish to consider in making its
25 decisions.

1 As we know, MPI is seeking rates that
2 constitute no overall change in Basic insurance
3 premiums. Similarly, they seek no change to driver
4 licence premiums or vehicle premium discounts. And
5 they -- it does not propose any change to service or
6 transaction fees, permanent certificate fees, fleet
7 rebates or surcharges, or the discount for after-
8 market and manufacturer or dealer-installed anti-theft
9 devices.
10 So the average rate adjustment within
11 the proposed overall no rate change breaks down as
12 follows by major vehicle class. For the private
13 passenger class, an overall decrease of .1 percent.
14 For the commercial class, an overall increase of 2.5
15 percent. For the public class, an overall increase of
16 6.3 percent. For the motorcycle class, an overall
17 decrease of 7.6 percent. For trailers, an overall
18 decrease of 3.8 percent. And for off-road vehicles,
19 no rate change.
20 So all of those adjustments taken
21 together lead to the proposed overall application of
22 no rate change. If the Corporation's application is
23 accepted as filed, the actual vehicle premiums charged
24 will vary depending on claims experience and driving
25 record of the registered owner, their insurance use,

1 their territory, and their vehicle rate group.
2 After consideration of insurance use
3 and territory and capping and balancing for experience
4 rate adjustments, the results were modelled by the
5 Corporation to assess the impact of the various rate
6 and classification changes.
7 In total, the vehicle population or the
8 fleet within Manitoba for the year of the application
9 is expected to be one million nine -- ninety-two
10 thousand five hundred and seventy-two (1,092,572)
11 vehicles, which includes sixty-six thousand and
12 eighty-six (66,086) off-road vehicles.
13 And, if accepted, the rate application
14 would be applied as follows -- or the rate would be
15 applied as follows.
16 Four hundred sixty-seven thousand
17 ninety-eight (467,098) vehicles, or 43 percent of the
18 overall fleet, would have a rate increase, the vast
19 majority of which would be ninety-nine dollars ($99)
20 for the year or less.
21 Five hundred forty-seven thousand
22 thirty-two (547,032) vehicles, or about 50 percent of
23 the overall fleet, would receive a rate decrease.
24 And seventy-eight thousand four hundred
25 forty-two (78,442), or 7 percent of the fleet, would

1 have no change in rates.

2 The Corporation has provided to the

3 Board its actual financial results for its last fiscal

4 year, which was the 2014/'15 year, and as well for the

5 first six (6) months of the current year through to

6 August 31st of 2015.

7 So commenting firstly on the 2014/'15

8 fiscal year, we know that Basic had a net income of

9 $2.4 million for rate-setting purposes. That's

10 compared with a forecasted net loss of 38.1 million at

11 last year's GRA. So there was a positive change of

12 about 40.5 million in actuality over what was forecast

13 last year.

14 This positive variance was attributed

15 by MPI to investment income in excess of what they

16 were forecasting last year. That was a favourable

17 change of one (1) -- 1 million -- or, pardon me, one

18 hundred and fifty-nine million and six hundred

19 thousand (159,600), offset by claims costs in excess

20 of again what was forecast last year of 121.4 million.

21 So with respect to the current year,

22 the 2015/'16 year that we are now in, at last year's

23 GRA, MPI had forecast for Basic a net loss of 6.3

24 million for rating purposes. And that's now been

25 revised to a net income of 14.9 million.

1 So it's a positive change of 21.3
2 million, and it's attributed to the following: A
3 reduction in net earned revenue of 2.1 million --
4 that's mainly from lower than anticipated vehicle and
5 driver growth in the last fiscal year; a reduction in
6 the claims forecast of 5.5 million due to better-than-
7 expected physical damage claims last year; a reduction
8 in claims and operating expenses of 1.9 million; an
9 assumed reduction of 36.2 million in the investment
10 margin for adverse deviation -- that's the change from
11 seventy-five (75) basis points to fif -- or -- yeah,
12 from seventy-five (75) basis points to fifty (50)
13 basis points as a result of the implementation of the
14 AOM study; a deterioration in the net impact of
15 interest rates between claims liabilities and fixed
16 income assets to the extent of 20 million; a reduction
17 in the assumed loss adjustment expenses of 8.1 million
18 as a result of increasing interest rates; a reduction
19 of 4.4 million in the assumed investment income from
20 real estate and infrastructure investments as a result
21 of a lower allocation to those investment classes; and
22 a variety of other negative impacts that equal about
23 3.9 million.
24 So for the first six (6) months of this
25 year, per the second quarter report, Basic had a net

1 income of 5 million, whereas the Corporation as a
2 whole had a net income of 16.5 million.
3 Now, we know that embedded within MPI's
4 financial forecast is its interest rate forecast,
5 which is based on an average of the forecasts prepared
6 by the five (5) major banks as well as Global Insight.
7 The interest rate forecast that underlies the rate
8 application that's pending before you provides for
9 interest rates increasing by seventy-four (74) basis
10 points in the 2015/'16 fiscal year over that from last
11 year.
12 The recent -- the most recent evidence
13 that we have reflects that the Government of Canada
14 ten (10) year bond rate has decreased since MPI
15 prepared its GRA application. And as well, in the
16 current interest rate forecast, there is an anomaly in
17 the first part of the year following the application
18 caused by only Global Insight providing a forecast
19 longer than two (2) years. MPI takes the position
20 that this anomaly is not of significant concern
21 because of recent steps that it took to mitigate
22 interest rate risk.
23 At the time of the GRA filing, MPI's
24 projections from 2016/'17 through to 2019/'20 were
25 reflected at PF1, pro forma 1, in the filing. MPI has

1 advised that it continues to seek to break even over a
2 two (2) year period, and so it is projecting an $11.4
3 million loss for the year of the application and a net
4 income of 12.5 million for the following year, the
5 2017/'18 year, which averages out to a break-even
6 position.
7 The Corporation has confirmed that the
8 practice of testing for a break-even position over two
9 (2) successive fiscal years goes back to the
10 introduction of the staggered renewals to allow for a
11 proposed rate char -- change to be fully earned.
12 MPI has filed an updated interest rate
13 forecast as of September 2015 which reflects that
14 interest rates are expected to be thirty-two (32)
15 basis points lawyer -- lower by the end of February
16 2016 than the interest rate that was utili -- or the
17 interest rate forecast that was utilized and
18 underlying the GRA.
19 Based upon this updated September
20 forecast, MPI has advised that Basic's net income in
21 the current year, 2015/'16, will decrease from 14.9
22 million to 7 million. This updated forecast, again,
23 based upon that September 2015 interest rate forecast
24 also reflects a $15.2 million net loss in 2016/'17 and
25 a net loss of 12.1 million for 2017/'18. This

1 obviously is not a break-even result and would reflect
2 an indicated rate increase of 1.6 percent.
3 MPI has not, however, amended its
4 request for -- before this Board as filed, that is for
5 no overall change in rates. In addition, and as it
6 always does, MPI is forecasting growth in its total
7 earned revenues through the outlook period due to the
8 volume and upgrade factor increases.
9 The Corporation has confor -- confirmed
10 again this year that the stated purpose of the rate
11 stabilization reserve, or RSR, is to protect motorists
12 from rate increases made necessary by unexpected
13 events or losses arising from nonrecurring events or
14 factors. Pursuant to MPI's evidence, this would
15 include variances from break-even budgeting.
16 As per the GRA filing, total Basic
17 retained earnings were 177.8 million as at the end of
18 the 2014/'15 fiscal year, and that includes a $75.5
19 million transfer into the RSR from MPI's competitive
20 lines of business. With accumulated other
21 comprehensive income, or AOCI, total equity in Basic
22 was 213.1 million as at February 28th, 2015. This was
23 the minimum target capital level for Basic proposed by
24 MPI at the time of filing the GRA.
25 MPI has since advised in a revised DCAT

1 that, in its view, the minimum target capital level
2 for Basic should be 231 million, and again, that was
3 based on revisions to the dynamic capital adequacy
4 test, or the DCAT.
5 As at August 31st, 2015, in the second
6 quarter report, total Basic retained earnings were
7 182.8 million. Pursuant to the GRA filing, total
8 Basic retained earnings are forecast to be 192.8
9 million as at the end of the current fiscal year, so
10 February 2016, and 181.4 million as at the end of the
11 2016/'17 fiscal year. Both of those forecasts exclude
12 AOCI and consideration of the second quarter results
13 ending August 31st, 2015. And both of those
14 forecasts, if they materialize, would exceed the
15 current Board-ordered RSR range.
16 If the 2015/'16 year-end results
17 include Basic total equity of less than 231 million,
18 the Corporation has committed to make another transfer
19 of excess retained earnings from the non-regulated
20 Extension and/or SRE lines of business, SRE, of
21 course, standing for Special Risk Extension, into the
22 Basic RSR to achieve the minimum $231 million target.
23 Now, overall, Corporate equity as at
24 February 29th, 2015 -- or pardon me, February 28th,
25 2015, including AOCI, was 421.4 million, and that

1 decreased to 393.6 million as at August 31st, 2015.
2 The Corporation has asked for a minimum
3 target capital level for Basic of 231 million
4 inclusive of Basic retained earnings and AOCI, and
5 based on the result of the most recent DCAT report.
6 The Corporation seeks to establish an RSR target
7 capital range with an upper limit based on the minimum
8 capital test, or MCT, and an MCT ratio of 100 percent
9 which was determined to equate to $366 million.
10 The Corporation has suggested in its
11 oral evidence that this upper limit should be
12 revisited approximately every four (4) years. Within
13 the GRA process, the Corporation ran five thousand
14 (5,000) scenarios, including management action, none
15 of which reflected a depletion of Basic's capital to
16 the extent of 30 -- $366 million.
17 MPI's DCAT report was prepared
18 internally by MPI's chief actuary, Mr. Luke Johnston,
19 in accordance with the Canadian Institute of Actuary
20 Standards and accepted actuarial practice. The DCAT
21 report reflects that MPI's financial condition is
22 satisfactory if throughout the forecast period it is
23 able to meet all of its future obligations under all
24 plausible adverse scenarios, and under the base
25 scenario that meets the minimum regulatory capital

1 requirement.

2 Based on this definition, Mr. Johnston

3 has concluded that Basic's future financial condition

4 is satisfactory at the current approved regulatory

5 minimum RSR target level.

6 In last year's order, that's Order

7 135/'14, the Board stated its acceptance of the DCAT

8 methodology in principle, but on a preliminary basis,

9 for the purposes of establishing the RSR target

10 capital range for Basic. The Board also accepted for

11 the time being, and subject to further analysis, that

12 a one (1) in forty (40) year scenario probability

13 level as requested by MPI was the appropriate

14 threshold for the minimum RSR target for the current

15 year, 2015/'16.

16 The Board accepted that the minimum RSR

17 target should be based on total equity, given the

18 impact of unrealized investment, equity investment

19 gains, or losses within AOCI. With respect to the

20 specific dollar amounts that should form the minimum

21 and maximum RSR and capital target range, the Board

22 ordered that further work be carried out.

23 In particular, the Board ordered that

24 MPI respond to a document attached to the order, which

25 was Appendix E, and thereafter engage in an ongoing

1 dialogue among all parties relative to the content of
2 Appendix E. While the Board ordered that both phases
3 reflected within Appendix E be completed prior to the
4 preparation of MPI's 2015 DCAT report, which was to be
5 filed in this GRA, that the completion did not fully
6 occur despite best efforts.
7 The Board stated that the work to be
8 done relative to Appendix E in last year's order was
9 intended to result in a better understanding and
10 acceptance of the plausible adverse scenarios in the
11 DCAT, and to assist the Board in establishing an
12 appropriate Basic RSR and capital target range for the
13 future with more confidence.
14 At this year's hearing, the Board heard
15 evidence from Mr. Luke Johnston and Ms. Andrea Sherry
16 concurrently pursuant to an agreed-upon issues list
17 that reflected both areas of agreement and
18 disagreement, and the position of the parties on each
19 issue.
20 Mr. Johnston and Ms. Sherry were able
21 to ask questions of each other, and to discuss various
22 DCAT and target capital issues on the record and under
23 oath for the benefit of the Board and all of the
24 parties. It appeared to be a fruitful discussion, and
25 it is hoped that the format in which the evidence was

1 presented was of assistance to the panel.
2 Historically, the Corporation's
3 investment income has been a major component of its
4 income, and has offset its annual underwriting losses.
5 For the current year, and for the first time, MPI is
6 forecasting an underwriting income of 200 -- of 25.7
7 million for Basic to be reduced by investment losses
8 of 10.8 million. MPI is projecting a corporate
9 investment loss of approximately 12.9 million for the
10 current year, so that $10.8 million loss for Basic is
11 its share of the overall corporate investment loss,
12 which is at 83.4 percent.
13 MPI's investment portfolio exceeded
14 $2.6 billion as at February 28th, 2015, and is
15 forecast to grow to over 3 billion by 2019/'20. The
16 funds available for investment are primarily unearned
17 premium reserves, and unpaid claims reserves. And the
18 investment portfolio supports both the payment of
19 accident claims as well as the pension obligations of
20 the Corporation.
21 The size of the corporate investment
22 portfolio for the end of the application year,
23 2016/'17, is projected to be over 2.6 billion,
24 comprised of 64 percent in long-terms bonds, 20
25 percent in equities, 10 percent in real estate, 5

1 percent in infrastructure, and less than 1 percent in
2 cash and short-term investments.
3 In Order 151/'13, so from two (2) years
4 ago, the Board directed MPI to have the composition of
5 its portfolio reviewed by an external expert to assess
6 whether the then current asset mix should continue, or
7 should be revised to better mitigate interest rate
8 risk. That review was done this year, and the
9 Corporation filed an asset liability management, or
10 ALM study, prepared by Aon Hewitt, though MPI did not
11 produce a witness from Aon Hewitt to testify before
12 the Board.
13 The Aon report, or ALM study, included
14 recommendations for changes to the composition of the
15 investment portfolio, such as increasing the weighting
16 of investments in fixed bonds from 60 percent to 70
17 percent of the portfolio. In addition, Canadian
18 equities are to be reduced from 15 percent to 10
19 percent, together with some other changes, although
20 less significant.
21 MPI's investment portfolio has a
22 significant weighting in long-term bonds, and in the
23 current year 42.5 percent of the portfolio is in
24 marketable bonds, which are susceptible to changes in
25 interest rates. Current average yields on long-term

1 bonds are approximately 5 percent. An increase in
2 interest rates would result in a reduction in the
3 value of the bond portfolio, and would negatively
4 impact returns on bonds.
5 MPI's investment income forecast
6 includes the calculation of interest rate impacts upon
7 the market value of the bond portfolio, the addition
8 of market -- marketable bond and equity turnover
9 assumptions, a spread assumption for new marketable
10 bond purchases, and adherence to rebalancing rules.
11 MPI forecasts the impact that changes in interest
12 rates will have on the value of the fixed income
13 portfolio and claims liabilities.
14 MPI is forecasting losses on its
15 investment portfolio for the current year, as I
16 indicated, and low levels of investment income for
17 2016/'17, the year of the application and the
18 subsequent year, at just under $13 million per year.
19 The low level of forecast investment income is
20 attributable primarily to material projected
21 unrealized losses in the marketable bond portfolio.
22 These forecasted losses are as a result
23 of changes in the Government of Canada ten (10) year
24 bond rate forecast, which is expected to increase by
25 only seventy-four (74) basis points in the MPI

1 2015/'16 fiscal year, so the current fiscal year. If
2 the impact of changing interest rates was not included
3 in the forecast, then the expected Basic investment
4 income would be 95.5 million in the current year,
5 versus a loss of 12.9 million.
6 Aon Hewitt also reviewed whether MPI's
7 current duration matching strategy should continue or
8 should be revised. In the ALM study, Aon recommended
9 that MPI adopt full duration matching rather than
10 other alternatives such as cash flow matching or a
11 hybrid matching approach. Aon concluded that the
12 benefits of further reducing interest rate risk were
13 outweighed by the improved return -- returns of
14 accepting some interest rate risk.
15 Full duration matching is in essence an
16 asset liability matching program, within which MPI
17 seeks to duration match its portfol -- its portfolio
18 cash flows with the expected payments of its
19 obligations. In other words, attempting to match the
20 approximate average duration of its fixed income bond
21 investment assets to the average duration of its claim
22 liabilities.
23 As at August 31st, 2015, and based on
24 the recommendations from Aon Hewitt, MPI has
25 implemented full duration matching between its

1 investment portfolio and the claims liabilities. The
2 GRA forecast reflects the implementation of the
3 changes triggered by the ALM study showing improved,
4 but still not full effective immunization against
5 interest rate risk for the Basic line.
6 MPI has provided a corporate-wide
7 capital expenditure forecast. The projected capital
8 expenditures for the current year are 32.3 million.
9 For the year of the application the projected capital
10 expenditures are 43.1 million, and for the subsequent
11 year, 37.6 million. So that's a total of
12 approximately 113 million over a three (3) year
13 period.
14 The majority of the capital spending is
15 on IT-related project -- projects including the
16 physical damage re -- re-engineering project or PDR
17 project currently underway. The completion of this
18 project -- that is, PDR -- has been delayed by two (2)
19 years and is now anticipated to be implemented fully
20 in 2019/'20. The delay was due to the results of the
21 pilot projects which indicated a need to refine the
22 details of this initiative.
23 MPI is also budgeting for technology
24 modernization costs of 33.3 million over the next four
25 (4) years to ensure that its existing IT systems are

1 fully supported.

2 MPI has advised that there will be no

3 formal project charter for this initiative, and that

4 it will provide further detail of the nature of the

5 spending when the budgets become more formalized.

6 Total Basic expenses were 206.2 million

7 in the last fiscal year, which is up from 199.1

8 million 2013. Total Basic expenses are forecast to be

9 207.1 million in the current year. Thereafter, Basic

10 expenses are forecast to grow to 217.4 million in the

11 year of the application.

12 Salaries and benefits are a major

13 component of the operating expenses of Basic,

14 representing over 56 percent of the total operating

15 expenses in the year of the application.

16 Since 2011/'12, MPI has experienced a

17 compound annual growth rate of salaries and benefits

18 of 3.7 percent from 108.6 million in 2011/'12 to 116

19 million in 2014/'15. Salaries and benefits are

20 forecast to be 118.8 million in the current year, and

21 to rise to 122.5 million in 2016/'17.

22 MPI is now forecasting an increase in

23 compensation expenses of 2.4 percent in 2015/'16, and

24 an increase of 3.1 percent in 2016/'17, which

25 forecasts are in excess of inflation at 2 percent.

1 The collective agreement between MPI
2 and the Manitoba Government and General Employees'
3 Union, or MGEU, covers 90 percent of MPI's workforce
4 and has been in place since September 23rd, 2012. As
5 a four (4) year agreement, it will continue until
6 September 17th of 2016.
7 This collective agreement included no
8 monetary increases in years 1 or 2, followed by
9 increases of 2.75 percent in each of year 3 and year
10 4.
11 Economic increases for the years
12 2016/'17 through 2019/'20 have been estimated, for the
13 purposes of the GRA as an agreement has not yet been
14 reached for those years as between MPI and MGEU. MPI
15 is currently entering negotiations and has just signed
16 a memorandum of agreement with MGEU. MPI hopes to
17 have the new collective agreement ratified by March of
18 2016 in order to finalize the negotiations and have a
19 new agreement implemented next fall.
20 MPI has achieved a staffing reduction
21 of thirty (30) full-time equivalents, or FTEs, at an
22 annualized savings of 1.8 million in 2016/'17.
23 The overall corporate staffing level of
24 nineteen hundred and eleven point two (1,911.2) FTEs
25 for the current year includes one thousand eight

1 hundred and ninety-eight point seven (1,898.7) FTEs in
2 normal operations and twelve point five (12.5) FTEs in
3 improvement initiatives.
4 In addition, MPI's current staff
5 complement includes two hundred and ten (210) FTEs to
6 support its IT infrastructure and projects. And MPI
7 makes use of external IT contractors to deliver its IT
8 infrastructure with approximately a hundred and ten
9 (110) FTEs in 2014/'15.
10 MPI has advised that the number of
11 consultants that it engages on IT is influenced by its
12 inability to hire these individuals at the pay scale
13 that the market would require.
14 MPI incurs significant -- significant
15 annual costs to support its information technology.
16 These expenses have grown from 24.7 million back in
17 2005/2006 to over 58.4 million in 2014/'15. That's a
18 compound annual growth rate of 12.3 percent over a ten
19 (10) year period.
20 MPI is forecasting to spend 54.4
21 million in 2015/'16 and 60.6 million in 2016/'17 on
22 IT. Thereafter, MPI is forecasting growth in the
23 expenditures to 66.2 million in 2019/'20, and that
24 represents a compound annual growth rate of 2.5
25 percent.

1 MPI is forecasting to spend 11.4
2 million in Basic road safety and loss prevention
3 programs in 2016/'17. The largest component is spent
4 on driver education, including the High School
5 Driver's Ed Program, which is approximately 3.6
6 million or 3.1 -- pardon me, 31 percent of the overall
7 budget. Auto crime prevention strategies are the
8 second largest expenditure at 2.2 million, or 20
9 percent of the budget. Third is impaired driving
10 prevention strategies, which is forecast at 1.2
11 million, or 11 percent of the overall budget. The
12 balance of the road safety programs are advertising
13 and sponsorships, road safety programming, and road
14 watch, which is increased enforcement.
15 In addition, MPI filed with the Board a
16 three (3) year road safety operational plan which was
17 created after it engaged Meyers Norris Penny in 2014.
18 MPI also engaged IBM to develop a loss prevention
19 governance framework, and MPI accepted all of the
20 recommendations put forward by IBM.
21 Components of the loss prevention
22 framework include auto theft prevention, driver safety
23 rating, Basic Insurance Fleet Management Program,
24 fraud prevention, subrogation and recovery, salvage,
25 physical damage research, training and accreditation,

1 road safety programming, driver education and
2 partnerships with law enforcement.
3 MPI has also established an external
4 stakeholder committee on loss prevention of which CAC,
5 CMMG, Bike Winnipeg and CAA are all participating
6 members. In addition, the Province of Manitoba has
7 established a new provincial road safety committee
8 which is co-chaired by MPI and Manitoba infrastructure
9 and transportation. The objective of the committee is
10 to enhance road safety and reduce the number and
11 severity of collisions and collision injuries and
12 fatalities by guiding a strategic and holistic
13 approach through stakeholder engagement and
14 collaboration.
15 With respect to the driver safety
16 rating in particular, we heard this year for the first
17 time that the program implemented now five (5) years
18 ago has started to show positive results when
19 reviewing the summer months experience, including a
20 consistent decline in the frequency of claims.
21 Madam Chair and members of the panel,
22 I've attempted to comment on the main issues that are
23 before you. I would like to thank the panel for its
24 patience and cooperation throughout this process. And
25 similarly, I'd like to thank MPI and the Intervenors

1 for their cooperation extended throughout the last
2 couple of weeks, and certainly since the filing of the
3 GRA in June. Thank you.
4 THE CHAIRPERSON: Thank you very much,
5 Ms. Grammond. We appreciate the work you do. Now I'd
6 like to call upon Mr. Ray Oakes to give his final
7 comments.
8
9 CLOSING COMMENTS BY CMMG:
10 MR. RAYMOND OAKES: Thank you, Madam
11 Chair. Board counsel closed with a thank you to the
12 participants and to the Board and MPI. I'd like to
13 open with 'thank you'. In the past three (3) weeks
14 we've had the benefit of having a very professional,
15 respectful exchange of discussions on various issues.
16 And I'd like to thank the Board, both the Board
17 counsel, its advisors, and the MPI panel for that
18 respectful exchange and for the quality of the
19 testimony of the witnesses and for the Intervenors'
20 counsel and their cooperative efforts, as well.
21 I'm told -- it's whispered to me that
22 MPI is pleased with at least one (1) part of the CMMG
23 intervention, and that's that the CMMG intervention
24 was primarily concerned with the rate and the rate
25 setting. This is a very complex hearing over the

1 course of the last three (3) weeks with a -- a number
2 of very intensive issues. In fact, the first couple
3 of days, we had one (1) presenter who was so confused
4 with the issues, he thought this was a general rate
5 application.
6 But -- but we've gone on to examine
7 each of these diverse and difficult issues. And the
8 thrust of the CMMG argument will be that the actual
9 rate calculations in this GRA provide a directional
10 guidance for this Board in setting rates. In other
11 words, the methodology and the calculations produced
12 are not a certain figure requiring the slavish
13 adherence of this Board to the applied-for rate.
14 I'm going to be bold at this point and
15 ask this Board to set the -- the decrease for
16 motorcyclists at 12 percent for the 2016 upcoming year
17 for the reasons that follow. And as we can see from a
18 review of the rates put before this Board in the final
19 Board orders, the Board has more or less approved the
20 applied-for rate. Usually some minor modifications.
21 To do this means that the actuarial
22 methodology would need to be precise and accurate
23 calculations with only one (1) answer forthcoming from
24 those calculations. We've seen in the cross-
25 examination that CMMG provided this year that that's

1 not the case. Mr. Johnston, at page 1,145 of the
2 transcript, in referencing the calculation of rates
3 and methodology said, Motorcyclists were going to be
4 wrong every single time -- or motorcycle rates were
5 going to be wrong every single time.
6 MPI's methodology is different than the
7 majority of insurers, as we reviewed at page 1,128 of
8 the transcript, and the previous page. Mr. Johnston
9 accepts that the approaches of other actuaries would
10 be reasonable in -- in using shorter periods of data.
11 In fact, the Corporation can't produce another insurer
12 that uses the same methodology as MPI. They have no
13 capping of serious losses. The time frame for the
14 data used is ten (10) years, whereas most actuaries
15 use five (5). They have no weighting for the more
16 recent data.
17 And MPI recognizes the new trend in
18 motorcycle claims costs. We saw in Exhibit 36, which
19 was Pre-Ask 8, the actuary from Aon and IAO in --
20 recognizes that in Ontario, Alberta, and the two (2)
21 maritime provinces they report on, that claims costs
22 are decreasing year after year, resulting in a reduced
23 rate year after year.
24 We have closer to home, in the response
25 to CMMG-1-13, MPI recognizes as follows. Their

1 response says that:

2 "A recent trend of decreases in

3 required rates suggests the

4 motorcycle major class is

5 improving."

6 Mr. Guimond enters the fray at page

7 1,209 of the transcript, and he says:

8 "I think what's happening there is

9 we can see the rates going down for

10 motorcycles. We can -- things are

11 going in the right direction."

12 And despite that recognition of the

13 Corporation formally in that respect, they don't

14 recognize it with respect to the methodology used in

15 calcing -- calculating rates because they equally

16 weight the last ten (10) years of data instead of

17 weighting these years that -- that provide that trend,

18 and proving more weight to them.

19 And that approach would be more in line

20 with the actuarial standards, and the one that we

21 looked at or one (1) of the ones we examined was

22 seventeen thirty decimal oh-three (1,730.03), and it's

23 contained at page 1,137 of the transcript. What that

24 says is:

25 "Other things being the same,

1 pertinent past experience data, or
2 data relating to the case itself
3 rather than to similar cases,
4 relating to the recent past rather
5 than the distance -- distance past."
6 So it goes on, and that's the standard
7 that requires taking that trend into consideration and
8 providing more weight. Instead, what we have is the
9 Corporation using a 2006 outlier. Page 1,132 of the
10 transcript, Mr. Johnston says:
11 "We haven't had a year like that
12 again since 2006, and I hope we
13 don't."
14 So back, if you will, to our original
15 bold request, and we look at CMMG IR-23. If we remove
16 just that one outlier of 2006, we have a 12.7 percent
17 decrease calculated for motorcycles. And I suggest to
18 the Board that's the only reasonable thing to do based
19 on the actuarial standards, based on usual practices.
20 If we -- if we use five (5) years on
21 serious losses, and the reference for this is page
22 1,177 of the transcript on lin -- line 11, then we
23 have a 12 percent decrease. We keep coming back to
24 that same figure with respect to the decrease. And
25 they're -- what Mr. Johnston said at page 1,177 was:

1 "For 2012 GRA, we revised the
2 averaging of non-serious PIPP losses
3 for the motorcycle major class from
4 using a five (5) year average to
5 using a ten (10) year -- year
6 average. This had a positive impact
7 on the major class rate indication
8 at the time, as it lowered the rate
9 decrease by a further 4.2 percent in
10 that year. So the rate decrease
11 ended up being 12 percent instead of
12 7.8 percent before we made that
13 change."
14 MR. RAYMOND OAKES: And in terms of
15 that change, which was only made in 2012 to go to ten
16 (10) years of data for non-serious losses, I'd also
17 point out to the Board the discriminary nature of
18 that, because that's something that they don't do for
19 private passengers. The inequity of this situation is
20 compounded by the application of the indicated rate
21 change versus experience rates, the capping that MPI
22 uses. It's referred to CMMG Interrogatory 1-3(b).
23 It's contained at page 1,149 of the curr --
24 transcript.
25 And the -- the perverse nature of this

1 rate capping, when we look at the large double digit
2 increases in rate shock that motorcyclists experience,
3 you can understand how this is the salt in the wound
4 of the motorcyclists. In ninet -- in 2004/'05, we had
5 rates increase approved by this Board of 14.82
6 percent. 2005/'06 it was 13.88 percent, I believe,
7 looking at my notes. And as recent as 2008/'09, we
8 had 9.16 percent increase approved. And those all
9 come out of CMMG-1-3, for the reference.
10 So the motorcyclists in this period get
11 this tremendous rate shock, and then when the
12 Corporation comes -- when it finally realizes that
13 they've been collecting far too much in motorcycle
14 premiums and says, Well, you're not going to get the
15 decrease overall that you would otherwise be on the
16 indicated -- or the required rate. What we're going
17 to do is cap that, and the reason for this capping is
18 apparently rate shock. Well, how can rate shock, the
19 rationale for that, come into play to reduce an
20 overall decrease of some 82 -- 8.2 percent decrease in
21 the required rate? It's illogical, and as I say,
22 perverse.
23 Moving to the issue of road safety, we
24 see the puny investment that MPI makes in motorcycle-
25 specific initiatives is even less than that as

1 contained at page 1,210 of the transcript. MPI notes
2 it spends less than its forecast for the last two (2)
3 years on motorcycle issues. We see these reducing
4 expenditures. Very difficult to -- to mount effective
5 cross-examination in the area of road safety this year
6 and last year because, of course, it's all under
7 review. The Corporation isn't doing anything
8 different pending the results of the studies. And I
9 think all I have to say in that respect is when the
10 product finally comes in, it better be good.
11 Certainly, we don't see any new
12 initiatives. The issue of wildlife collision
13 continues to astound me, how little the Corporation
14 does. When we look at the issue of wildlife
15 containment by fencing and underpasses and the rest,
16 all we have is the Corporation took a quick look
17 several years ago at Birds Hill Park and what it would
18 take to provide some collision (sic) there.
19 They had a pretty dim view of what the
20 efficacy of wildlife fencing and underpasses were.
21 They said, Well, seven hundred (700) 'K' would be way
22 too much to spend on that particular initiative. What
23 the Board can take some wisdom from, I think, is the
24 study that was again presented in CMMG in their Pre-
25 Ask 1, talked about efficacy of some 95 percent. And

1 I think that's a far more favourable number than what
2 the Corporation was looking at when it did the cost-
3 benefit.
4 I think the Corporation had a very dim
5 benefit of -- of what wildlife fencing collision would
6 result in. But when we look at the fact when they say
7 seven hundred thousand dollars ($700,000) is too much
8 to spend, one only has to look at Undertaking 33 and
9 look at what are the societal costs of collisions were
10 it was $6.4 million for a fatality.
11 Even if this Board doesn't adopt that
12 approach and look at the societal costs, it really
13 doesn't take much of an accident to produce seven
14 hundred thousand dollars ($700,000) worth of savings.
15 The Corporation over the past number of
16 years has averaged about $30 million in claims costs
17 for wildlife collisions. So I really think that
18 spending sums of money like the Corporation took a
19 brief look at is -- is certainly warranted.
20 We touched on a very unusual, difficult
21 issue. I'm still struggling with how to address this,
22 and I think counsel treated Mr. Guimond very gingerly.
23 We all have a great deal of respect for the office of
24 the president at MPI. It's a very difficult job.
25 And this was of course the discussion

1 with Ms. Neville and Mr. Guimond about contractors.
2 I'm not sure whether that was a discussion or a
3 confession because we're put in a very difficult
4 situation trying to understand and evaluate the
5 response of Mr. Guimond.
6 It's something like coming to this
7 public Board and telling -- and -- and advising us
8 that MPI in this public forum can't tell the public
9 what these contractors make or can't make them
10 employees because then we'd have to disclose on a per-
11 employee basis what they make.
12 And Mr. Guimond says it seven (7) times
13 in the exchange. He doesn't point to any other reason
14 as he tried to with Mr. Williams, pointing to some
15 distortion in their salary hierarchy. No, he says
16 seven (7) times in the exchange, This is an issue.
17 The public wouldn't accept it if we hired them as
18 employees and paid them what we're paying them now.
19 I don't know. Maybe it isn't an issue
20 that this forum needs to deal with and maybe it is. I
21 think the Board last year had an exhibit, legislative
22 report standing committee on Crown corporations.
23 And it may well be that Mr. Guimond
24 becomes an ungulate in the headlights in some other
25 forum. But I find it very difficult to deal with that

1 issue, and perhaps there will be some commentary from
2 the other Intervenors.
3 Over to major issue on the RSR. This
4 is again the -- a very collaborative forum. Despite
5 that, I think that perhaps the approach used this year
6 will not likely be rep -- repeated. I don't think it
7 should, in my respectful submission. It resembled
8 more couples-therapy than it did two (2) actuaries
9 trying to get to the bottom of a very complex issue.
10 But having said that, the CMMG aligns
11 its position with Ms. Sherry. It says to the Board
12 that there is no solvency risk of MPI. The CMMG sees
13 anything more than one (1) in twenty (20) years as
14 providing inter-generational inequity. The CMMG's
15 position is the MC test is totally inapplicable.
16 CMMG would repeat its contention that
17 the Corporation can't justify a level that they're
18 requesting with holding excess funds from taxpayers or
19 ratepayers and the economy. These levels that they're
20 seeking weren't necessary in the 1990s.
21 Manitoba sustained the more horrific
22 one (1) in a hundred years flood ever, and there was
23 basically very little MPI exposure. At the time, we
24 had RSR levels between 50 and $80 million approved by
25 the Board, and, frankly, when we review all of the

1 exhibits dealing with what the actual exposures have
2 been since then, we see two (2) years' examples that
3 were produced by MPI.
4 The testimony was confirmed yesterday
5 afternoon that in 2002, which was one (1) of the two
6 (2) years that MPI points to as these horrific years,
7 at the end of 2002, we had a rebate of some $80
8 million. That doesn't sound too horrific to me.
9 When we asked further about four (4)
10 year examples, MPI came up with four (4) month
11 examples of equity returns that were negatives. You
12 know, frankly, I don't see anything justifying the
13 type of levels that we've been talking about in this
14 forum recently.
15 Page 1,190 of the transcript, the
16 Corporation confirms they didn't -- they've never had
17 this combination of all of those risk factors, and,
18 frankly, how could they? The Corporation, as well, is
19 well set up to handle some of the challenges it might
20 have over the years. It has at least a couple of
21 billion dollars worth of assets. The Corporation
22 won't tell us really how much they have, because they
23 won't tell us what the fair market value of its real
24 estate is, presumably because of some income tax
25 exposure.

1 But they're backed by the Manitoba
2 Government on a more secular, more specific approach,
3 as well as motorcyclists. When I talk -- spoke about
4 the 2005/'06 increases of thir -- or -- and 2004/'05
5 of high 13 percent, high 14 percent increases for
6 motorcyclists, we never saw any benefit from that. We
7 experienced rate shocks all of those times with no
8 help from any RSR.
9 Mr. Johnson (sic) makes the statement
10 that the maximum combined rate increases and
11 additional RSR rebuilding fee in a year should be no
12 more than 5 percent. Well, we would have liked to
13 have lived in that world. Where were those principles
14 when we were getting whacked with 13 and 14 percent
15 increases?
16 So those are our comments overall on
17 all of the issues that we've dealt with in the last
18 three (3) weeks. I'd again ask this Board to consider
19 a rate decrease for motorcycles that's far and above
20 of the amount in the application for the reasons that
21 I've stated. We will be sending our application for
22 costs in due course. I'm not sure whether it'll make
23 reference to the use of the word 'ungulate' in the --
24 in the fact that I broaden the horizons of this Board
25 and increase it's vocabulary, but we certainly hope

1 that our intervention was of assistance. Thank you.
2 THE CHAIRPERSON: Thank you, Mr.
3 Oakes. Now I'd like to call upon Ms. Kulyk, from CAA,
4 to give her closing comments.
5
6 CLOSING COMMENTS BY CAA MANITOBA:
7 MS. LIZ KULYK: Thank you, Madam Chair
8 and members of the Board. CAA Manitoba is grateful
9 once again to have this opportunity to sit as an
10 Intervenor in the -- in the GRA process, as we've done
11 for twenty-one (21) years. We generally do make an
12 effort to appear in person. And we regret we haven't
13 been able to do the -- that this year, but we have
14 been following the proceedings closely. And I'll make
15 a few brief comments just before the Board today.
16 So as I mentioned at the start of the
17 hearings, our intention in intervening, really, is
18 just to be armed with the facts so that we can then
19 communicate to our -- our large membership about auto
20 insurance rates, but even more importantly, in our --
21 in our view, road safety priorities.
22 In regards to our comments, like I
23 said, they will mostly pertain to road safety in the
24 aspect of the rate-setting process, but we appreciate
25 this is just one (1) element that's been examined.

1 And I know you appreciate it is important to us, and
2 that's why we do -- we do proceed in this fashion.
3 I'd like to also mention that our CEO,
4 Mike Mager, does take a great interest in these
5 proceedings and, as well, does usually intend to be
6 here, but he wasn't able to be here today. He always
7 reminds me to bring up the fact that the fair and
8 reasonableness of the rate-setting process is our
9 number 1 priority. And he alway -- he also does
10 always remind me to talk about the fact that -- how
11 the Corporation has increased its transparency on a
12 variety of fronts in recent years is -- is very
13 encouraging to us.
14 In regards to the application for no
15 overall change to Basic insurance rates, we -- it is
16 an application we do support. I know we've tended to
17 be critical in the past when rates have not been
18 stable. We do know that things do change year-over-
19 year because of market factors, other considerations
20 that are examined at the these hearings. But at the
21 end of the day, we know that Manitobans agree, having
22 balance and stability in the rates is the best-case
23 scenario. We hope the Board agrees that this
24 application is fair and reasonable.
25 Secondly only to that, if my CEO was

1 here today, he would want me to highlight the fact
2 that we are heartened by recent efforts by the
3 Corporation to involve stakeholders like CAA in
4 various initiatives that help determine its future
5 direction.
6 While in its initial stages, the loss
7 prevention committee that's been discussed in these
8 hearings has now met twice, and we believe that it
9 actually has helped pave the way for an -- a open line
10 of communication about some pretty important issues
11 that do help set the rates, and -- and have a pretty
12 big impact on Manitobans in the long run.
13 So we expect that that committee by
14 this time next year will be able to have some
15 significant progress to report, and we expect that
16 that committee will be providing the Corporation with
17 this useful feedback on a regular basis, and in turn,
18 we're hoping that the Corporation will report on how
19 that feedback is being received and then what actions
20 will be taken. That's key to the process being
21 successful, that there is that open back and forth
22 communication about the actions they're taking.
23 A few specific programs. We strongly
24 support the research and development into improving
25 the High School Education Program. And the

1 investments made into that program, we strongly
2 support. Also the adult -- the Adult Driver Education
3 Pilot that they're undertaking is something of
4 interest, and we think is of -- of value for money to
5 be spent on.
6 We're also pleased that the road safety
7 priorities of the Corporation do seem to still so
8 closely align with those of our members. When they
9 tell us what's important, we always do -- because
10 there's a lot of overlap between what CAA does with
11 public awareness and what the Manitoba Public
12 Insurance does, so the fact that they're closely
13 aligned is -- is -- we think is a good -- a good sign.
14 We do, that said, feel that distracted
15 driving needs to command much more of the road safety
16 budget. It is an issue that even though legislation
17 has been stiffened as of late, and we think that's a
18 great step in the right direction, the public
19 education and awareness side of it, that's never going
20 to go away. The problem is only going to continue to
21 require much more investment on that front.
22 Telematics. Telematics for new drivers
23 was something that was mentioned in these proceedings.
24 We think that's a great idea, but CAA also encourages
25 the Corporation not to close the door on many, many

1 other uses for telematics.

2 Anecdotally, my counterpart from south-

3 central Ontario, which is the largest CAA club in

4 Canada, has been doing some really interesting testing

5 for auto insurance rates, and helping people adjust

6 based on their driving style. And anecdotally,

7 there's some people that are seeing four (4) and five

8 (5), and six hundred dollar ($600) savings on their

9 high -- high insurance costs in Ontario. So I hope

10 that that's something that they'll be considering to

11 look at here in Manitoba maybe after they -- they do

12 do this part that they're talking about with the --

13 the high school students.

14 And the -- the -- while brief, those

15 are my comments. I do apologize for not going into

16 much more detail, but we always do appreciate the

17 opportunity to intervene. We thank the Board members,

18 MPI, the -- the Board -- Board counsel, and especially

19 the other Intervenors for their very thorough

20 examination of the evidence that was presented. And

21 we look hearing -- look forward to hearing what the

22 Board decides.

23 THE CHAIRPERSON: Thank you very much,

24 Ms. Kulyk. We do appreciate all the Intervenors, and

25 I've neglected to really thank Mr. Oakes, I believe.

1 I think he took me a little bit aback on the ungulate
2 comment, so I -- I forgot. Anyway, so thank you to
3 both of you for your comments.
4 MR. REGIS GOSSELIN: Ms. Kulyk, I have
5 a question. Do you have any comments about the rates
6 stabil -- rates stabilization reserve?
7 MS. LIZ KULYK: You know, I -- I chose
8 not to make comment on that just because I haven't
9 been able to follow the proceedings as closely. Even
10 just listening to the comments today, I was quite
11 surprised with almost no -- not much background, I was
12 quite surprised with some of the range -- the -- the
13 minimum range that the Corporation is asking for. I
14 didn't realize that it -- in past, we've talked about
15 it not needing to be that high.
16 It really hasn't been used much in the
17 past, so I was quite interested to hear that. But I
18 can't give much commentary at the personal -- on my
19 perspective at this time, just because I don't have
20 all the information. I apologize.
21 THE CHAIRPERSON: Okay. Again, thank
22 you, Ms. Kulyk. I'd like to call upon Mr. Monnin for
23 Bike Winnipeg.
24
25 CLOSING COMMENTS BY BIKE WINNIPEG:

1 MR. CHRISTIAN MONNIN: Thank you,
2 Madam Chair, members of the panel. Bike Winnipeg's
3 closing arguments, or submissions, rather, will deal
4 at a very high level with the history of Bike Winnipeg
5 in these proceedings, and then identifying the scope
6 of our inter -- intervention, and then hitting some
7 highlights of our position viewed from the prism of
8 that -- that intervention.
9 On the history of -- of Bike Winnipeg's
10 involvement, as most of you know, this is the second
11 time that we are here as a -- an Intervenor. Prior to
12 that, Bike Winnipeg initially came to the GRA based on
13 its frustration, frankly, with MPI's messaging to
14 drivers about how to behave on the road when they
15 encountered bicycles, and -- and VRUs. Bike
16 Winnipeg's efforts to influence the officials in
17 charge of the road safety program, in the view of Bike
18 Winnipeg, just weren't achieving the results that they
19 wanted.
20 And Bike Winnipeg participated as -- as
21 a presenter in these hearings. And their present --
22 presentations emphasized on improving bike -- MPI's
23 methodology for modifying the most harmful driver
24 behaviours, and with regards to developing and
25 delivering messages to change that behaviour. At that

1 time we heard from MPI -- it submitted that it wasn't
2 its mandate to do so, and it was actually just limited
3 to education projects that affected their revenues and
4 costs. But as we know, the limitations of the
5 education was -- was removed from the legislation.
6 Bike Winnipeg then took a larger role
7 with these proceedings in introducing analysis of
8 traffic collision data showing that while fatalities
9 were declining for motor vehicle occ -- occupants
10 within Manitoba, those fatalities were increasing for
11 VRUs and cyclists. As the PA -- as the PUB eventually
12 started pushing MPI on road safety, MPI argued that it
13 was indeed beyond MPI's -- PUB's mandate to do so, but
14 thankfully the PUB persevered.
15 And Bike Winnipeg was encouraged by the
16 orders from the PUB related to road safety. But I
17 think it bore now -- it was borne out in -- in an
18 order of last year, 135/'14 that they were a little
19 dismayed to see MPI's failure to properly respond in a
20 proactive manner and a timely manner to these orders
21 of the Board.
22 And what we saw last year, again, in --
23 in Board Order 135/'14 was direction from the Board to
24 be -- for -- for MPI to provide independent review of
25 the road safety programs. And last year the PUB

1 ordered MPI to commission an independent analysis of
2 their road safety programs. I'll get to that, but I
3 think it's important to get back onto the record the
4 scope of our intervention.
5 I've been saying it, I think, sometimes
6 ad nauseam, but it's clear to me that it's important.
7 Is that Bike Winnipeg's task, or the scope of its
8 intervention, is to assist this Board in critically
9 evaluating the optimum size of MPI's road safety
10 budget and whether it is sufficient to enable
11 significant reduction in the cost to MPI of injuries
12 to vulnerable road users including, but not limited to
13 cyclists in the short and long-term, the adequate --
14 adequacy of MPI's road safety programs, with respect
15 to the fatal and several injury of vulnerable road
16 users including, but not limited to cyclists.
17 And finally the quality and clarity of
18 MPI's data collection, analysis, and accessibility
19 regarding collisions involving vulnerable road users
20 including, but not limited to cyclists, particularly
21 in comparison to transportation safety programs from
22 local, national, international entities and
23 jurisdictions.
24 Now, one (1) of the hallmarks of MPI's
25 application on -- on -- with regards to the order of

1 last year was an order from -- I'm sorry, a report
2 from Ms. Kroeker-Hall. And she was retained based on
3 the order to commission independent analysis of the
4 road safety programs, and to recommend the optimal
5 size of a road safety portfolio for the Corporation
6 with a view to minimizing the economic and social
7 costs of collisions.
8 Well, MPI did commission a study. The
9 concern for Bike Winnipeg was whether this was an
10 independent study. And it didn't sufficiently address
11 the social costs, as ordered by this Board. A cynic
12 might say that MPI generated this report to polish its
13 own apple. A more clear-eyed pragmatist might say
14 that simply PUB (sic) strayed from the Board's order
15 of last year with regards to this particular report.
16 This is by no means an attack on Ms.
17 Kroeker-Hall. Well, frankly it was unfair to her to
18 not be produced here to defend her report. But how do
19 we gauge the independence of a report when the party
20 who commissioned that report -- and we just found out
21 this morning, from what I understand, there was four
22 (4) revisions to -- up to four (4) draft revisions.
23 We don't know what those revisions entail. If this
24 was a court of law a party who was challenging that
25 report would have access to that file.

1 How do we know the independence of a
2 report when the party that commissions the report has
3 the pen, and they refuse to bring that expert forward?
4 How do we know the independence of a
5 report when we're not entirely sure what materials
6 were -- were given to that expert, what assumptions
7 were provided, what instructions were provided, and
8 when asked for file, we're told, That's the propriety
9 interest of that expert.
10 I'm suggesting, Bike Winnipeg is
11 suggesting that that's not the case at all, which was
12 borne out by the questions that were put to the Board
13 -- to the Corporation yesterday. The contract between
14 Sirius and the Corporation clearly shows that the
15 ownership of that material is in the hands of the
16 Corporation.
17 When asking questions about -- one (1)
18 of the things we need to know about an expert is:
19 Does that expert have the necessary expertise and
20 experience to provide a finding or opinion or
21 conclusion on what is -- what's being put to that
22 particular expert?
23 Oh, it would have been a lovely
24 opportunity to -- to find out from Ms. Kroeker-Hall
25 whether she had that experience or expertise to do so.

When asked questions about her CV yesterday, the Corporation just simply refused to answer those questions.

The questions were: Did she have the economic credentials required to calculate an optimal budget to minimize the social costs of collisions? Well, we don't know.

But let's look at what the report does say. In the review of best practices and road safety around the developed world, the consultant states:

> "Currently, the safe systems approach appears to be the model of choice. It seeks to identify and address the major sources of error or design weaknesses that contribute to crashes and mitigate the severity and consequences of injury."

That's on page 3 of the report. On page 49, the consultant concludes:

> "MPI has chosen a model intended to optimize its funding or provide a return on investment that will contribute to achieving its goals."

Bike Winnipeg suggests that this is a huge difference in the models: on the one (1) hand,

1 the world best-demonstrated practice, and that
2 practice is that the best practice is to design road
3 safety programs to reduce injuries and fatalities.
4 And that's endorsed by the WHO and the national
5 government.
6 So between what the WHO has endorsed
7 and the national government and what the finding is
8 that MPI has chosen a model intended to optimize its
9 funding or provide a return on investment that will
10 contribute to achieving its goals, there's a huge
11 difference between those two (2).
12 On the one hand, the world best-
13 demonstrated practice is to mitigate the severity and
14 consequences of injury, and on the other hand, MPI's
15 program is intended to optimize its funding.
16 So the take-away from that, I have to
17 assume because I can't ask the expert -- but the take-
18 away from that is that MPI's road safety is primarily
19 driven by claims cost reduction and doesn't take into
20 account societal costs.
21 Now, the record were bear -- will bear
22 out that MPI's evidence is that it is not applying the
23 same kind of quantitative analysis to analyze its
24 social cost trends of injuries and fatalities as it
25 applies to claims cost analysis.

1 Reducing social costs of the collisions
2 is beyond MPI's mandate, we are told. And we are told
3 that MPI is only one (1) simple player in the road
4 safety construct or the road safety diaspora that we
5 have in Manitoba, and that the societal costs lie
6 elsewhere in the provincial government, and that MPI
7 simply cannot deal with societal costs.
8 Well, this, Bike Winnipeg suggests, is
9 a critical gap in Manitoba's road safety programs, and
10 that gap needs to be closed. No one is focused on
11 correcting the causes of collisions that cause high
12 society costs but relatively low claims costs. We
13 submit that's the priority in other jurisdictions and
14 ought to be the priority in Manitoba.
15 And it's hard to be -- you know, that
16 being the case, it's -- it's hard to square that with
17 what is goal number 7 of the report. And we've --
18 again, I've probably repeated this one ad nauseam in
19 the hearing, but I'm going to go one (1) more time
20 with it.
21 The Manitoba Public Insurance will lead
22 driver and vehicle safety initiatives that reduce risk
23 and protect Manitobans on our streets and in our
24 neighbourhoods. Manitoba -- Manitobans will recognize
25 that Cor -- the Corporation is living its mission.

How do you reconcile that with the position that it can't deal with societal costs? Bike Winnipeg submits you just can't reconcile that.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: Now, we're told that the safety plan is evolving and the framework is in place and we just need to wait. It's time. That's great. That's all good and well. But the track record of MPI on road safety issues is strained at best.

The or -- the -- the Board just needs to review its order of last year, 135/'14, where it gave a very clear and concise evolution of MPI's track record on road safety issues.

And if I can inject a little bit of levity, today is Back to the Future Day, if anyone remembers those movies. Well, here we are again, being told this -- it's coming, just wait, just wait. Well, more needs to be done, and it has to be more than just putting up signs at -- at a high -- a -- purportedly high collision intersections to make it seem like we're doing something.

1 (BRIEF PAUSE)

2

3 MR. CHRISTIAN MONNIN: Now, let's look
4 at the scope of the intervention again from Bike
5 Winnipeg. And how can we help the Board critically
6 evaluate these things? Item number 1, last year, the
7 submissions from Bike Winnipeg was, It is hard to do
8 this in a vacuum. There's a little bit more meat on
9 the bone now with -- with the report that's been
10 filed, but we respectfully submit that we're still in
11 a -- very much in a vacuum.
12 So how -- how do we deal with assisting
13 the Board in critically evaluating the optimum size of
14 MPI's road safety budget when we don't even know what
15 their program is? We know that the budget's going
16 down. It's 11.4 million. We don't need -- and we
17 also know that there's no cap, apparently, on -- on
18 such a thing, but we don't know if it's appropriate
19 because we don't know what the program is. We're
20 told, Just wait and see.
21 Now, we have much data on claims costs
22 and collisions to cars. We're all about the tin, but
23 we're still not talking about the skin. And we have
24 very little data on the societal costs. As My Friend,
25 Mr. Oakes, mentioned today, we referred to the

1 societal impact of $6.4 million. That's on the low
2 scale. The evidence that Bike Winnipeg gave was much
3 higher than that. We know the costs, but we're not
4 dealing with it.
5 And the third -- and the second item of
6 our scope, the adequacy of MP -- MPI's road safety
7 programs with respect to the fatal and severe in --
8 injury of -- of vulnerable road users, again, we just
9 -- we don't know. We're told, Let's just wait. We
10 have the Halloween lights. We've heard about those.
11 We have an intersection with signs, but we're still
12 wait (sic) on the other stuff.
13 And the quality and clarity of MPI's
14 data collection, analysis and accessibility regarding
15 collisions involving vuln -- vulnerable road users.
16 We have a heck of a lot of data on -- on the -- the
17 collisions to cars. We have no other data -- very
18 little data on the VRUs and societal costs.
19 So where does that leave us? The gap
20 has to be closed between the societal costs and the
21 claims costs. And we submit that the Board has the
22 authority to assist in closing that gap.
23 On the issue of -- of the independence
24 of the report, on a going forward basis we submit that
25 the expert ought to be produced. Or the Board, we

1 would submit, has the ability to -- to get their own
2 report to do a proper and true independent revision of
3 MPI's programs, MPI's road safety budget.
4 Alternatively an Intervenor on a going-forward basis
5 would arguably be in a position to do so.
6 On the whole, MPI does not stray from -
7 - pardon me, Bike Winnipeg doesn't stray from the
8 position that MPI's road safety programs need specific
9 targets, aggressive and creative marketing campaigns,
10 and a progressive plan to attain those goals, targets,
11 and outcomes, and not a mere schedule of activities.
12 Subject to any questions from the
13 Board, we thank you for the opportunity to be here
14 once again. We thank the Corporation for their
15 cooperation throughout the hearing, and my other
16 Learned Friends and other parties. And we will be
17 submitting our bill of cost in due course with
18 accordance with the rules. Thank you.
19 THE CHAIRPERSON: Thank you very much,
20 Mr. Monnin, and also thank you for participating Bike
21 Winnipeg in this -- these hearings. I think this is a
22 perfect time -- unless there's any questions? Yeah,
23 Ms. Neville?
24 MS. ANITA NEVILLE: Mr. Monnin, you
25 opened your remarks -- well, first thank you for your

1 comments, but you -- you opened your remarks with --
2 by saying that you were not able to achieve results in
3 terms of road safety for Bike Winnipeg until you began
4 hearing -- attending these hearings.
5 What have you achieved since you've
6 attended the hearings?
7 MR. CHRISTIAN MONNIN: Not having the
8 report in front -- thank you for the question, Ms.
9 Neville. Not having the report in front -- the order
10 in front of me, Order 135/'14 we would submit Bike
11 Winnipeg had a significant contribution to that coming
12 out, the particular part about the evolution or the
13 history of MPI's let's say less than enthusiastic
14 response to the road safety issue.
15 We, if memory serves me correctly,
16 highlighted the historical process -- the historical
17 orders that came out from this Board on the road
18 safety issue, and on a reoccurring basis that just
19 wasn't property responded to by MPI. Last year the
20 Board -- the Board ordered the independent review, and
21 we have that report. We know that -- that MPI spent -
22 - I believe, forty-nine thousand dollars ($49,000) was
23 the answer to the undertaking on that. And I think
24 there was a corporate cost around four hundred
25 thousand dollars ($400,000).

1 So significant contributions and
2 efforts were finally made to this particular pocket
3 that Bike Winnipeg has been dealing with, or pushing
4 forward, for quite some time. I don't think we have a
5 complete answer, or -- or a satisfactory answer to
6 what -- on that -- on this particular point, however,
7 we're making progress and I -- I think that Bike
8 Winnipeg's contributions have held the Corporation's
9 feet to the fire.
10 THE CHAIRPERSON: Mr. Gosselin...?
11 MR. REGIS GOSSELIN: Yeah. I guess,
12 Me. Monnin, I -- I don't recall, maybe you can -- you
13 can correct my -- my recollection, but I don't recall
14 you requested the presence of the expert, Ms. Kroeker-
15 Hall.
16 MR. CHRISTIAN MONNIN: Thank you, Mr.
17 Gosselin. Yes, the IRs -- we didn't make a formal
18 request. We requested it in the IRs on two (2)
19 occasions whether Ms. Kroeker-Hall would be presented.
20 And one particular -- IR-2-6, for example, we asked
21 for the production of Ms. Kroeker-Hall. That was
22 refused.
23 We asked again for the production of
24 Ms. Kroeker-Hall's file, experts file, and we asked
25 whether the Corporation would reconsider producing

her, and again both those were refused.

MR. REGIS GOSSELIN: Okay. And it may be a process thing, but perhaps in the future if you could find a way to bring that to the attention of the Board. I guess it probably slipped by this Board, and -- and you might want to think of another way of addressing it rather than just through an IR as a way of signalling your -- your desires, I guess, or your -- I'm -- I'm not guaranteeing that we would produce the expert but at least it would have been brought to the attention of the Board.

MR. CHRISTIAN MONNIN: That would be taken to heart, Mr. Gosselin. The answer I can give you to that is Bike Winnipeg is very mindful of the -- the modesty of its intervention. And on a going-forward basis, that's -- that's been duly noted, and we will take that to heart. Thank you.

THE CHAIRPERSON: Okay. Thank you. I think this is a good time to take a break. We'll take a fifteen (15) minute break, and reconvene at 10:45.

--- Upon recessing at 10:29 p.m.

--- Upon resuming at 10:49 p.m.

THE CHAIRPERSON: Welcome back. I'd

1 like to call upon Mr. Byron Williams to give his
2 closing comments from CAC.
3
4 CLOSING COMMENTS BY CAC (MANITOBA):
5 MR. BYRON WILLIAMS: Yes, and thank
6 you, Madam Chair and members of the Board. And I
7 should note that our client Ms. Desorcy is here and
8 she's given me three (3) corrections already to my
9 written PowerPoint. So I'll -- I'll try and convey
10 those verbally to you. I would be a little bit better
11 prepared, except for the last twenty (20) minutes, we
12 were googling different types of ungulates in the
13 second row.
14 And I've always had a particular
15 affection for woodland caribou, and they are indeed an
16 ungulate as well. So thanks to Mr. Oakes, I'll be
17 thinking about couples therapy, rake applications, and
18 -- and ungulates for the next two (2) hours. So if I
19 appear distracted, and unable to -- to deliver able
20 submissions, it is Mr. Oakes's -- Oakes's
21 responsibility.
22 THE CHAIRPERSON: If you're
23 distracted, we'll put you on the distracted driving
24 list.
25 MR. BYRON WILLIAMS: The -- I do want

1 to start with a thank you to this Board. Our client
2 is very grateful for the opportunity to appear as
3 Intervenors. And unlike My Learned Friend Mr. Oakes,
4 our -- our client found the joint actuarial evidence
5 to be a -- a very useful exercise. There's some
6 things we probably would do different, but we think it
7 -- it was a -- a good exp -- more than a good
8 experiment. We think it was a good outcome, and --
9 and so I'll beg to differ with him.
10 And the other thing is -- and -- and,
11 of course, one never knows when one will appear before
12 the same panel again. And I did want to indicate to
13 this panel, on behalf of our clients, our appreciation
14 for the -- the careful consideration and the careful
15 hearing that our client's issues have always received
16 from this panel. From time to time we may disagree on
17 the outcome, and that -- that's part of the -- the
18 process. But our client has always felt that there
19 was a careful weighing of the evidence in a principled
20 manner, and that the issue was always open till the
21 last words were heard.
22 And -- and in this hearing in
23 particular, that weighing of the evidence, from our
24 client's perspective, is -- is very important. And --
25 and care needs to be taken. You -- you have heard a

1 lot of assertions in this hearing, assertions about
2 privatization, and -- and other issues. And that has
3 to be weighed very carefully against the evidence.
4 And especially because there's a lot of
5 uncertainty in terms of change at the -- at the
6 government level, who this Board will be, who the MPI
7 board will be. And from our client's perspective,
8 it's very important that when we get to some of these
9 key issues, that we set out a principled approach
10 going forward that can guide this Board, hopefully,
11 but other boards that succeed you. And -- and
12 certainly that's our client's approach in the course
13 of this hearing, and that will be thrust of our
14 evidence.
15 You're well familiar with CAC. I did
16 the advertising at the start of the hearing. I -- I
17 won't go through that again. And I'll -- I'll
18 similarly just highlight the fact that the development
19 of the CAC (Manitoba) position is a thoughtful,
20 nuanced one with multiple inputs. And I put that to
21 your attention.
22 The just and reasonable rate criteria
23 which appears on the next slide is -- is something we
24 also went -- went forward. I did want to highlight
25 the fact that this is the MPI's onus.

1 It is Manitoba Public Insurance's onus
2 in terms of justifying its application. And -- and
3 perhaps that's -- that emphasis is in a bit of a
4 response to some commentary by the chief executive
5 officer of MPI yesterday when he seemed to suggest
6 that, in terms of the RSR, you should defer a little
7 bit to him, trust him in terms of his judgment on that
8 issue.
9 And from our client's respectful view,
10 rate setting is -- it -- it should -- the word "not"
11 should be deleted there -- is about respecting the
12 CEO, but it's not about deferring to his judgment.
13 This call in terms of the rate
14 application and in terms of the rate stabilization
15 reserve is your call. It was given to you by the
16 government. Unlike other jurisdictions where these
17 targets are set by political fiat or administrative
18 fiat, it's your call. And that's one (1) -- part of
19 the genius of the Manitoba model.
20 You're well aware of the just and
21 reasonable rate criteria, and I'll simply highlight
22 the fact that that will be the template that I'll take
23 you through in our submissions.
24 We'll run through forecasts and a
25 number of comments on that, the prudence and necessary

1 test, we -- we'll deal with the issues relating to
2 reserves and allocation of costs, and the ultimate
3 rate recommendation.
4 I do want to -- to draw your attention
5 as well, sections -- on slide 7 to -- to an element of
6 your legislative mandate when it comes to taking --
7 when it -- when you're setting reserves, the
8 considerations that you may take into account.
9 And this certainly applies to your
10 considerations with regard to the rate stabilization
11 reserve, reserves that are necessary, and the
12 opportunity to take in -- into account any compelling
13 policy considerations. And I'll come back to those
14 words when I come to our client's submissions on the
15 rate stabilization reserve, but it's powerful
16 language: necessary, compelling.
17 And from our client's perspective, the
18 RSR ultimately has to be tied in a meaningful way to
19 risk, a robust, analytical foundation based on
20 evidence, not assertions.
21 You've heard a lot in this hearing
22 about MPI's perspective of how consumers feel about
23 the RSR and -- and about rate stability. And we did
24 put a question to them in the Third Round Information
25 Request: What focus groups, what -- what quantitative

1 surveys have you done over the last three (3) years?
2 And to our disappointment with regard to the rate
3 stabilization reserve, MPI's answer was, None.
4 So to our knowledge, in terms of the
5 voice of consumers on these issues, on this record,
6 rather than anecdote and hearsay, the only information
7 our client is aware of is the Probe research report
8 found as -- as part of CAC's response to MPI -- or,
9 sorry, PUB-1-9.
10 And I'm going to turn there just for a
11 second. And I do want to emphasize that it's
12 qualitative research. It's a focus group. The issues
13 in terms of the RSR -- we could have done some survey
14 questions, but our client felt quite strongly with the
15 advice of Probe that this information was better
16 discussed in -- in the format of a -- of a qualitative
17 focus group. And our client undertook two (2).
18 And just, Diana, if I could just ask
19 you to probe up -- pull up page 6 of the Probe
20 research for a moment and -- and scroll to the bottom
21 of that page, if you would?
22 One (1) of the most striking things
23 from the focus groups, from -- from our client's
24 perspective, is participants -- there were two (2)
25 groups segregated by gender. It's a common focus

1 group technique.

2 They were asked: What is an acceptable

3 percentage increase in a single year as a consequence

4 of a financially bad year for the insurance company?

5 And consumers had a choice of from zero to 50 percent.

6 And you can see that the word -- each

7 group had a different response. In the -- in the

8 first group, responses ranged from 1 to 10 percent,

9 but with the most significant cluster being at a 5

10 percent.

11 And then you see, interestingly as

12 well, the risk tolerance from men, with the range

13 between 5 and 18 percent, with four (4) male responses

14 between that 9 and 11 percent.

15 We can go back now, Diana. Thank you

16 for that.

17 That was an interesting response for

18 our client and something I have to say that wasn't

19 fully ex -- expected, but there was useful information

20 our client felt came from that coupled with other

21 information on the record.

22 I'll just note that in that Probe

23 research there's also some interesting responses to

24 issues of risk tolerance, and also in terms of

25 consumers' perspectives of the RSR.

1 But when we go -- when we think of that
2 commentary about that risk -- that rate increase
3 tolerance certainly our client was not inviting, and I
4 don't think those consumers were either, kind of
5 massive rate dislocations as a choice. But that level
6 of rate change tolerance was perhaps more than our
7 client did expect.
8 And our client does draw a distinction
9 when you think of hydro consumers with that who've --
10 who have a very homogenous product which rises for all
11 consumers generally at the same level, and then you
12 think of the volatility associated with automobile
13 insurance. And Mr. Oakes spoke far more eloquently
14 about that today than I could, you know, the 14
15 percent rate increases his clients have -- have
16 endured.
17 But if you think even of the discussion
18 our client had in terms of the 1997 GRA, that Board
19 order, you saw that Jeep Cherokee jumping up 23
20 percent, you know, very significant rate volatility
21 experienced by individual consumers.
22 And in terms of the issue of rate
23 stability, rate volatility, on the MPI side, perhaps
24 consumers have been conditioned to expect more
25 volatility than they -- than they expect on the hydro

1 side. And that's an observation our clients felt was
2 reinforced by that focus group.
3 In the -- in the foot -- in the
4 document that follows, and I just -- I say this every
5 time I do this, we have attempted to either paraphrase
6 the record or directly quote the record. We've always
7 put in the page citation. I always urge, if there's a
8 particularly important quote or citation, go back to
9 the record. We've tried to be fair to record, but,
10 you know, there is some interpretation. So that's
11 just a point that I -- I always make.
12 We have some introductory conceptual
13 issues. And we do want to highlight some strengths of
14 the Manitoba model. They're self-evident, to a large
15 degree. That statutory monopoly makes MPI a dominant
16 player in the market. Consumers don't have a lot of
17 choices. And suppliers to MPI also have some certain
18 competitive disadvantages. And MPI certainly has
19 significant advantages in terms of economies of scale
20 associated with the high volume of transactions. And
21 that's important insight when we look at MPI's claims
22 of prudence and reasonableness.
23 Those are all -- those are important,
24 but they should be measured against the tremendous
25 economic advantages this Corporation has. We point to

1 the -- the relative cost certainty associated with no-
2 fault and -- and other clear economic advantages that
3 this Corporation has by virtue of its monopoly.
4 And, of course, this Board is well
5 familiar with the -- the very significant social
6 advantages, service rather and profit, the opportunity
7 to invest in Manitoba, real opportunities in terms of
8 road safety, and -- and those are important. Because
9 when we're looking at the reasonableness and prudence
10 of its expenditures it's important to distinguish
11 between what the model does well and what MPI does
12 well.
13 And it's also important to be alive to
14 potential threats or weaknesses to the model. And
15 from our client's perspective, there are two (2)
16 potential weaknesses with this model, both which are
17 germane to this hearing. One (1) is the lack of
18 consumer choice. And consumer choice in the
19 marketplace is a very powerful discipline, a drive for
20 efficiency, and that's lacking at Basic and -- and
21 defacto in terms of Extension.
22 And also the reality, and we have to
23 acknowledge that that is a reality, that there is --
24 from time to time, being a Crown, there's that
25 pressure to make decisions for non-insurance risk-

1 based issues. And we've heard throughout this hearing
2 about the 1980s where decisions were not made on a
3 principle basis but on a pragmatic basis, budgeting
4 for loss, preferring rate stability to rates that
5 reflect a risk. Farm trucks were the notorious
6 example. And as a consequence, consumers suffered
7 rate shock.
8 I spoke about the MPI advantages, the
9 Manitoba model. One that I think gets underplayed is
10 our regulatory system. It's our competitive
11 advantage. The regulator serves as a proxy for market
12 discipline. Pressures to make decisions being based
13 on risk. We discussed yesterday how it has served
14 corr -- correctively just last -- the last decade when
15 MPI sought to bring in rates that weren't break-even
16 rates.
17 And when you think of the leadership of
18 this Board keeping costs, especially IT costs, under
19 control and -- and rate mitigation, who's been driving
20 the bus? Who's been leading the charge on interest
21 rate mitigation? This Board for the last seven (7) or
22 eight (8) years has been asking those tough questions.
23 And our clients want to highlight that
24 because you're going to hear from MPI on Monday or
25 Tuesday, or whenever -- whenever they are back up.

1 Well, look at what they do with the RSR in British
2 Columbia. Look at what they do in Saskatchewan. Our
3 client is less interested in what they do in those
4 jurisdictions than how they made that decision, and
5 what the analytic basis was.
6 And we think we heard evidence from Mr.
7 Guimond yesterday suggesting that some of those
8 decisions are made by government, not by regulators.
9 That's in contrast of how we've approached the RSR in
10 this jurisdiction. It's been made by the regulator
11 after careful scrutiny of the evidence.
12 And when you hear our client's
13 commentary on the RSR, our clients will be bringing
14 forth the same approach that we've brought forward for
15 the last sixteen (16) years. Principled evidence-
16 based. They want to minimize the risk for pragmatic
17 results-based decisions. They want these decisions to
18 be tied to evidence and to risk.
19 So you've heard a narrative from MPI in
20 this hearing about the greatest risk to consumers
21 being unstable rates. And our client agrees that all
22 other things being equal consumers prefer quality
23 service that rate -- rates that are relatively low,
24 and relatively stable. But from their perspective,
25 the key challenge to reasonable predictable rates

1 isn't from the level of the RSR, but it comes from
2 forecasting challenges and management challenges.
3 And Mr. Johnston provided some fabulous
4 evidence on this in this hearing. And you see me
5 quoting from his discussion with me on pages 856 and
6 857 of the transcript at slide 19. He's talking about
7 the challenges the Corporation had in terms of
8 reserving with regard to the no-fault plan, and how
9 they had a fairly antiquated table to start with and
10 then they developed a more robust one that led to that
11 big release in 2010.
12 And that is important because when you
13 look at the RSR rebates that took place in 2006, 2007,
14 2008, and 2011, the -- the dominate narrative there
15 was that it was tied to forecasting challenges
16 associated with no -- no fault. It wasn't the level
17 of the RSR that was driving that instability. It was
18 the forecasting challenges the Corporation was
19 expecting -- experiencing.
20 Mr. Oakes and I like to call that an
21 over collection of revenues. MPI rephrases it as
22 timely releases of incurred but not reported. But
23 that was the dominate driver of rate stabile --
24 instability over the past decade.
25 And when we look forward, in terms of

1 rate instability, what is a key driver? Interest rate
2 risk. And we appreciate the candour of Ms. Reichert
3 yesterday, and she's said it on a number of occasions
4 in this hearing, highlighting the fact that the
5 Corporation was not actually modelling interest rates
6 separately, I believe until 2013/'14. I may be off by
7 a year, but I think in that time period.
8 But also highlighting the fact that we
9 lost a lot of money. You look at 2010/'11, over $30
10 million. According to MPI Exhibit 21, 30 to $40
11 million in her words. And so looking forward a key
12 question from our client's perspective is: have we
13 done enough in terms of interest rate risk? Post-ALM,
14 asset liability matching, has MPI appropriately
15 immunized, optimized its Basic portfolio?
16 Our client wishes to highlight what
17 they think is a critical difference in perspective
18 between CAC (Manitoba) and MPI. Throughout this
19 hearing MPI has appeared to suggest that the RSR
20 target itself is a driver of rate instability as
21 measured in RSR rebates and surcharges. And we wonder
22 has this aversion to rebates and surcharges become the
23 tail that wags the dog. Our client's perspective is
24 different. Our client says the key driver of rate
25 risk has been forecasting challengers -- forecasting

1 challenges and the failure to mitigate high risk
2 factors in a timely manner.
3 From our client's perspective, of
4 course, we always want rates that stay the same and
5 never change. But rate increases to break even are
6 not the enemy. Rebates are definitely not the enemy.
7 And modest measured surcharges, while not desirable,
8 are not the enemy. And our client has a grave concern
9 that too much RSR equals too much comfort and mutes
10 the incentive for this Corporation to be alive to
11 forecasting and risk mitigation opportunities. Go
12 back one (1) page please.
13
14 (BRIEF PAUSE)
15
16 MR. BYRON WILLIAMS: The next few
17 moments I do want to talk, again -- I'm still at
18 principle. I'll get to the meat in a moment. But I
19 think these principles are important. And you heard
20 Mr. Guimond, sorry, the CEO of MPI, wondering where
21 did this intergenerational equity concept come from?
22 What's the legitimacy of -- of these concepts?
23 And the advice I would give to MPI, and
24 -- and their president, is go to your rate-making
25 methodology. Look at the two (2) core fundamental

1 purposes of that methodology. As Mr. Johnston points
2 out, but this is also in the rate-making book, one (1)
3 is to determine the overall expected costs arising
4 during the policy period; and another critical
5 objective is to allocate the overall expected costs
6 equitably to all insured.
7 And those are those magic words that
8 we've been hearing in Manitoba Public Insurance rate
9 hearings for the last twenty (20) years. Rates that
10 are actually -- actuarially indicated and
11 statistically sound. And Mr. Johnson -- Johnston,
12 very fairly when I suggested to him the two (2)
13 primary purposes of rate-making are all about setting
14 actuarially indicated and statistically sound rates,
15 quite properly agreed with me.
16 And there are two (2) important equity
17 concepts that come from that -- those fundamental
18 rate-making principles. One (1) is equity among
19 persons and groups within the policy or accident year.
20 And Mr. Johnston says that's what actuarially and
21 statistical procedures are all about, allocation an eq
22 -- as equitably as possible among the different groups
23 and, of course, among the different vehicle owners.
24 So that's one (1) of the equity objectives. Change
25 please.

1 And the other one is a more inter-
2 generational one that -- a fairness objective, a
3 breaking even, assessing ongoing fairness to each set
4 of policy holders.
5 That's where the concept of inter-
6 generational equity comes from. We don't want to
7 charge this year's ratepayers any more or any less
8 than the -- the risk that they reasonably bring to the
9 system is reasonably forecast.
10 And I put this question to Mr.
11 Johnston, and he agreed, quite properly, there's a
12 timing element to this elem -- element of fairness, a
13 temporal fairness element between today's ratepayers
14 and future ratepayers.
15 And he gave me a really lengthy answer.
16 I didn't have enough page -- page space to put it all
17 in there. I encourage you to go to it, but he agreed
18 with that concept, and -- and how could he not?
19 That's inter-generational equity, and that's at the
20 heart of the rate-setting methodology of Manitoba
21 Public Insurance.
22 It's a fairness signal, and it also
23 sends an efficiency signal. As Mr. Johnston explains
24 here, risks that reflect -- rates that reflect the
25 risk send you messages about the vehicle you own and

1 the behaviour on the road. And that's why these rates
2 are so important.
3 As we say here, there's the equity
4 signal and the efficiency signal, rates reflecting
5 risk and sending efficiency messages.
6 There is a tension in rate setting in -
7 - in the Manitoba dynamic between these equity and
8 efficiency objections and the concept of stability.
9 And I went through in a -- I thought a helpful
10 discussion with Mr. Johnson -- Johnston at page 846
11 and 847 of the transcript. Oops. Back up, please.
12 You can see the highlighted words
13 there. The equitable allocation of costs is very
14 important. There also is a recognition of the need to
15 temper that adjustment. And that's where we have the
16 rules capping individual experience at 15 percent one
17 way or the other.
18 And we note, and as Mr. Oakes noted
19 earlier today, even in a year of zero overall rate
20 increases, there can be very significant movement
21 among individual ratepayers or groups of ratepayers.
22 So our client wants to put some nuance,
23 some subtlety, some insight into that concept of rate
24 stability. Every year, many Manitoba ratepayers
25 experience rate instability, given the vehicle they

1 drive, the group of customers. Whether or not rates
2 increase or not, there is substantial volatility going
3 on.
4 And I won't dwell on -- on this page
5 except for to note that much has been made of this
6 kind of cap of 5 percent in terms of rate movement.
7 And our client never welcomes rate increases above 5
8 percent, but here's Manitoba Public Insurance on this
9 page saying, When it comes to that break-even concept,
10 if the rate indicators say that, given inflationary
11 pressures, we've got to go 6 percent, we'll go 6
12 percent.
13 And for the -- for MPI, that's the
14 heart of inter-generational equity because if we put
15 off those costs, those inflationary costs, we're
16 deferring to future ratepayers the costs that today's
17 ratepayers should pay.
18 And I made the cheeky suggestion to Mr.
19 Johnston that he wouldn't quite buy, but I said, This
20 emphasis in Manitoba on rates that are -- are
21 statistically -- actuarially indicated and
22 statistically sound is driven by that desire to take
23 the political judgment out of rate setting or, in the
24 words that have been used in this hearing, the
25 pragmatism out of rate setting.

1 And so when the esteemed Dr. Simpson or
2 Ms. Sherry come in and talk about equity and inter-
3 generational equity, this is not some eccentric CAC
4 (Manitoba) construct. There's a solid business
5 reason. There's a solid equity reason. They are not
6 some crusaders. This is not radical. This concept
7 has been central to a rate setting dialogue in
8 Manitoba since Kopstein. It's to take the pragmatism
9 out of it and put the evidence into it.
10 And from our client's perspective,
11 ratepayers move to Manitoba, they leave Manitoba.
12 Students leave stu -- to study, return, leave again.
13 And some people leave the -- the market force -- or
14 the labour -- the driving population.
15 I'm going to turn now to some less
16 theoretical discussion. And we'll stay on this page
17 for a minute. My Learned Friend, Ms. Grammond, did,
18 as usual, an outstanding job with the aid of her
19 colleagues of highlighting the position of MPI. We
20 all know about what happened in 2014/'15 and what's
21 forecasted for '15/'16.
22 I want to focus on the third bullet on
23 this page. And our client has consistently shown
24 fidelity to the concept of breakeven in terms of rate
25 setting. And so when our client sees a loss in the

1 '16/'17 year, and leaving aside changes to the
2 interest for -- forecast deterioration, recognizing
3 that there'll be a bounce back forecast for the next
4 year, that does raise a flag for our client.
5 Our client wants to dig deeper and make
6 sure that we're not setting rates for pragmatic
7 reasons. That if MPI is not seeking a rate increase,
8 that there's a good reason for it. And so when our
9 client sees that number, an issue that our client has
10 put on the table for me is should we be raising rates
11 by a percent.
12 So I'll tell you the answer a lot later
13 in the conversation, but I just want to flag, from our
14 client's perspective, just because MPI is coming in
15 with a stable rate, just because MPI is saying we
16 don't need a rate increase, that's not the end of the
17 question for our client. Back in 2004, MPI came in
18 with two point five (2.5), coincidently, just the year
19 before an election. I'm sure it was coincidence. Our
20 client argued that it should be three point seven
21 (3.7). The PUB accepted our recommendation.
22 So that is always a consideration for
23 our client. It's the breakeven. It's the risk-
24 reflected rate, not the pragmatic choice.
25 We've seen the projections for total

1 equity. I think I've done justice to the pro formas.
2 And we do acknowledge the transfer from the other
3 lines of business, and also the reality that there's
4 still excess reserves over there. And, of course, our
5 client always keeps their eyes on the Extension
6 reserves because that's where MPI enjoys a defacto
7 monopoly. There is the just and reasonable rate
8 criteria. I thought to torture Ms. Reichert I would
9 read that again, but don't worry, I shall not.
10
11 (BRIEF PAUSE)
12
13 MR. BYRON WILLIAMS: So go back one
14 (1) slide, please. So here we are in the first pri --
15 the first criteria in terms of just and reasonable
16 rates. Are the forecasts reasonably reliable? And
17 before we go into it we will -- we will look at a
18 number of issues. One (1) will be relating to
19 interest rate forecasting. Another will be relating
20 to PIPP for -- forecasting. Another will be relating
21 to collision forecasting. And the fourth will be the
22 arcane issue of interest only probably to actuaries
23 and to our clients setting rates based on the fiscal
24 year rather than the -- the accident year.
25 It is helpful though and -- and late at

1 night when I was looking for something interesting to
2 read I came across Board Order 125/14, and there's a
3 stark sentence on page 6. MPI is also projecting a
4 net loss of $82.5 million for the current fiscal year.
5 Now, that comes from the notorious PUB Pre-Ask 1-5.
6 And realize what that fiscal year that's referring to.
7 At this time last year, Manitoba Public
8 Insurance was telling this Board that they expected a
9 $82.5 million loss for the 2014/2015 year based on
10 where interest -- interest rates were. And I -- I
11 perhaps am putting a bit of hyperbole in this. I'll -
12 - I'll choose my words a little more carefully. They
13 provided the Pre-Ask. The Board interpreted that as a
14 material risk of a net loss of 82.5 million. And, of
15 course, we know the reality was very different.
16 And -- and that was actually salutary
17 for us -- for the client when we looked at that
18 because it -- it reminded our client in the hurly-
19 burly of rate applications from time to time we are
20 seduced by kind of doomsday scenarios or risks, and --
21 that don't always come to fruition. So we just flag
22 that because that -- that is of some interest to our
23 client.
24 In terms of interest rate forecasting,
25 I'll just go with the headline. We know it's been a

1 challenge for many years. We had the $30.8 million
2 loss in '11/'12 from low interest rates. Next slide,
3 please. Here's Ms. Reichert candidly talking about
4 2014/'15. None of the forecasts coming to fruition.
5 Another bad year. And here's the message for
6 2015/'16. Here we again have a deterioration in
7 interest rate forecasts.
8 And from our client's perspective that
9 is concerning, and especially when our client is
10 already looking at a loss for 2016/'17 projected for
11 Manitoba Public Insurance. So that figure caught our
12 client's eye, and she's going to be wanting to
13 chastise me because I'm not necessarily -- I -- I
14 certainly won't be arguing for a rate increase but
15 that is something our client took very seriously when
16 she saw the projected loss for 2016/'17, and then the
17 updated interest rate.
18 Next slide, please. So there's no
19 doubt that there's an ongoing challenge with interest
20 rate forecasting -- interest rates and forecasting.
21 And what this reminds us is that even in the aftermath
22 of the asset liability matching dialogue, there are
23 still risks associated with interest rates. And our
24 client asked the question: Should interest rate
25 forecasting be revisited, and is there sufficient

1 immunization for the Basic portfolio?
2 We note also the -- the comments in
3 terms of forecasting farther out into the forecast
4 period, and MPI's reliance at one point in time on
5 only one (1) forecaster. That was pursued by the PUB.
6 I've made this point already, interest rate
7 forecasting from our client's perspective still
8 matters. So that's a big issue, and we'll provide you
9 with our recommendations in -- in just a couple of
10 moments.
11 Then in terms of the PIPP forecast.
12 And we've already gone through this conversation. Mr.
13 Johnston candidly highlighted the -- the very big
14 release associated with challenges with the long term
15 disability mortality table in the pervious decade.
16 But the headline here is that this is still a big
17 challenge. Mortality estimation is very difficult.
18 MPI doesn't have enough claimants or people to build
19 its own mortality table.
20 And, Diana, if you could just turn to
21 CAC-2-1 for a second, please. We -- I called this --
22 and slide up to the response, please, on the next
23 page. Keep going, please. And just -- I just want to
24 remind you, and perhaps go to Table 2 which provides
25 the most stark contrast.

1 Terminations, and this is a -- frankly
2 a sad story from a personal perspective. Terminations
3 generally refer to people passing away. Not always
4 but generally. The current table is for female --
5 Table 2 is for females aged twenty (20) and older
6 after ten (10) years of duration. And you can see MPI
7 projecting over forty-five (45) terminations over this
8 period, and then you can see tracking the actual
9 terminations of a hundred and nineteen(119). And just
10 over on the right-hand side, you'll see some relapses,
11 which is people, for one (1) reason or the other,
12 coming back onto the system.
13 Diana, you can go back to the -- the
14 slide, please.
15 What does that mean? There's a sad
16 human story. People are dying faster than MPI --
17 injured people are dying faster than MPI expects.
18 Financially, that's a positive development for the
19 lines of business accident benefit weekly indemnity
20 and accident benefit other. And as Mr. Johnston
21 candidly says, The experience is still overall
22 positive.
23 And so here we have a -- a PIPP
24 forecasting issue. And we don't blame MPI for this.
25 They're -- they're doing their best and they've

1 adjusted their tables. But there's development,
2 positive development, on the PIPP side that is not
3 fully being reflected in -- in rates. And here Mr.
4 Johnston talks about how they gradually lower their
5 estimates. The changes are not fully built in at this
6 point in time. And his explanation appears on the
7 next page.
8 He warns, you know, that they've got
9 limited experience with these long tails. And if you
10 fully integrate it, you're getting estimates for all
11 of those years which can add up to bigger numbers. So
12 you have to be really careful and -- and gradual. And
13 our client understands this. We observe that there
14 appears to be ongoing conservatism in the no-fault
15 side, but we understand Mr. Johnston's dilemma. We
16 have a debate about the pace of how quickly those
17 losses should be dealt -- realized -- these positive
18 developments should be realized.
19 Next slide, please. And as Mr. Johnson
20 -- Johnston notes on this page, this stuff matters.
21 It goes to the projections of claims incurred for some
22 big ticket items, accident benefit weekly indemnity
23 and as well as accident benefit other. They're both
24 relatively significant. They're actually big numbers.
25 And we can move on to the next slide.

1 And so part of Mr. Johnston's caution is that they
2 don't have enough experience in Manitoba. So here you
3 have the dialogue from the couples therapy or the
4 joint actuarial dialogue on -- on Thursday. And we've
5 been trying to present this information to MPI in
6 Information Requests, but I don't think we
7 communicated our commentary very well.
8 Here's one (1) of the real values of
9 that exercise. Ms. Sherry is up there able to share
10 with Mr. Johnston, We had the same problem in
11 Saskatchewan when I was working out there. We went to
12 Quebec, which has been in existence way longer, and we
13 got great data, which gave us more confidence in our
14 estimates.
15 And I highlight Ms. Sherry's words.
16 It's so big. It's so important. And again, our
17 client is alive to the potential conservatism in the
18 PIPP-side estimates. We understand MPI's caution.
19 Here's a way to get greater confidence in those
20 estimates, by looking at our -- its sister corporation
21 in -- in Quebec, which has been around for a lot
22 longer time. And Mr. Johnston, in cross-examination,
23 cons -- confirmed that he would explore that
24 opportunity.
25 So in terms of our client's recommended

1 findings regarding PIPP forecasts, its long-standing
2 source of volatility, there is an ongoing gap between
3 expected and actual terminations which has positive
4 developments, but is only gradually being recognized.
5 And that there's an opportunity to get better data
6 from Quebec.
7 Go ahead, please. There are two (2)
8 other forecasting issues that are of interest and
9 importance to our clien -- our client. One (1) issue
10 that you heard addressed most powerfully in the cross-
11 examination of My Learned Friend Ms. Grammond. But
12 also in the discussion with -- between Ms. Sherry and
13 Mr. Johnston, was the issue of, should rates be set on
14 an accident year basis rather than a fiscal year?
15 I believe Mr. Pelly uses the word,
16 "policy year." Ms. Sherry uses the word, "accident
17 year." I understand they're -- they're using
18 different words for the same language.
19 And the other question that our client
20 believes is very important from the forecasting
21 perspective are collision ser -- severity forecasts,
22 reasonably rov -- liable, and sufficiently robust.
23 So should rates be set on an accident
24 year rather than a fiscal year? On the second bullet,
25 we observed that the approach of Manitoba Public

1 Insurance appears relatively unique, even among
2 Crowns. They can certainly correct us if they believe
3 ICBC and SGI follow -- or the Auto Fund in
4 Saskatchewan follow their practice.
5 And Mr. Johnston candidly concedes that
6 it's a departure from generally accepted actuarial --
7 actuarial practice, or at least I understand that's
8 what he says. I'm -- I'm -- he's not nodding his
9 head, so he may take issue with that. And -- and if
10 I've misunderstood you, Mr. Johnston, you'll correct
11 me at the break.
12 And we also sensed perhaps from MPI
13 that they had the perspective that per -- that perhaps
14 this was historically required by the PUB. And so we
15 observed first of all that the PUB may need to clarify
16 whether it is requiring MPI to set rates from a rate-
17 making perspective on the fiscal year basis or an
18 accident year basis.
19 Our client's perspective on this is,
20 first of all, that there are some equity issues raised
21 by this approach. And this is not easy for me to
22 explain, and again, I -- I invite any actuary in the
23 room or elsewhere to correct me. But as I understand
24 it, consider the case of a consumer who -- who arrives
25 in Manitoba on March 1st of 2016 and leaves on the

1 last day of February of 2017.
2 As I understand that -- the issue, that
3 consumer would underpay by about 4 percent because she
4 or he would be paying fiscal year costs, not accident
5 year costs. Of course, that could go the other way
6 the next year, but it's an equity issue.
7 And as I -- I understand the issue, and
8 again, I'm subject to correction on this arcane piece
9 of actuarial debate, it also adds some additional
10 complexity in terms of interest rate forecasting risk.
11 If you are using accident year rate
12 making, as I understand it, you would only have to
13 forecast investment income out to the accident year in
14 question, not out two (2) years.
15 Now, again, that's my understanding,
16 and those are the two (2) issues our client sees with
17 regard to this. And you have heard back and forth
18 between Board counsel and MPI on this issue for, I'm
19 going to guess, two (2) or three (3) years. Our
20 client is kind of chipping in with its two (2) cents'
21 worth for -- for what it's -- what it's worth.
22 The other issue our client is keeping a
23 very close eye on, we've not reached an -- a
24 conclusion yet, but are con -- collision severity
25 trends. And we would -- you -- we don't need to go

1 there, but if you look to the claims incurred, page
2 38, you'd see a -- a 17.14 percent increase in
3 projected claims incurred related to collision for
4 that year.
5 Part of that is a return to more normal
6 frequency from a -- from the beautiful winter we had
7 last year to a -- a more normal one. But also there's
8 a very significant increase in severity. And there's
9 another significant bump the next year.
10 So our clients are keeping an -- a
11 close eye on this, and we'll talk a bit later about
12 the PDR. We certainly observed that there are risks
13 associated with the -- and opportunities associated
14 with the negotiations with the repair industry. But
15 these severity numbers have left our client somewhat
16 uneasy, especially considering all the noise around
17 backlogs that took place in late 2013, early 2014.
18 We tested susceptibility to change --
19 to a change in the assumptions in a CAC (Manitoba)
20 pre-ask. And we simply observe that you could cut the
21 tension in the room with a knife when Ms. -- Ms.
22 Sherry and -- and Mr. Johnston discussed this issue.
23 So from our client's perspective,
24 there's ongoing unresolved issues in terms of the
25 robustness of the trending. Our client's not in a

1 position to -- to draw conclusions. We don't think
2 that dialogue has been fully fleshed out. They're two
3 (2) very capable actuaries. But our client says that
4 the -- suggests that these severity nat -- numbers
5 have to be watched carefully in the next couple of
6 years in terms of trends and whether or not there is
7 potential for a more robust approach to collision
8 forecasting.
9 So here are our client's overall
10 forecasting findings. And -- and this is important
11 because our client is struggling, was struggling
12 yesterday morning with whether to come in recommending
13 zero percent or 1.6, and they -- they've highlighted
14 counter-billing forces. The adverse interest rate
15 development suggests that a rate increase might be
16 necessarily (sic), especially when coupled with
17 forecast loss for 2016/'17. That's pushing rates up.
18 Pushing the other way are the positive
19 PIPP developments and potential conservatism that our
20 client observes on the PIPP side. Cli -- throwing a
21 cloud of uncertainty over everything are the -- are
22 the collisions. Our client -- I'll explain this more
23 fully later. I don't want to keep you in suspense.
24 Our cli -- our client is not recommending a rate
25 increase, but it was a hard call. And I -- I've been

1 instructed to tell you that. Our client struggled
2 with that.
3 It -- it ultimately concludes that
4 there's some more cost-saving opportunities, but our
5 client is alive to the fact that a -- a rate increase
6 in the range of 1 percent would not be unreasonable.
7 Our client's advice is stick with what you got in
8 terms of the application, but from our client's
9 perspective, pretty tough call.
10 MR. REGIS GOSSELIN: You -- your lead
11 up, I expected otherwise. You know, I expected
12 otherwise based on your lead up, because you indicated
13 that we should be relatively immuned (sic) from
14 political influences --
15 MR. BYRON WILLIAMS: Well --
16 MR. REGIS GOSSELIN: -- and all that--
17 MR. BYRON WILLIAMS: -- sir --
18 MR. REGIS GOSSELIN: -- you know,
19 principled --
20 MR. BYRON WILLIAMS: Sir, we're --
21 we're right on the -- we're right on the bubble. And
22 I just -- and -- and I understand your point. And,
23 frankly, I prepared much of this argument not knowing
24 what our -- what our position was going to do. I hope
25 I can persuade you that it should be zero, but it's --

1 it's a tough call, from our client's perspective. And
2 -- and I -- and our client considered what they
3 thought to be two (2) reasonable outcomes, zero and 1
4 percent, and it was a very difficult call. So I just
5 want to assure the Board that that's been their
6 challenge.
7 And I hope I don't sound too
8 unprincipled. I think our client is very principled.
9 They struggled with it, and in candour, they wanted to
10 share that with you. And I haven't been fired yet,
11 but that may happen over lunch.
12 Oh, back up one (1) second. In terms
13 of forecasting, our client thinks that there are
14 ongoing ri -- risks related to interest rate
15 forecasting that we should be addressing in the near
16 future. We think it's important to -- to get that
17 longer tail experience from Quebec in terms of PIPP
18 and see whether that affects the pace of which MPI
19 recognizes positive developments in terms of
20 terminations.
21 We think it's important for the Public
22 Utilities Board to communicate to Manitoba Public
23 Insurance whether they consider it a requirement for
24 MPI to rate-make based on the fiscal year. And if
25 it's not a requirement, we would suggest that MPI be

1 asked to report back on its preferred approach and why
2 in terms of fiscal versus accident year rate making.
3 We're turning now to the -- the second
4 great branch of the PUB just and reasonable test,
5 prudence and reasonableness. And we're going to have
6 some significant criticisms of MPI, but I did want to
7 start right out at the start with some -- some
8 positives for MPI.
9 In terms of short-term growth and
10 operational costs, the 2015/'16 year, our client
11 recognizes and acknowledges -- recognizes and -- and
12 acknowledges the -- some of the -- the savings in the
13 short term achieved by MPI. They noticed that there's
14 been significant growth over time. The PUB -- legal
15 counsel highlighted this this morning focussing from
16 2005 forward. We're focussing in terms of 2010
17 forward, but we do note some tempering.
18 From our client's perspective, and we
19 may be at odds with some of the Intervenors here, our
20 client brought in Mavis Johnson, I guess, three (3)
21 years ago now in terms of some observations about
22 taking better advantage of road safety opportunities
23 in Manitoba. The pace -- the pace is never fast
24 enough. It -- it's never -- it -- it will never be
25 fast enough when people are dying and people are being

1 injured, but our client does see some -- some
2 significant strides.
3 And we see a Corporation, while we may
4 differ material -- on other areas, that appears to be
5 making efforts to respond to the Board's findings.
6 Our client notes that there has been mitigation of
7 interest rate risk. Whether it's enough, that's for
8 this Board to make its determination. We do note the
9 improvement in the DCAT results in terms of that
10 particular risk.
11 And our client does applaud the
12 imagination and the thought that has gone into --
13 modest, but that personal care pilot project in
14 Brandon. And we may take issue with MPI and other
15 issues, but the sincerity and the imagination that our
16 client observed with regard to that is certainly to be
17 commended. And it's a really -- the Australian
18 literature is actually really quite -- quite neat, so.
19
20 (BRIEF PAUSE)
21
22 MR. BYRON WILLIAMS: I've -- I'm
23 changing my approach here. I'm starting with my
24 findings, and then I'm going to go to the evidence. I
25 was getting bored when I was doing the argument.

1 In terms of interest rate risks, we
2 recommend these findings by the Board, that ratepayers
3 have been unduly exposed, and we highlight the
4 2010/'11 and '14/'15 years, as well. We flag that
5 there has been partial mitigation with the tradeoff in
6 terms of investment income as a result.
7
8 (BRIEF PAUSE)
9
10 MR. BYRON WILLIAMS: Our client read
11 with great interest all the Aon material, whether it's
12 in the main filing or some of the information
13 responses. There are some challenges that our client
14 wishes to highlight. I wish I could take credit for
15 the forensic cross-examination that dug them out. I
16 believe my Learned Friend, Ms. Grammond, and her
17 advisors deserve that credit, though.
18 MPI told us, If you want to compare
19 income forecasts between ourselves and Aon, look at
20 the medians. And I'll give you details in a moment,
21 but certainly there was a great and unexplained
22 variance between MPI forecasts and Aon median, M-E-D-
23 I-N (sic) for the reporter, income forecast, which is
24 troublesome for us in terms of the reliance that we
25 can pay -- place on that report.

1 We note, at least as we understand it,
2 that in terms of the so-called base forecast, that
3 wasn't the MPI reality, which we understand to be 60
4 percent bonds with duration matching. Instead it was
5 -- the base was a hybrid approach.
6 Our client observes that the hearing
7 suffered without having Aon here. Now, our
8 understanding is that the Board inquired whether Aon
9 would have -- would have been present. Quite frankly,
10 I -- I perhaps could be chastised for not making a
11 motion. That's my oversight. But I think some of the
12 dialogue was missed, and it was challenging for MPI to
13 explain some of the conclusions of -- of Aon.
14 The last three (3) bullets just go back
15 to my tail wagging the dog, and the idea that risk
16 appears to be characterized as retained earnings
17 volatility. And that assumption and that measurement
18 of risk made a big difference.
19 And both Ms. Grammond and myself drew
20 the attention of MPI to slide -- I think it's 125,
21 Attachment G of the Aon report, where they looked at a
22 -- a change in assumptions in terms of how they
23 measured the portfolio. And -- and it -- it led to a
24 different portfolio, perhaps, being the -- the prize
25 candidate emerging from the analysis. So those are

1 some of our client's high level concerns with -- with
2 Aon.
3 Sticking on invest -- interest rate
4 risk, our client observes that there still is
5 significant risk associated with duration matching,
6 especially at a time when the yield curves are not
7 parallel, I think as Mr. Johnston taught me. That
8 there perhaps is some unrealized opportunity in terms
9 of MPI's bond portfolio, in terms of corporate bonds.
10 And -- and finally we were struck by one (1) of the
11 panel member's comments that there might be value in
12 getting comparisons of an optimization analysis with
13 other organizations: workers' comp, the teachers, and
14 -- and others in Manitoba.
15 This is just the evidence to support my
16 findings. I'm just doing it backwards here. Here's
17 the undue exposure quote from Ms. Reichert. We can
18 move on. Here's Mr. Johnston, though, talking about
19 the variance between Aon's median income forecast and
20 -- and the forecast of MPI. And he carefully put it,
21 we did struggle a bit with the Aon median fore --
22 forecast. And I'll provide some more details on the
23 next page.
24 And I'm -- I'm hoping I'm comparing
25 apples to apples. This is just an example. Here you

1 have the median forecast for Aon as of February 2017
2 of net income of 63 million, and at least as compared
3 to the MPI forecast of negative 11.4 million. Now,
4 Mr. Johnston said, Be careful, Mr. Williams.
5 Comparisons are difficult. And we bolded those words.
6 We can't verify exactly how Aon produced this
7 information. And certainly that's of concern for our
8 client in terms of what weight do we put on -- on the
9 Aon analysis.
10 We observe as well, take a look at what
11 Aon is forecasting for MPI for February 2020 in terms
12 of median ni -- net income, 179 million as we
13 understand it. And Board counsel highlighted that
14 black median income line ri -- rising. And -- and so
15 that's something that -- that gives us pause for
16 concern in terms of the Aon analysis. There may be a
17 perfectly valid explanation. We don't know what it
18 is.
19 And again, collectively I think we let
20 ourselves down by not requiring Aon to attend. But we
21 note that this is MPI's onus. That investment risk
22 and investment optimization is a critical re -- risk
23 factor. And with the benefit of hindsight, which is
24 always easier, that expertise of Aon should have been
25 available. And -- that's okay. Move on. Thanks.

1

2 (BRIEF PAUSE)

3

4 MR. BYRON WILLIAMS: This just goes to
5 the point of how volatility was measured, at least as
6 we understand it. Next slide please. And this is
7 just, again, as I indicated both PUB counsel and CAC
8 (Manitoba) went to this slide, slide 125, and just
9 showed the difference that an assumption made in terms
10 of the -- the range of the retained earnings in terms
11 of the outcome. And -- and in this example, based
12 upon a 10 to 20 percent premiums written, the return,
13 at least it's strongly arguable, that a 60 percent
14 bond portfolio might have performed better, assuming
15 that one was using an RSR of 10 to 20 percent of
16 premiums written.
17 So I know Mr. Johnston took issue with
18 how Aon measured volatility in -- in that analysis.
19 But that is certainly the legitimate interpretation of
20 that slide 125.
21 And still on interest rate risk,
22 there's still a material risk. The DCAT bears that
23 out, as does the evidence of Mr. Johnston.
24 I won't spend a lot with this. Like I
25 -- but I just simply highlight tracking area -- error

1 is significantly higher with duration. And we
2 actually highlight the -- the stark difference here on
3 slide 75.
4 Keep going, please.
5 Here's Mr. Johnston's portent that Aon
6 suggests that the portfolio could significantly
7 underperform in the case of an unfavourable yield
8 curve. And he helpfully explained to me that it was a
9 non-parallel yield curve is the -- that -- what he
10 interpreted Aon.
11 And so here's where that significant
12 risk could occur. And I think it's incumbent upon all
13 of us to be aware of it.
14 Next slide. Going to corporate bonds
15 for a moment, we understand that MPI, in consultation
16 with Treasury Branch, is considering this. We just
17 point out that MPI is an outlier as compared to
18 others. There may be very good reasons for that, but
19 Aon had great difficulties supporting the underweight
20 to corporates. And -- and clearly there was a yield
21 advantage and some implications for risk as well.
22 Next. Keep sliding. Hold on. Keep
23 going.
24 The final point we -- we make in terms
25 of unfinished business in terms of the investment

1 portfolio is how it's doing in -- in comparison to
2 other significant players in -- in Manitoba.
3 So here's our recommendation, perhaps
4 controversial. We don't -- from our client's
5 perspective, we're not confident that the interest
6 rate risk optimization issue is -- is fully addressed,
7 satisfactorily addressed.
8 We think there may be value in coming
9 back with this issue next year and bringing Aon,
10 looking at other organizations, providing an update on
11 corporate bonds, and perhaps some insight from Aon on
12 the performance to date. That's our client's advice
13 on that.
14 Madam Chair, I'm -- I'm -- I should be
15 able to move through material more quickly in the next
16 section. We're off the philosophy and we're -- we're
17 into the -- the details.
18 I -- I would recommend perhaps we take
19 half an hour for -- for lunch, you know, whatever the
20 Board desires. Like I'm -- I'm at your beck and call.
21 I -- I think it wouldn't be a bad time to -- to give
22 you a chance to stretch your legs at least, if I could
23 recommend that.
24 THE CHAIRPERSON: That would work
25 fine. We will reconvene at 12:30 with a half an hour

1 -- little over half-hour break.

2

3 --- Upon recessing at 11:57 a.m.

4 --- Upon resuming at 12:33 p.m.

5

6 THE CHAIRPERSON: I hope you enjoyed

7 your brief lunch, and we're going to now call upon Mr.

8 Byron Williams from CAC to complete his closing

9 comments.

10 MR. BYRON WILLIAMS: Thank you. In

11 the next couple of sections on prudence and

12 reasonableness, I'm going to start with BI3, and then

13 move to the PDR. And we spent a lot of time on BI3

14 last year, and -- and you may be wondering why -- why

15 is CAC (Manitoba) back again, and why is it trying to

16 retrospectively examine this program which is already

17 defacto in place?

18 And the important point for our client

19 is that the BI3 was a transformative program, had some

20 successes, had some limitations, we would argue.

21 There's another great big transformative program on

22 the way, the -- the PDR. And we think there is

23 insight that can be -- that can be learned from this,

24 and lessons that can be learned.

25 And so that's the nexus, or the

1 analytic connection our client is -- is drawing
2 between the two (2) transformative projects, one (1)
3 on the personal injury side, one (1) on the collision.
4 Both very heavily IT-reliant with the opportunities
5 and the risks that those programs offer.
6 And again, because I was getting --
7 wanted to change things around, I'm going to start
8 with my findings and then -- our -- our recommended
9 findings, and then throw in some citations from the
10 record to support it.
11 But in terms of where our client is
12 coming from, we sensed a -- a less than subtle
13 repositioning of the Corporation on BI3 in the -- in
14 the midst of this hearing, so we wanted to draw the
15 Board's attention back to the representations that
16 were made to the Board and to consumers earlier on.
17 And we -- we looked at the -- the
18 expected savings that were highlighted in -- in the
19 2012 analysis, which is an exhibit, and we were told
20 that 75 percent would be related to clai -- reducing
21 claims leakage, and the other 25 percent is related to
22 operating costs. And you heard Mr. Gui -- the -- the
23 president of MPI in the course of this hearing
24 starting to remessage moving over to the operating
25 cost savings.

1 And we wanted to draw the Board's
2 attention to the original value proposition, or at
3 least some elements of that very complex document back
4 in 2006, because our client interpreted that at the
5 time it was provided, and -- and through time, as
6 making representations in terms of lowering claims
7 duration.
8 And again, we bring back to your
9 attention the evidence of Mr. Johnston last year,
10 where he was quite properly concerned. Durations were
11 longer than he was expected. And he was seeking in
12 his evidence last year to say, Well, let's at least
13 get to our BI3 benchmarks and then exceed them, or at
14 least that's how we interpreted it here, and we
15 believe the transcript supports that interpretation.
16 And again, we'll come to the MPI
17 repositioning in a moment. And then on the next slide
18 I just want to get to our point again. The real
19 lesson for our clients is that second clear bullet.
20 What we learned from BI3 is -- is that the risks
21 associated with IT and IT business cases, it's not
22 just the short-term cost overruns but their ability to
23 deliver on what they promised and the consequences for
24 longer term costs, including amortization.
25 And we had to refresh the Corporation's

1 memory. I -- I asked the MPI president -- I suggested
2 to him that the bulk of the savings that were supposed
3 to be associated with BI3 were to be related to the
4 reduction in claims leakage. And he suggested, no,
5 they were, at least as I interpret them, more on the
6 operational cost side and wanted to -- to stop -- this
7 is -- we're quoting -- quoting the MPI president, do -
8 - doesn't want us to talk about -- talk about this
9 inference of leakage. And I'm just reminding him that
10 those are his words and his corporation's words, not
11 the words of CAC (Manitoba).
12 And so we go back to the 2012 document.
13 We're talking about benefits of almost $42 million.
14 And there you see about eight point six (8.6)
15 associated on the productivity side and with over 33
16 million promised on the claims leakage side. So there
17 -- that's kind of the -- the refreshing of -- of the
18 memory.
19 And now we're going back to what we
20 believe consumers were promised in 2006. And the 2006
21 document is a complex document. But we interpreted
22 that and the key value propositions, among them --
23 stay back -- about improving outcomes and reducing
24 costs to settle claims. And you see my conversation
25 with Mr. Johnston in the third bullet on this page

1 talking about a reduction average disability claims
2 duration and time lost for work.
3 And you see Mr. Johnston saying:
4 "At the time this was prepared there
5 was an expectation or a target that
6 we thought may be able to be
7 achieved."
8 And we know why claims duration is so
9 important. It's important financially. It's impo --
10 important for the claimants' physical and mental
11 health. We don't need to dwell on that. And Mr.
12 Johnston is explaining on slide 94 why they focus on
13 weekly indemni -- demnity duration. Because the
14 benefits are usually relatively clear and consistent.
15 It's the most consistent, easy thing for us to
16 measure.
17 And you can read this at your leisure.
18 I'm sure it's entertaining reading. Mr. Johnston, on
19 this page, is making the point that the actual active
20 claims are above the BI3 be -- duration benchmark.
21 They're over the benchmark consistently about thirty
22 (30) claims. And I simply on this page rely -- remind
23 him of our conversation the previous year.
24 And so our client interprets from MPI a
25 repositioning on BI3. We've got the president saying:

1 Hey, I don't say, hey, you got to meet the 2010
2 benchmark or less. I don't care if we meet it or not.
3 And no doubt there's some validity in
4 here, but this wasn't the message our client was
5 given, in our view, in 2006. And it wasn't the
6 message our client was given in 2012. And with
7 respect, it wasn't the message our client was given
8 last year.
9 One (1) other issue with BI3. This is
10 related to the FINEOS, F-I-N-E-O-S, and again, the
11 shortened amortization associated with the -- with the
12 program. So from our client's perspective, there is a
13 cautionary tale that flows from BI3. Not to say that
14 they haven't done some important things. They've cut
15 down on paperwork. There's a lot of good things that
16 no doubt have flown from it, but that the risks are
17 not just cost overruns. The risks are that they may
18 not achieve their alleged benefits, and from our
19 client's perspective, the jury's still out on this
20 program.
21 It will be what it will be, but we
22 believe that there are lessons that we should take
23 into the PDR because that's a program -- a program
24 that's prospective, another transformative project
25 that brings both opportunities and risks.

1 And no one who has sat in this room for
2 the last two (2) years can't -- can help but be imp --
3 intrigued by the PDR vision articulated by MPI. It's
4 ambitious, potentially transformative, and there are
5 alleged benefits of it: 13 million annual in savings
6 alleged starting in 2019/'20.
7 But our client believes that there is
8 significant risks, and we'll go through some of the
9 quotes that support that. We note -- we note that the
10 issue is much bigger than originally thought. That's
11 the advice of the MPI president.
12 They've identified more costs for
13 retooling. It's clear that a lot of repair shops will
14 be left behind. There's estimating risk in the sense
15 of how we do estimates will be transformed. There
16 will be changes in terms of our demand for service
17 centres, and a smaller point but we'll come to that
18 about whether FINEOS is associated with that project
19 or not.
20 And MPI indicated in -- in our
21 discussion of last week that it wasn't, but there's an
22 IR that seems to suggest that it is, CAC-2-16. And so
23 that's something that we'll clarify perhaps over the
24 next year.
25 And still focussing on the -- the

1 issues with PDR, it's only part of this $1 billion
2 contract, but it's an essential component. And -- and
3 the MPI president has told us, in the discussions with
4 the repair industry, "Everything is on the table,"
5 quoting him. And I'll show you that quote.
6 I'm not saying that they're paying for
7 retooling, but paying for retooling is on the table.
8 We ask, Is paying for estimates on the table? And
9 from our client's perspective, this is an important
10 public policy issue of a potential contribution from
11 ratepayers to private business infrastructure.
12 We note as well that the PUB in last
13 year's order requested disclosure of the cost
14 matrices, but they -- they do not appear to be
15 available un -- until after the contract is
16 negotiated.
17 And from our client's perspective, our
18 client thinks there's important opportunities but
19 risks here, and that the PUB should be aware of them
20 sooner rather than later.
21 So here's the alleged cert -- savings,
22 and we're told that we'll see all the savings to the
23 bottom lines. But our client's question is: Given so
24 much uncertainty, so many moving parts, from our --
25 our perspective, our clients suggest that there's

1 significant uncertainty relating to the magnitude of
2 the savings. Might be higher, might be lower, but
3 there's a lot going on with this project.
4 And the -- Mr. Oakes may have claimed
5 credit for the best quotes of the hearing this
6 morning, but personally, our client submits that Mr.
7 Guimond, or the MPI president, had it earlier in the
8 hearing. I love that line: "Uh-oh. This -- this is
9 a game changer."
10 And I thought it was disarming
11 frankness. And look at the language that the MPI
12 president uses on this page:
13 "We never thought the structural
14 change in the auto industry would be
15 as significant as they would be. We
16 never thought the investment levels
17 would be as significant as they
18 would be. And we never really
19 understood how, for the first time,
20 MPI would not be able to bring all
21 the shops along since we started as
22 a corporation. It's the first time
23 where people realize that, uh-oh,
24 this is a game changer.
25 I'm not making this up.] And we

1 didn't realize how fast it would go,
2 and we didn't realize how much money
3 it would be."
4 Yet there are no changes to the
5 business plan in this year's application, at least as
6 we understand it, whether in terms of the magnitude of
7 the costs or the savings. And that -- our client is
8 not satisfied with -- with that position.
9 And here's the insight from the MPI
10 president that things might still change a lot. So
11 we've got to do some transitioning so that that whole
12 ecosystem can adjust without creating cha -- chaos.
13 So go to that last sentence:
14 "So even what we're thinking now may
15 all very well change as it mor --
16 morphs into this new customer
17 service delivery model."
18 A candid answer, a thoughtful answer,
19 but from our client's perspective, a lot of
20 uncertainty. Here's just another comment about not
21 every repair shop being able to be brought along. And
22 again, candidly, the MPI president is saying, Look
23 about where these investments are going to go. Just
24 by simple geography, saying that there's a sea change
25 afoot. And here is, again, from his -- the MPI

1 presentation to the -- to the association:
2 "Three hundred and twenty-one (321)
3 repair shops. Only twenty-one (21)
4 doing more than twenty (20) jobs a
5 week, all in Winnipeg. Only nine
6 (9) doing more than thirty (30) jobs
7 a week, all in Winnipeg."
8 So really a profound transformation,
9 and changing very rapidly. And from our client's
10 perspective, it may be the best thing. And -- and
11 certainly, you sit in this room and there's a lot of
12 attractiveness to it. But from our client's
13 perspective, there's risks. Here's the comment here
14 about service centres. You can read that at your
15 leisure.
16 Again, a smaller point, but will FINEOS
17 be employed? F-I-N-E-O-S. We know that associated
18 with BI3, this product, and there was shorter
19 amortization lives. In our conversation with MPI at
20 transcript page 957, they appear to suggest that this
21 particular product would not be being employed, but
22 CAC-2-16 appears to suggest otherwise.
23 Here's the four (4) year contract, and
24 the -- the Board chairperson noted that the contract's
25 not just about PDR. It's -- but as -- as the MPI

1 confirmed, a critical element of discussions is issues
2 rel -- relevant to the PB -- PDR, and some of them are
3 set out on page 973 of the transcript.
4 Here we just have the fact that the
5 Corporation does not believe it'll be a -- in a
6 position to share the cost-saving metrics until the
7 summer of 2017, after the deal is negotiated. And our
8 client believes this deal has implications for the
9 rate-setting process. It has implications for the
10 risk that -- that we face that on the collision side.
11 And we're uncomfortable with that, from a public
12 perspective.
13 And here's the -- the comment from MPI,
14 and we understand the president's reluctance to ask
15 our question -- answer questions in -- you know, in a
16 public forum in terms of whether MPI is looking at
17 paying for retooling or estimates. But his point to -
18 - in -- on page 988 was that everything's on the table
19 for negotiation. Everything.
20 Our client recognizes that MPI -- MPI's
21 role is to run their business, and the Board's role is
22 to set rates. And our client recognizes it is unusual
23 for a regulator to peer deeply into contract
24 negotiations. But from our client's perspective, this
25 transformation of the collision side of the business

1 is profound with opportunities and risks, and very
2 important public qual -- policy questions. And my
3 client has instructed me to ask whether we should ever
4 be spending auto insurance dollars on for-profit
5 businesses.
6 This project has a significant upside
7 and downside potential for collision costs. And like
8 BI3, our expectations going in may be different than
9 coming out. And certainly our client, recognizing the
10 sensitivity of these issues, is -- is suggesting the
11 Board consider an -- an in-camera briefing of the
12 results of the distributed estimating pilot project
13 prior to the next GRA.
14
15 (BRIEF PAUSE)
16
17 MR. BYRON WILLIAMS: IT staffing has
18 been an issue, from our client's perspective, for a
19 long time. We don't have new information from the
20 Gartner Group, but we know that historically, MPI has
21 been higher than its peers in terms of the percentage
22 of external contractors as well as the percentage of
23 overall IT staff, both internal and external.
24 And here's the information in torn --
25 terms from the most recent Gartner about the disperep

1 -- disproportionate percentage of external consultants
2 for MPI. That's the bottom bullet on pag -- slide
3 118. We see the recommendation from the Gartner group
4 to develop a model to keep reduced reliance on
5 contractors.
6 And our client was pleased with the
7 acknowledgment by MPI that I -- and we've highlighted
8 some of the language here. The president is saying
9 he's trying to reexplain why we have so many
10 consultants on the payroll. We need to deal with it
11 because the amount of money involved keeps getting
12 bigger and bigger. And you look at the costs that
13 we're spending on consultants, and you look at what
14 could be done maybe on our payroll, and that's
15 something we need to look at.
16 And our clients appreciate that. This
17 is one (1) of the important cost-saving opportunities
18 that when our client was making the hard call on
19 whether to recommend no rate increase or to go up,
20 this is one (1) of the material opportunities that
21 they saw.
22 And, Mr. Chairman, I didn't forget your
23 question. I'm trying to get you back and persuade you
24 that my client has taken a principled approach. This
25 was very important to our client, because IT

1 expenditures for staffing and for external consultants
2 have been a -- a growing concern for our client for
3 many years. We see this as an important
4 acknowledgment by the Corporation, and -- and we
5 appreciate that.
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: Again, we didn't
10 get as far in suggesting that MPI could do better
11 compared to its peers in terms of overall IT staff.
12 That's internal and externals. Ms. Reichert was
13 prepared to say, I want to see progress in -- in
14 bringing that number down. Mr. Guimond chastised me
15 eloquently. He and I agreed to disagree on that -- on
16 that point, and our client disagrees. Certainly, the
17 peer comparisons and the relative maturity of MPI IT
18 projects suggest that it -- it maybe over-represented
19 in terms of IT staff. And that is our client's belief
20 that there's further opportunities.
21 So from our client's perspective, in
22 terms of prudence and reasonably -- reasonableness,
23 certainly, they won't -- they seek direction from the
24 MPI -- to MPI to come into -- with justification of
25 prudent and reasonable expenditures, especially on the

1 external staffing side. And we look forward to a
2 future dialogue on the overall IT levels.
3
4 (BRIEF PAUSE)
5
6 MR. BYRON WILLIAMS: On road safety,
7 these are some of our key findings, and we'll again
8 provide some support for them. It remains very
9 striking to our client the disproportionate number of
10 deaths and fatalities in rural Manitoba, and we'll
11 come to their stat -- stats.
12 We've already complimented MPI from our
13 client's perspective. We know things are moving too
14 slow, but we see some road safety momentum consistent
15 with the recommendations of Ms. Johnston -- Johnson,
16 sorry.
17 The road safety committee, as a part
18 from the loss prevention committee, our client -- and
19 I -- we realize this is the Province's bailiwick, not
20 the PUBs or MPIs, but MPI co-chairs that committee,
21 and we note that on the -- the top tier of -- of that
22 committee, there's no consumer organizations, and the
23 ones that are involved are on the --the lower tiers.
24 And we see a need and value in having an increased
25 consumer presence.

1 Our client, like CAA (Manitoba), is
2 intrigued by what's going on in high school driver's
3 education. But our client believes that when MPI did
4 their review of the program, they missed a real
5 opportunity. They used in-house staff for what is
6 really the charter program that they have. They
7 didn't conduct a peer review, and -- and we think
8 that's a -- a missed opportunity.
9 Before we leave this page, my client
10 did ask me to -- to mention, and -- and you heard from
11 Bikes Winnipeg a concern that there was insufficient
12 recognition of the total soc -- socie -- societal --
13 total societal costs of -- the human costs and the
14 social costs of -- of accidents.
15 And CAC (Manitoba), as you're aware,
16 believes that there's a strong business case for road
17 safety investments. But they do just want to draw an
18 analogy for the Board in terms of what we do on the --
19 what -- on the energy efficiency side of -- of the
20 equation where again there's a -- there's a -- a
21 critical focus on rate impacts.
22 But there is also emerging in the field
23 of energy efficiency deliberations recognition of the
24 importance of at least considering whether total
25 societal costs should go into the mixture.

1 And -- and so, from our client's
2 perspective, they're not necessarily endorsing the TSC
3 concept in terms of how we evaluate our programs, but
4 they're saying there's good regulatory precedent. And
5 there is certainly -- on the energy efficiency side,
6 there's an emerging dialogue. And we think that's
7 important for our friends from Bikes -- Bike Winnipeg
8 to understand that there's support for their values in
9 other regulatory processes before this Board.
10 Here's the -- the disproportionate
11 rural impact. We see these statistics every year, and
12 we -- they're hard to believe every year: 72 percent
13 of the people killed and 41 percent of those serious
14 injured, rural locations.
15 Cottage country, the farm, the remote
16 community or reserve numbers, there's clearly a rural
17 road safety issue that -- that we all collectively
18 need to devote some more attention to.
19 And here's -- I've complemented MPI
20 enough on road safety. Here's some of the stuff that
21 our client likes. Makes me uncomfortable
22 complementing them so much, so I'm going to move on
23 from -- we put the quote there. I'm just -- you know
24 what? We believe that Ms. Johnson (phonetic) was
25 heard, and we see some progress and we do want to

1 acknowledge it.

2 Here's our -- our client's -- again,

3 recognizing this is beyond the Board's jurisdiction,

4 but we see an importance for seniors, vulnerable road

5 users, other consumer, broader consumer groups having

6 a voice at that upper echelon of the Road Safety

7 Committee, which is a -- where a lot of the decisions

8 are made, at least as we understand it, rather

9 advisory committee. And we certainly see a consumer

10 voice there to be important.

11 I just want to spend a couple of

12 moments on the high school education review. And this

13 is important to our client. High school driver

14 education is clearly one (1) of the charter elements

15 of the road safety program. And here's MPI with all

16 these great consultants who have been working with

17 them.

18 Triple A Found -- Foundation for

19 Traffic Safety who com -- completed a cutting-edge

20 analysis of the effect of high school driver's ed on

21 collisions in Oregon.

22 Northport and Associates (sic) who

23 completed in the previous decade a cutting-edge

24 analysis for MPI of the effects of high school

25 driver's education.

1 So with baited breath, our client opens
2 the MPI internal analysis of high school driver
3 education, sees a very simplistic analysis. And in
4 Undertaking, I believe it was 27, we invited MPI to
5 compare what Northport did, that external export
6 organization, versus what MPI did.
7 And it's a telling response. And from
8 our client's perspective, when you're going out to --
9 to really invest more in road safety, wouldn't you
10 want a top-end review of how the program's working?
11 Wouldn't you want that baseline peer-reviewed at
12 least? And so our client expresses some significant
13 disappointment with that program. And you can just
14 see my conversation -- not with the program, excuse
15 me. With the evaluation. And you can see my
16 conversation with the MPI president on this issue.
17 And certainly we would recommend for
18 that keystone road safety loss prevention program a
19 proper baseline, external review. That's a program
20 that deserves the very best. It's so important. And
21 it wasn't given that baseline in the MPI analysis.
22 Those are our recommendations. I think I've -- I've
23 canvassed those already.
24 Benchmarking. I think we all agree
25 that MPI has made some significant progress. The

1 Gartner Group rep -- reports are outstanding. Across
2 Canada, the Ontario Energy Board is noted for the
3 leadership role it has played in leading a dialogue
4 about benchmarking in -- in core areas. And -- and
5 that's an opportunity that needs to be explored in --
6 in Manitoba, in our client's submission.
7 I wasn't very persuasive with MPI.
8 Here's -- here's Mr. Guimond suggesting, Yeah, I'm not
9 buying it, Mr. Williams, in terms of a PUB-led working
10 group, but someone more persuasive than me took a shot
11 at it. And I -- and here you see a bit of the di --
12 the commentary from one (1) of the panel members in
13 terms of what the OEB is attempting to do. And then
14 onto the next page, and speaking to the opportunity in
15 regulator facilitated deliberations on benchmarking.
16 And -- and on the next page you can see
17 the sense that the benchmarks are getting better. But
18 -- but what's important to the rate-setting process
19 may be different. And to -- to MPI's credit there is
20 some openness expressed to at least looking at the
21 issue. Some cautious openness.
22 Our client is not going to offer any
23 comments on -- any specific comments on historic
24 engagement activities with MPI or Hydro. When we
25 enter into those discussions, we indicate that those -

1 - our participation will be -- will keep it within the
2 family. When we look back at the collaborative
3 process in terms of the RSR, our client doesn't see it
4 as a failure. We believe that something important
5 happened.
6 But we do believe that if we are going
7 to -- to move forward on this benchmarking
8 recommendation, collectively consumers, the PUB, and -
9 - and the utilities or the monopolies that it re --
10 regulates, our client believes very strongly that
11 engagement needs to be done better. And that's not
12 criticizing anyone. Our client believes that everyone
13 enters into engagement with the best of intentions,
14 and -- and does their best.
15 And I'm hardly one (1) to -- to
16 criticize. But that if we're going to do these moving
17 forward we need to have better structure, more
18 creativity. And if -- if the Board is looking at --
19 at initiating a benchmarking discussion either with
20 MPI or with MPI and other utilities, our client thinks
21 it's a great idea. But we -- we think that we need to
22 look at the engagement differently.
23 We need to meet sooner, with the PUB
24 setting some of the ground rules. And the last bullet
25 that we -- we strongly recommend a facilitator. My

1 client has insisted that I put in, "strongly recommend
2 an independent facilitator." There are folks out
3 there who do this really well. The City of Winnipeg
4 does outstanding engagement. There are other groups.
5 There are people who are do this.
6 And this isn't a criticism of any
7 monopoly utility. I -- I'll criticise myself, I
8 probably deserve some, but -- but we can do much
9 better. And I -- but I think, if these processes are
10 going to achieve their potential, they need some
11 independent external help. That's our client's advice
12 for the -- for -- for -- and their views.
13 Okay, the 180 to $360 million question
14 of the RSR. When we started this discussion, I
15 referred you to 26(4) of the Act. Our client, from
16 just a pure net present value, has never been
17 particularly sold on the RSR, but they acknowledge the
18 compelling policy concerns with regard to rate shock
19 in terms of extreme magnitude low likelihood event,
20 and -- and so that is -- they believe it is within the
21 Board's jurisdiction and certainly appropriate to --
22 to look at an RSR. And the input they got from the
23 Probe research study helped to reinforce that.
24 But from our client's perspective, the
25 RSR should be a backup with the primary risk

1 mitigation tools of MPI being tools such as
2 reinsurance, good management and good forecasting.
3 And just reminding you of the rate instability in
4 terms of rebates in the 2000s related to challenges in
5 the PIPP IBNR. From our client's perspective, the RSR
6 is not, cannot, and should not be a bulwark, or guard,
7 or -- against poor management or poor forecasting.
8 And from our client's perspective, if
9 the Board -- as the Board walks down this path of
10 finalizing presumably where it's going with the RSR in
11 this GRA, our client believes very strongly that there
12 should be clear rules regarding what the RSR should be
13 used for and not used for. Our client had bitter
14 experience in the past decade in terms of it being
15 proposed for a gift to government or having capital
16 programs that, in our client's view, should have been
17 paid for out of the operating income of the
18 Corporation drawn down from the RSR.
19 So from our client's perspective, clear
20 rules and a clear segregation of RSR funds is
21 important. There are policy issues with the RSR in
22 terms of intergenerational eq -- equity, the money of
23 captive monopoly consumers being held by the -- the
24 Corporation for low probability events. And from that
25 perspective, our client believes it's very important

1 that the establishment of the RSR be undertaken on a
2 transparent basis, clearly applied to credible
3 evidence-based risk scenarios. It probably sounds
4 like the DCAT to you. That's where our client's
5 going.
6 Based on those criteria, our client,
7 after -- is -- is recommending that the Board find
8 that premiums written and the MCT, and I've got (in
9 the absence of a DCAT-driven level), do not provide a
10 transparent basis clearly tied to credible evidence-
11 based risk scenarios.
12 So -- so those are the ones our client
13 is rejecting in terms of our recommendations to the
14 Board. What's that leave us? From our client's
15 perspective, there's one (1) contender left, which is
16 the DCAT.
17 And, Mr. Proven, you and other members
18 of the Board put poor Ms. Sherry on the spot in terms
19 of wanting a number, wanting a range. And that's your
20 job. We understand totally what you were doing. But
21 imagine the conundrum of Ms. Sherry looking at that
22 combined scenario and the puzzling results of that
23 combined scenario which were flagged in their -- in
24 the evidence.
25 And so, from our client's perspective,

1 going into closing argument the most significant
2 challenge they had relating to the DCAT related to the
3 combined scenario, and the assumption of correlation
4 despite the puzzling contrain -- indications.
5 From our client's perspective, provided
6 that the combined scenario issues related to
7 independence rather than assumed correlation are
8 resolved, the DCAT offers a meaningful opportunity for
9 a transbare -- parent basis clearly tied to credible
10 evidence-based risk scenarios. And then as -- as
11 panel Chairperson Ms. Botting highlighted, then you
12 can use the DCAT if you wish to spin out into MCT
13 ratios. If you wish.
14 So from our client's perspective, it
15 doesn't mean that -- from our client's perspective,
16 there doesn't need to be more work on the DCAT, but we
17 -- we understand where this dialogue has been heading.
18 From our client's perspective, the last -- the most
19 significant barrier -- the barrier of weak -- our
20 client could not accept was this assumption of
21 correlation with the combined scenario.
22 The answer that we received from MPI
23 this morning, and we -- we thank them for their
24 effort, and the indication that that should reduce the
25 combined scenario -- two (2) year scenario by $20

1 million, but more importantly be a more mathematically
2 and risk-based approach was -- was of great comfort to
3 our client.
4 Our client recommends that the PUB set
5 the RSR through the DCAT involving appropriate
6 determinations of risk tolerances. And here's another
7 page where I didn't quite get the instructions right.
8 CAC has a strong preference for the one (1) to twenty
9 (20) to -- to one (1) to forty (40) to one (1) to
10 sixty (60) -- one (1) in sixty (60) range, with the
11 one (1) in forty (40) being the target.
12 But there are some challenges our
13 client recognizes right now. That interest rate
14 scenario and that floor is really constricting the
15 range. Our client's strong preference would be a one
16 (1) in twenty (20) to one (1) in sixty (60), with the
17 one (1) in forty (40) as a target as recommended by
18 Ms. Sherry. They would not recommend an upper end
19 risk tar -- tolerance of one (1) in one hundred (100).
20 They think that that is a solvency risk -- analysis-
21 based risk target.
22 MR. REGIS GOSSELIN: Mr. Williams,
23 could -- could I just clarify before you go too much
24 further with respect to --
25 MR. BYRON WILLIAMS: I was trying to

1 slip through that as quick as I could, Mr. Chairman.
2 MR. REGIS GOSSELIN: Well, it -- it is
3 in relation to slide 138, and the recommended
4 findings, the second bullet.
5 Given the evidence we saw this morning,
6 you -- you still -- do you still believe this -- the -
7 - has the information you received this morning
8 addressed this challenge?
9 MR. BYRON WILLIAMS: Well, just --
10 just so I'm clear, Mr. Chairman, from our client's
11 perspective, it should be based on an assumption of no
12 correlation. You know, so our client is recommending
13 to you the combined scenario based on no correlation.
14 And our cross-examination of -- of Mr. Johnston from
15 last Thursday helped, but we thought it would -- we
16 thought it would make a difference. We thought it was
17 the mathematically right approach.
18 And so that -- we're recommending no
19 correlation, and we endorse that.
20
21 (BRIEF PAUSE)
22
23 MR. BYRON WILLIAMS: Okay. And --
24 okay, and -- and I still haven't got it right. On
25 page -- slide 139, I just want to make clear I didn't

1 put in the one (1) in sixty (60). So on the second
2 bullet, our client is looking at a -- a one (1) in
3 twenty (20) to one (1) in sixty (60) range with the
4 one (1) in forty (40) as the mid point.
5 MR. REGIS GOSSELIN: The one (1) in
6 sixty (60) data, is it available anywhere?
7 MR. BYRON WILLIAMS: It's -- it's not
8 currently available. That's...
9 MR. REGIS GOSSELIN: So it's -- it's
10 an approximation --
11 MR. BYRON WILLIAMS: Now you're going
12 to really now put me on this --
13 MR. REGIS GOSSELIN: -- approximation
14 -- it's an approximation?
15 MR. BYRON WILLIAMS: Pardon me?
16 MR. REGIS GOSSELIN: It's an
17 approximation? I mean, it's an approximation of -- of
18 what your client will tolerate?
19 MR. BYRON WILLIAMS: That -- that --
20 well, it's -- it's what our client would recommend.
21 We think that's -- that's the -- the way to go. And -
22 - and our client was uncomfortable -- very
23 uncomfortable with that one (1) in one hundred (100).
24 They think that's too much, and that's more akin to a
25 solvency approach.

1 Our client -- and -- and if you think
2 to the DCAT and, you know, it's -- it's really been a
3 tool used -- emerging in the industry and used more
4 robustly in terms of the -- the analysis. But it's
5 not just about setting the RSR. It's a diagnostic
6 tool. And we think a key learning from the DCAT is --
7 is that there's still some more thinking to do about
8 interest rate risk. And that just is something that
9 we -- we want to highlight.
10 On slide 141, I cannot pretend that our
11 client is curr -- is -- is comfortable yet with the
12 equity scenario and the interest rate scenario as
13 selected by MPI. But our client is suggesting that
14 those be matters that we work on. You know, that's
15 something that -- that can continue to be refined. We
16 may have a better insight into the interest rate if
17 the -- if -- if there's some changes. So from our
18 client's perspective, the biggest roadblock in this
19 hearing was our lack of confidence in the assumption
20 of correlation for the combined scenario.
21 So we're sugg -- these are still issues
22 for our client. I don't want to pretend they -- they
23 are not. But -- but we're still prepared to recommend
24 the results of the DCAT for the setting of the RSR. I
25 -- I hope I've been clear on that. Our -- our concern

1 with the equity scenario, our client's concern has
2 been well-articulated by the experts. And I'll --
3 I'll leave that there.
4 I do want to spend a bit of time on the
5 combined scenario. And our -- our client was
6 certainly -- and our experts were certainly puzzled by
7 the outcome of that. In a year where the only
8 material -- material change was a reduction in
9 interest rate risk, the results of the combined
10 scenario caught our client's attention
11 And on the next slide, you see our
12 cross-examination of Mr. Johnston from last Thursday.
13 And I'm just going to ask Diana to pull up for a
14 moment MPI Exhibit 54, Undertaking 39. Just to
15 refresh the Board's memory about what we're talking
16 about here.
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: Thanks, Diana.
21 And this was -- we had asked -- scroll up. Thank you.
22 We'd asked MPI to redo this because they had used a
23 different significance level. And again, remember
24 that if they're not bolded, they're not statistically
25 significant under the zero point zero five (0.05)

1 significance level. And then remember as well, you
2 see the positive years juxtaposed against the negative
3 years. And that was of concern to CAC (Manitoba) and
4 to our experts.
5 And, Diana, if you can go back to my
6 conversation with Mr. Johnston.
7 Here -- here I am venturing where
8 lawyers fear to tread, saying:
9 "When you look at those results, Mr.
10 Johnston, statisticians would
11 probably conclude there's no
12 reliable evidence that the
13 correlation between equity returns
14 and interest rates is not zero."
15 That's fancy words for that they're
16 independent, that there's no correlation. Mr.
17 Johnston says, "One might conclude there is none."
18 And hold -- go back to the previous page, please. And
19 here in the second question, I'm pointing out to him
20 that when you see those change signs from a positive
21 to a negative, it would be a reasonable hypothesis
22 that this is typical of fluctuations around a true --
23 true corr -- correlation coefficient of zero, i.e.
24 they're independent. There's no relationship. And he
25 concludes that it's -- he candidly admits it's

1 reasonable to conclude that.

2 Next slide, please. And I want to draw

3 your attention to the language of Mr. Johnston,

4 because he's -- he's saying -- and he's admitting how

5 bizarre these numbers look, and that you would -- and

6 we infer that -- that he's noting the anom -- anomaly

7 as well. We think we heard his evidence this morning

8 saying that -- that he want -- that there was a desire

9 to be consistent with the previous year's practice.

10 We understand that.

11 But the whole -- the whole point of

12 doing a risk-based scenario is to look at the evidence

13 and approach it in a principle manner. And -- and

14 certainly Mr. Johnston's a principle person, so I'm

15 not suggesting anything like that. But the clear

16 implication of those numbers, those contrainter --

17 indications, the bizarreness of those numbers, is that

18 this is an independent relationship, and that's the

19 concern our client has had as we dug deeper into the

20 combined scenario.

21 Does it make a big deal? For our

22 clients, it's -- it's -- it makes a $20 million deal,

23 but it's the principle and the -- and the fact that

24 when our client first went into this dialogue about

25 risk analysis, MPI came and said, We're going to

1 assume that there's perfect correlation between these
2 -- these risk factors and -- when we knew there
3 wasn't. Our client thinks that good math is good
4 science, is a good risk-based approach, and that's
5 where our client's coming from, here. And, Ms.
6 Proven, I -- I hope you can get a bit of a sense of
7 Ms. Sherry's reluctance. There was some -- some
8 caution there.
9 Diana, could you pull up Aon Attachment
10 B, page 54? One (1) of -- one (1) of the concerns,
11 you might have heard it from the MPI president
12 yesterday or from Mr. Johnston earlier in the hearing,
13 is that a concern that they were truncating the time
14 frame of their analysis too short.
15 And our client's perspective, supported
16 by one (1) of the best-known econometricians in
17 Canada, is that you should look at the data that
18 matters. You should look for structural breaks and --
19 and look at the data that's relevant. When did the
20 bank of -- when did stagflation end? When did the
21 Bank of Canada bring in its interest rate targeting?
22 And here you see Aon looking at the
23 downside risks associated with the equity portfolio.
24 And we think it's important that the consultant that
25 Aon rel -- or MPI relied upon, look at the data series

1 is -- that they're looking at on the right side of
2 this column, global bonds from 1990 to 2030 -- '13,
3 high yield bonds from 1987 to 2013, 2007 to 2013 for
4 bank loads, and emerging market debt, again, that time
5 period.
6 And that's not because Aon's cherry-
7 picking. That's because Aon wants to give good advice
8 to MPI in terms of the risks. And how do you get a --
9 a sense of that? You look at that key data that's
10 relevant. And that's what our client has insisted
11 upon, and that's what we think's in the DCAT. And
12 that's why our client has a lot of comfort in -- in
13 how far the DCAT has come.
14 If we could go to slide 147? I'm
15 always intrigued when the president of MPI says he's
16 putting something on the table, when he's a -- a --
17 he's a -- a colourful, charismatic character. And our
18 client sometimes questions whether the promises he
19 makes can be delivered. And we bolded this language.
20 As long as we can keep grinding to keep below that 4
21 percent natural gowth -- growth, like, Manitobans will
22 be okay in the sense that they'll never see a rate
23 increase and they'll be protected by the RSR.
24 Our client questions whether MPI can
25 deliver on that. And -- and while we all want to

1 strive for -- to never see a rate increase, our client
2 doesn't believe the world works that way, and -- and
3 suspects that MPI may be overselling the rate
4 stability that it's promising a bit.
5 And here you see this commitment that
6 the RSR rebuilding fee should not be required anymore
7 with this. And again, a laudable sentiment from
8 Manitoba Public Insurance, but our client questions
9 whether MPI can deliver.
10 We don't know who the MPI board will be
11 in a year. We don't know who the provincial
12 government will be in a year. We don't know who this
13 Board will be in a year. And if I keep working these
14 crazy hours, I don't know if I'll ever see you again.
15 And Mr. Guimond made this point himself when he was
16 talking about the DSR. And -- and that's why these --
17 we applaud -- our client applauds his sentiment. We
18 don't think he can deliver, and I don't mean that
19 disrespectfully. It's -- it's just Realpolitik.
20 And here's Mr. Johnston as well adding
21 a cautionary note:
22 "The money might not always be there
23 to do that as well."
24 And that's good, cautious advice from a
25 -- a good, cautious actuary.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Certainly, I
4 suspect most people in this room cherish MPI as a
5 Crown corporation, and they cherish its achievements.
6 Our client, in terms of the allegations that rate --
7 some rate volatility will yield private -- to
8 privatization, our client believes that is overstated.
9 And Mr. Oakes, perhaps, made the point better than me
10 today. But here's the -- here's the rate instability
11 of the previous decade. You know, the -- the rebates
12 and -- and the no rebate in RSR. No calls for
13 privatization. I'm being a little sarcastic at the --
14 the bottom of this slide. So that's the -- you know,
15 we wouldn't expect rebates to trigger calls for
16 privatization.
17 But let's go back to the 1990s, to the
18 dark old days, and -- and look at what was going on
19 there. You've got your 4 percent -- this is '97. You
20 could look at '96. You could look at '98. There was
21 all sorts of stuff going on with ratepayers. MPI was
22 in an actual deficit. Retained earnings were -- were
23 below zero when I started appearing before this Board.
24 Wasn't too successful in opposing rate increases in
25 those days.

1 Here you've got a 4 percent RSR low,
2 and then you add on another one. And then you see
3 this incredible volatility around clear, because this
4 is when you were trying to get all those vehicles --
5 next slide. You've got Chevy Blazers with fourteen
6 point seven (14.7), and Jeep Cherokees with 23
7 percent. Motorcyclists rising almost 14 percent. If
8 you look any of those years, '96, '97, '98, there's
9 incredible volatility both around the average rate,
10 but also on the clear volatility.
11 And we provided an excerpt from that
12 '97 Board order. If you go back and look at the
13 number of consumers that were expect -- experiencing
14 rate shock, and that's not to say that we shouldn't
15 treat our -- our Crow -- our Crowns and treasure them.
16 But it's to say that Manitoba Public Insurance has
17 lived through a lot of rate volatility, but
18 Manitobans' commitment to the model endured. And so
19 we -- we believe that MPI has oversold the risks,
20 although we value their commitment to the Corporation.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: And the exhibit
25 is -- another exhibit to that effect is Exhibit 57.

1 We don't need to turn there. Just a last few points
2 about the RSR. It's a monopoly. You're keeping
3 Manitoba's money. They don't have a choice in terms
4 of Basic, and they want to know why. From our
5 client's perspective, based upon their interaction
6 with consumers, consumer -- Manitobans want to know.
7 And -- and we see language from one (1) of the panel
8 members, it's -- it's sell -- as well that we don't
9 want this threshold to be arbitrary, either -- and we
10 presume that means either at the bottom or at the top.
11 Ms. Grammond did this much better than
12 I did. What does the 100 percent MCT mean? We know
13 that it -- that event of that magnitude was not
14 reached in five thousand (5,000) simulations by
15 Manitoba Public Insurance. That number didn't --
16 didn't tick, so it's -- as Mr. Johnston says, It
17 survived all the scenarios.
18 To -- to me, certainly on behalf of our
19 client, this discussion between Ms. Sherry and Mr.
20 Johnston at pages 1,397 and 1,398 of the transcript
21 highlighted the strengths of the DCAT scenarios for
22 the lower and upper bounds, and the weakness of the
23 MCT. And the DCAT is -- we spent all this time on it.
24 And she's pointing out, and we'll go onto the next
25 page in a second -- hold it -- slide back for a minute

1 -- oh, sorry, go ahead.
2 That you can create MCTs from the
3 DCATs. Go to the next page, please. And here's, I
4 think, a really good description of what the two (2)
5 tools do. The MCT is a state in time indication of a
6 company's cati -- capital. It's basically a summary
7 of the financial health of an organization.
8 The DCAT is something else altogether,
9 says Ms. Sherry. It's scenario testing. Stress
10 testing on a company's results. You get financial
11 statements out of it. You get an MCT result. And
12 here's, from the consumer perspective, the key
13 paragraph:
14 "A hundred (100) percent MCT doesn't
15 link us to any set of risks. It's
16 just a number. But we don't know
17 with certainty what could cause that
18 number because we have no scenario
19 that results in this number."
20 And her advice, and it's advice our
21 client strongly recommends you accept is, Let's make
22 the ranges based on true scenarios instead of taking
23 this number that's not linked to any real level of
24 risk. I could never say it that well. The MCT, in
25 her view, just doesn't stand for anything. Use the

1 DCAT to get that number. Ms. Sherry talked about the
2 value from a consumer perspective, and this money in
3 their pocket.
4
5 (BRIEF PAUSE)
6
7 MR. BYRON WILLIAMS: The other near
8 final point our client wishes to make, we know that
9 some other insurance companies use the MCT. In fact,
10 I think I've heard MPI say, Everyone does, although
11 when we asked them about Quebec they weren't able to
12 answer that question. We don't know how -- at least
13 certainly there's no evidence to our knowledge on the
14 record of how Saskatchewan arrived at the MCT.
15 You did hear evidence from Ms. Sherry
16 that when she was at SG -- or the auto fund that they
17 weren't very advanced in that development. ICBC, we
18 think we heard Mr. -- the president of MPI say
19 yesterday that these are political decisions in these
20 other jurisdictions. I can't say for sure. But we
21 don't if for ICBC it was set based on merit or
22 political fiat.
23 And what is stopping Saskatchewan and
24 ICBC from arbitrarily setting higher MCTs? Does that
25 mean we follow?

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: In this dialogue
4 at page 163, our client is asking the MPI president,
5 Shouldn't this discussion -- shouldn't this -- our
6 approach on the RSR be principled so that future
7 boards and future CEOs can look upon it and rely upon
8 it? And I guess we have a difference of opinion, and
9 that's totally -- he likes the word 'pragmatic,' our
10 client doesn't.
11 The purpose of the RSR, we state it so
12 often, but our client wants to underline the fact in -
13 - in the client's view it's -- it's not there to cover
14 variances from budget. And -- and they think it's
15 very important that it be communicated what the RSR is
16 there for, and that it -- rules be built around the
17 RSR to treat it in an appropriate manner.
18 Just a final point from Ms. Sherry in
19 terms of the difference about doing a DCAT for
20 solvency versus doing one for -- for a rate volatility
21 analysis, and we think it's a good example for your
22 consideration.
23 I hope I've made my client's position
24 clear. Our client is rejecting the MCT. It is
25 rejecting option 1, the premium written. It is

1 selecting option 2, the DCAT with the -- and it's
2 recommending that no correlation be assumed for the
3 combined scenario.
4 Our client believes that it's important
5 to make strides still with equity and interest, but
6 that's something over time. And from our client's
7 perspective, it's not in the way of them endorsing the
8 DCAT in this hearing.
9 Our client prefers the range of twenty
10 (20) to sixty (60), one (1) in twenty (20) to one (1)
11 in sixty (60). They're not fond of the one (1) in one
12 hundred (100). They see that as a solvency-linked
13 risk tolerance.
14 Our client believe in, whether it's
15 biannually or not, some insight into what consumers
16 are actually thinking about issues like rate -- risk
17 tolerance. Rate shock would be important.
18 We know MPI does a lot of polling.
19 We've -- we've read that polling. We haven't seen a
20 lot of questions about that, and we think that would
21 be important for the dialogue.
22 And our client's message, and I think
23 she wrote this: "Let's be clear on the low end, the
24 high end, and the rebates when you go for the high
25 end." I think that's her strong message on behalf of

1 the CAC (Manitoba) board.

2 CAC (Manitoba) is -- is very proud of

3 the independence and the insight that Dr. Simpson and

4 Ms. Sherry brought. There might have been some

5 suggestions that Ms. Sherry had a Wawanesa Insurance

6 agenda when she came to the table. The Board had a

7 chance to judge her demeanour. You couldn't find much

8 more of a straight shooter than Ms. Sherry. She is --

9 you can judge her as you see.

10 But we believe that we brought rich,

11 robust, analytically rich experts to the table and who

12 relied upon evidence. And we think their opinion

13 should be given heavy weight.

14 We've talked about the reality of

15 monopoly consumers.

16 Just a couple moment -- comments about

17 DSR. Again, this is a tremendous success story for

18 Manitoba Public Insurance and for the Public Utilities

19 Board because the Board was very supportive of this.

20 And if memory serves me right, the move

21 to go from -- the recommendation, because it's a

22 government decision to go -- to have fifteen (15) at

23 the start -- I think had some heavy input from the

24 Board. And the more generous discount for good

25 drivers was heavily influenced by the Board.

1 It a great news story. MPI was kind
2 enough to provide the most recent results for the DSR.
3 It's an exhibit in this hearing, and the -- the trend
4 lines are -- are something to be celebrated.
5 Our client is watching these numbers
6 because, at some point in time, our client believes we
7 should go back to this discussion and -- and take a
8 look at do we need another DSR level. Does the
9 discount for a certain class need -- need to be
10 revisited?
11 And -- and certainly the reporting that
12 MPI did in its undertaking in terms of showing the
13 annual trend lines for DSR in terms of risk -- risk of
14 collisions versus DSR merits we think should be part
15 of the annual -- annual reporting of MPI, something to
16 celebrate.
17 And we know that some reporting was
18 done, but Ms. -- Mr. Johnston knows the table that I'm
19 -- that I'm speaking of. And we think that should be
20 reported annually.
21 And at some point in the future, we
22 should be going back to this DSR level and discounts
23 and examining that. Whether that's next year or the
24 year past, the MPI president cautioned about putting
25 too much on the plate of a new board, if there is a

1 new board. So it's something our client will be
2 keeping our eyes on for the next couple of years.
3 The final check is: What rate is our
4 client recommending? And I gave away the -- part of
5 the story. Our client, while they would have loved a
6 1 percent rate decrease, didn't feel the evidence was
7 there for it. So that was really off the table.
8 They looked long and hard at the one
9 (1) -- the -- an increase at or above 1 percent the
10 interest rates and the loss forecasts for -- for
11 '16/'17 were factors. But they saw in ter --
12 ultimately tilting their decision in favour of no
13 overall rate increase was the conservatism they
14 observed within PIPP. And you've seen CAC Exhibit
15 2.1.
16 Frankly, a concern that -- with the
17 severity assumptions with collision and -- and MPI's
18 acknowledgement of cost containment opportunities on
19 the information technology side.
20 So my client reminds me that, while --
21 that it was a thoughtful decision, the client believes
22 very strongly that no overall rate increase is -- is
23 appropriate given what they -- the client believes to
24 be conservatism on the PIPP side, and also significant
25 cost containment opportunities. So that's where the

1 client is coming down.

2 I don't know if I have any -- this is

3 one (1) again which is beyond the Board's

4 jurisdiction. Our client certainly would -- will be

5 writing to the province about -- about this issue.

6 Madam Chair and members of the Board, it's been kind

7 of a neat hearing. We -- we're very proud of our

8 opportunity to participate in the joint actuary panel.

9 We think that that's a good example for the future.

10 And we -- we think that our client

11 looks forward to for a little while putting the RSR

12 issue to bed, they hope, but on -- on an approach that

13 is evidence-based based upon risks, scenarios and --

14 and the best state of the art approach in terms of the

15 DCAT. And we thank the Board very much for this

16 opportunity.

17 THE CHAIRPERSON: I will thank you for

18 your thoughtful presentation, just as the other

19 Intervenors have done in their closing comments. But

20 I don't think you're quite off the hook yet. I think

21 there might be a few questions coming to you.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: Madam Chair, I'll

1 just indicate while -- while you're thinking of
2 questions that for the only time in my life I had to
3 appear as a witness at a regulatory proceeding on Lake
4 Winnipeg regulation, and I have all sorts of respect
5 for all the folks over there because I never want to
6 do it again. And -- and to me this is worse than the
7 Court of Appeal. So I've got my client behind me
8 though, so I'll see how we can do.
9
10 (BRIEF PAUSE)
11
12 THE CHAIRPERSON: Oh, Mr. Williams,
13 you're not going to get questioned. They must have
14 heard -- those comments must be made for a reason.
15 Ms. Grammond, did you have any comments for -- about
16 further dates or -- please?
17 MS. CANDACE GRAMMOND: Yes, Madam
18 Chair. So we did have tomorrow set as a hearing day
19 which I understand we're not going to be using. The
20 only thing left to do is to hear the closing
21 submissions of MPI. So Mr. Kalinowsky had indicated
22 that she will deliver that on Monday October 26th,
23 which was our last hearing day. So we will not be
24 here tomorrow. We'll be back on Monday, listen to the
25 MPI closing at that time. And then we'll officially

close the hearing.

Mr. Williams...?

MR. BYRON WILLIAMS: Yeah, and I -- I apologize. I forgot -- I did thank the Board at the start, but certainly Board counsel and advisors and MPI, we appreciate their candour and their sharing. And certainly the other Intervenors, we appreciate that opportunity. And My Friend to my right who has not slept all night, I -- I want to thank him a little bit, too.

THE CHAIRPERSON: Okay, thank you again. This ends our hearings for today, so I'll call adjournment. And we'll see you on Monday at 9:00 a.m. Thank you.

--- Upon adjourning at 1:46 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.