MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION FOR

2017-2018 INSURANCE YEAR

HEARING

Before Board Panel:

Robert Gabor, Q.C. - Board Chairperson

Karen Botting - Board Member

Anita Neville - Board Member

Allan Morin - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

November 2, 2016

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1 APPEARANCES

2 Kathleen McCandless)Board Counsel

3

4 Matt Ghikas)Manitoba Public

5 Michael Triggs (np))Insurance

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7 Byron Williams)CAC (Manitoba)

8 Jared Wheeler (student-at-law))

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10 Raymond Oakes)CMMG

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1 --- Upon commencing at 9:03 a.m.

2

3 THE CHAIRPERSON: Good morning,

4 everyone. Ms. McCandless...?

5

6 CLOSING SUBMISSIONS BY MS. KATHLEEN MCCANDLESS:

7 MS. KATHLEEN MCCANDLESS: Thank you.

8 Good morning. We have now completed the evidentiary

9 part of this public hearing with respect to the

10 2017/'18 General Rate Application, or GRA, filed by

11 Manitoba Public Insurance.

12 The Board will soon deliberate upon the

13 application for base rates and premiums charged for

14 Compulsory vehicle and driver insurance to take effect

15 on March 1, 2017.

16 As counsel for the Board I do not take

17 any position on the merits of any part of the

18 application or the positions taken by any of the

19 parties. My role is to summarize matters that are

20 before the Board and outline issues that it may wish

21 to consider in making its decisions.

22 MPI is seeking approval for a 4.3

23 percent combined overall average rate increase, which

24 is comprised of a 2.0 percent overall change as

25 originally proposed, and an additional 2.3 percent

1 overall, relating to a proposed interest rate
2 forecasting risk factor effective March 1, 2017.
3 MPI seeks no changes to driver licence
4 premiums or vehicle premium discounts, and does not
5 propose any changes to service or transaction fees,
6 permit and certificate fee, fleet rebates, or
7 surcharges, or the discount for after market and
8 manufacturer or dealer installed anti-theft devices.
9 The average rate adjustment proposed by
10 MPI for each major vehicle class is as follows: For
11 private passenger, an overall increase of 4.0 percent.
12 For the commercial class, an overall increase of 10.3
13 percent. For the public class, an overall increase of
14 6.5 percent. For motorcycles, an overall increase of
15 2.4 percent. For trailers, an overall increase of
16 11.4 percent. And for off-road vehicles, an overall
17 decrease of 31.3 percent.
18 The indicated rate increases are after
19 a special one (1) time adjustment to accommodate --
20 accommodate basing motorcycle rates on nine (9) years
21 of historical experience instead of ten (10) years per
22 the normal practice. In effect, removing 2006 claims
23 experience, which had high motorcycle claims costs.
24 This resulted in a lower indicated rate
25 change for motorcycle from 8.8 percent to 2.4 percent.

1 The rate changes for the other major classes, expect
2 for trailers and off-road vehicles were adjusted
3 upward to accommodate this one (1) time adjustment.
4 These adjustments taken together lead
5 to the overall proposed rate change of 4.3 percent.
6 If the Corporation's application is accepted as filed,
7 actual vehicle premiums charged will vary depending on
8 the claims experience and driving record of their
9 registered owner, insurance use, territory, and
10 vehicle rate group.
11 After consideration of insurance use
12 and territory, and capping and balancing for
13 experience rate adjustments, the results were modelled
14 by the Corporation to assess the impact of various
15 rate and classification changes. In total, the
16 vehicle population for the year of the application is
17 one million one hundred and thirteen thousand three
18 hundred and seventy (1,113,370,000) vehicles.
19 Including sixty-seven thousand six
20 hundred and thirteen (67,613) off-road vehicles to
21 which the proposed rate would be applied as follows:
22 nine hundred and twelve thousand nine hundred and
23 thirty (912,930) vehicles, or 82 percent of the
24 overall fleet, would receive a rate increase, the
25 majority of which would be ninety-nine dollars ($99)

1 or less.

2 Eighty-six thousand nine hundred

3 (86,900) vehicles, or 8 percent of the overall fleet,

4 would receive a rate decrease. And one hundred and

5 thirteen thousand five hundred and forty (113,540), or

6 10 percent, would receive no change in rates.

7 The Corporation has provided to the

8 Board its actual financial results with respect to the

9 2015/'16 year, as well as for the first six (6) months

10 of the current year, 2016/'17.

11 For the 2015/'16 fiscal year, Basic

12 incurred a net loss of $56 million compared with

13 forecasted net income of $15 million at last year's

14 GRA, a negative change of $71 million.

15 This negative variance was attributed

16 by the Corporation to the higher-than-historical

17 comprehensive claims cost from hail claims which

18 generated a negative variance of 52.7 million lower

19 than expected income from -- investment income from

20 equities which generated a negative variance of $42.5

21 million and revised loss development assumptions in

22 the appointed actuary's report for week -- weekly

23 indemnity claims incurred as a result of adverse

24 development experience which generated a negative

25 variance of $31.5 million.

1 Offsetting this, the positive variances
2 were attributed in part to a decrease in collision
3 frequency, an improvement of $17.8 million; higher
4 than expected investment income from alternative
5 investments of $9.8 million; higher interest income of
6 $3.3 million; net benefit from changes to interest
7 rates on claims costs and investment income of $6.7
8 million; reduction in the deferred policy acquisition
9 cost, write-down, and premium deficiency of $15
10 million; reduced expenses of $1.7 million.
11 With respect to the current year,
12 2016/'17, the subject of last year's GRA, MPI forecast
13 for Basic a net loss of $11.4 million for rating
14 purposes revised to a net loss of $13.4 million in
15 this GRA.
16 This negative change is primarily due
17 to an increase in the comprehensive claims forecast
18 for 2016/'17 mainly as a result of significantly
19 worse-than-expected hail claim results in 2015/'16 to
20 the tune of $8.8 million, and minor deterioration in
21 the revenue forecast and the investment income
22 forecast, excluding interest rates, to the tune of
23 $1.1 million.
24 These negative variances were offset by
25 reductions in the collision and property damage

1 forecasts as a result of the following: a lower
2 claims frequency in the amount of $3.0 million,
3 assumed recovery in the premium defi -- deficiency of
4 $4.8 million, reduction in unallocated loss adjustment
5 expense forecast as a result of a revised forecast of
6 contractual payment to Manitoba Health of $.9 million,
7 and other impacts of $.3 million.
8 During the hearing, MPI revised its
9 financial forecast based on a 4.3 percent Basic rate
10 change reflecting an updated August 50/50 interest-
11 rate forecast. The revised net loss for 2016/'17
12 changed from negative $13.4 million to a net loss of
13 $34.4 million.
14 The $21 million negative variance is
15 due to the revised interest rate forecast including an
16 interest rate forecast risk factor.
17 With respect to the second quarter
18 results for the first six (6) months of the current
19 year, the Corporation has booked a net loss of $30.9
20 million, which includes a net loss of $52.7 million
21 for Basic and an offsetting $21.8 million net income
22 on competitive lines.
23 The Corporation has a net loss of $30.9
24 million, but also recorded other comprehensive income
25 of $61.5 million for a total comprehensive income of

1 $30.7 million for the first six (6) months ended
2 August 31, 2016.
3 This positive reported result was
4 largely due to a $67.2 million improvement in
5 unrealized equity gains. MPI also realized $5.6
6 million of equity gains in net income through the sale
7 of related equity investments during the period.
8 MPI pro -- provided an update as at
9 September 30, 2016, which indicated no material
10 changes in the unrealized equity gains. MPI had
11 realized $32.2 million of gains primarily from the
12 sale of US equity investments in September. This
13 realized gain cut the reported net loss of $30.9
14 million at August 31 to a net loss of $8.5 million at
15 the end of September.
16 MPI is of the view that the Standard
17 Interest Rate Forecast, which is based on an average
18 of the forecasts for the ten (10) year Government of
19 Canada interest rate from the five (5) major banks and
20 Global Insight, is not a best estimate forecast.
21 The Corporation is requesting an
22 interest rate forecasting risk factor to be
23 incorporated in the application. The interest rate
24 forecast that underlies the rate application as
25 originally filed provides for interest rates

1 decreasing by eleven (11) basis points in 2015/'16
2 from last year.
3 The most recent evidence reflects that
4 the Government of Canada ten (10) year bond rate has
5 decreased since MPI prepared its GRA application. Dr.
6 Sean Cleary appeared on behalf of MPI to present his
7 research on interest rate forecasting issues. Dr.
8 Cleary stated that, based on the recent historical
9 data, a Naive forecast approach, based on assuming no
10 future change in interest rates, was better than the
11 Standard Interest Rate Forecast.
12 Based on his historical analysis, the
13 weighted average percentage forecasting error was
14 negative 39.5 percent for Naive versus negative, 92.9
15 percent forecasting error for the Standard Interest
16 Rate Forecast.
17 Dr. Cleary recommends using a 50/50
18 forecast, representing the midpoint between the
19 Standard Interest Rate Forecast and the Naive
20 forecast. Dr. Cleary is of the view that the use of
21 such a forecast would minimize or at least reduce
22 forecasting error, as the 50/50 approach strikes a
23 balance between the patterns of the recent past and
24 the general expectation that interest rates will
25 eventually rise. He also believes that this approach

1 helps to adjust for the error due to the timing of
2 changes in interest rates.
3 MPI filed an updated interest rate
4 forecast as of August 2016 based on the 50/50
5 forecast. It indicated that interest rates would
6 decrease from 1.19 percent at the end of 2015/'16 to
7 1.1 percent at the end of 2016/'17, a decrease of
8 eight (8) basis points during the year. This compared
9 to the original March forecast increase of fifty-seven
10 (57) basis points based on the Standard Interest Rate
11 Forecast.
12 Based upon this updated forecast, MPI
13 has advised that Basic's net income in 2016/'17 would
14 decrease from a net loss of $13.4 million to a net
15 loss of $34.4 million, $21 million lower.
16 The updated forecast also indicates a
17 net loss of $10.8 million for 2017/'18 and a net
18 income of $24.1 million for 2018/'19. Break-even
19 rates based on this new 50/50 interest rate forecast
20 method increased the indicated rate increase from 2
21 percent to 4.3 percent, the additional 2.3 percent
22 amount attributable to the interest rate forecasting
23 risk factor.
24 In establishing Basic rates, the Board
25 has stated in the past that it looks to the overall

1 financial wellness of the Corporation. MPI has asked
2 that the Board look at Basic's retained earnings only
3 as it is a mandatory line of business that has to
4 stand on its own financially, but has acknowledged
5 that the Basic compulsory program compi -- comprises
6 the vast majority of the Corporation's operations.
7 The Corporation has, as of year-end
8 2015/'16, $346.7 million in retained earnings,
9 including $194.5 million in Basic, and $84.7 million
10 in extension, and $67.6 million in special risk
11 extension. Overall corporate total equity as at
12 February 28, 2016, including AOCI was $390 million.
13 With respect to the RSR, the
14 Corporation has updated the RSR definition. The
15 purpose of the RSR is to protect motorists from rate
16 increases made necessary by variances from forecasted
17 results, and by unexpected events or losses arising
18 from non-recurring events or factors. According to
19 MPI's interpretation of the RSR, unexpected and non-
20 recurring events, or factors, included variances from
21 a best estimate break-even budget.
22 With respect to the dynamic capital
23 adequacy testing, or DCAT, the DCAT report was
24 prepared internally by MPI's chief actuary, Mr. Luke
25 Johnston, in accordance with the Canadian Institute of

1 Actuary Standards and accepted actuarial practice.

2 The DCAT report reflects that the

3 Corporation's Basic's -- Corporation's Basic financial

4 condition is satisfactory if throughout the forecast

5 period it is able to meet all its future obligations

6 under all plausible adverse scenarios, and under the

7 base scenario that it meets the minimum regulatory

8 capital requirement.

9 Based on this definition, Mr. Johnston

10 concluded that Basic's future financial condition is

11 satisfactory at the current proposed regulatory minim

12 RSR target level.

13 In this GRA, the Corporation originally

14 asked for a minimum total equity target of $181

15 million based on an adaptation of the 2016 DCAT report

16 based on a two (2) year combined scenario with a one

17 (1) in forty (40) probability of occurrence, including

18 routine management or regulatory action.

19 With the proposed 4.3 percent premium

20 rate level increase based on the 50/50 interest rate

21 forecast, the lower total equity target adapted from

22 an updated DCAT decreased to $159 million.

23 The Corporation also seeks to establish

24 a total equity target range with an upper limited

25 based on the minimum capital test, or MCT, and a ratio

1 of 100 percent which was originally determined to
2 equate to $404 million. With the proposed 4.3 premium
3 rate level increase, based on the 50/50 interest rate
4 forecast, the upper total equity target limit
5 increased to $411 million.
6 The Corporation makes clear its
7 position that the upper total equity target limit
8 should be set using the MCT ratio at a level of 100
9 percent, which it considers to be an objective and at
10 accepted industry standard.
11 In the Board's Order numbered 128/'15
12 after the 2016 GRA, the Board ordered that for fiscal
13 2016 as recommended by MPI the two (2) year return
14 period, one (1) in forty (40) year probability level
15 combined scenario including management and regulatory
16 action should be utilized for the purposes of setting
17 the lower total equity capital target for Basic
18 calculated at $231 million by MPI.
19 The Board further stated that in this
20 GRA after phase 2 of the collaborative process, the
21 Board would hear evidence on potential changes and
22 approach in this regard. The Board noted that this
23 choice of scenario would likely enable the
24 Corporation's chief actuary to continue to provide a
25 favourable opinion regarding the satisfactory

1 financial condition of Basic.

2 The work to be done relative to phase 2

3 of the collaborative process, as stated by the Board

4 in Order 128/'15, was intended to result in a better

5 understanding and acceptance of the plausible adverse

6 scenarios, and was expected to assist the Board in

7 establishing an ongoing appropriate Basic RSR capital

8 target range for the future with more confidence.

9 With respect to the upper target

10 capital total, the Board in Order 128/'15 approved the

11 use of a 100 percent MCT ratio on a notional basis.

12 The 100 percent of MCT result would represent the

13 notional upper limit for the rate reserve, a limit

14 which the Board commented might be alt -- altered,

15 based on the supplemental DCAT analysis to be

16 completed.

17 The notional upper limit would preclude

18 any Board ordered rebates unless the rate reserve

19 exceeds either the notional upper limit of the rate

20 reserve calculated using the MTC -- MCT or the upper

21 limits set using the DCAT, if that is the upper limit

22 test ultimately selected by the Board.

23 In this years GRA the Corporation

24 presented evidence summarizing the results to date of

25 the evolving collaborative process in this regard,

1 which showed -- which indicated lower Basic total
2 equity targets ranging from $115 million in a four (4)
3 year combined scenario at the 95th percentile outcome
4 level, up to $161 million in a two (2) year combined
5 scenario at the 97.5th percentile outcome level,
6 noting that the $161 result closely parallels that of
7 its proposed $159 million target.
8 The Corporation also presented evidence
9 showing that the proposed upper Basic total equity
10 target of $411 million would not be exhausted by any
11 plausible adverse scenario, including routine
12 management and regulatory actions, which it tested.
13 The Corporation acknowledged that its
14 rate setting process with its focus on achieving a
15 breakeven net income accounting result on average in
16 the year of the application and the year following
17 does not comply with accepted actuarial practice in
18 Canada.
19 Accompanying the GRA the Corporation
20 provided its estimate of the overall Basic required
21 rate change determined in accordance with accepted
22 actuarial practice at 4.8 percent, which compares to
23 the 2.0 percent rate change originally proposed, and
24 the 4.3 rate change as amended.
25 The collaborative process in this

1 regard continued to evolve through this hearing
2 process and the Corporation acknowledged there is
3 still more work to be done.
4 With respect to investments the
5 Corporation has an investment committee working group
6 which includes members of MPI and the Department of
7 Finance, and discusses aspects of the Corporation's
8 investment portfolio, including investment policy,
9 investment income, investment re-balancing, and the
10 retainer and monitoring of external investment
11 managers.
12 The funds available for investment are
13 primarily unearned premium reserves and unpaid claims
14 reserves. The investment portfolio supports both the
15 payment of accident claims as well as the pension
16 obligations of the Corporation.
17 The size of the Corporate investment
18 portfolio for the year of the application is projected
19 to be $2.553 billion for 2016/'17 to grow to $2.735
20 billion for 2019/'10. The current composition of the
21 investment portfolio is comprised of 42.8 percent in
22 Canadian fixed income, 25.2 percent in MUSH, 10.7
23 percent in Canadian equities, 6 percent in US
24 equities, 10.9 percent in real estate, and 4.4 percent
25 in infrastructure and venture capital.

1 Historically, the Corporation's
2 investment income has been a major component of its
3 income and has offset its annual underwriting losses.
4 For 2015/'16 MPI had an investment loss for Basic of
5 $4 million in addition to the underwriting loss of 52
6 million, and had a total net loss of $56 million for
7 Basic.
8 In the current application by using the
9 standard interest rate forecast, the Corporate
10 investment income was projected to be $19.7 million
11 for 2016/'17, of which Basic's share is $16.8 million
12 or 85.5 percent.
13 Based on the August 50/50 interest
14 forecast the Corporation is now projecting investment
15 income of $9.8 million for Basic to offset a revised
16 underwriting loss now forecast a $125.2 million. Net
17 income in now forecasting for 2016/'17 to a $34.4
18 million loss.
19 With respect to the ALM study, as
20 directed by the Board in Order 151/'13, MPI retained
21 an outside consultant, Aon Hewitt, to undertake an
22 asset-liability management study and advise whether
23 the current asset mix and duration-matching study
24 should continue or should be revised.
25 MPI presented the results of the Aon

1 Hewitt asset-liability management study at last year's
2 GRA in which Aon recommended MPI adopt full-duration
3 matching rather than other alternatives such as
4 cashflow matching or a hybrid-matching approach.
5 MPI -- MPI implemented the
6 recommendations made by Aon including a revised target
7 weighting for its investment portfolio last year. MPI
8 implemented the ALM duration matching at the Corporate
9 level as it provides a better risk-versus-return
10 profile.
11 The Corporation indicated that
12 undertaking the matching at the Basic level would
13 increase the indicated rate increase from the original
14 2 percent to 3.7 percent, but would still not negate
15 the need for an interest rate forecasting risk factor.
16 If changes in interest rates do not
17 materialize as forecast, Basic would still be exposed
18 to interest rate impacts to net income in the order of
19 $16 million.
20 Julianna Spiropoulos from Aon appeared
21 at the hearing to speak to the ALM study. Aon used
22 MPI-selected metrics in the ALM study based on the ten
23 (10) year average basic net income as the reward and
24 ten (10) year average standard deviation of Basic RSR
25 to measure risk. MPI's primary concern for the ALM

1 study is to address short-term volatility of premium
2 rate requirement.
3 In terms of the asset mix, Aon stated
4 that MPI's risk tolerance was low given that MPI has a
5 mandate to break even instead of targeting a profit.
6 There is an extensive process to change the targeted
7 levels of reserve, and MPI does not have direct
8 control over the premium rates.
9 Therefore, Aon recommended MPI adopt
10 Portfolio 2 in the study because it was at the lower
11 end of the risk spectrum. It also had a significant
12 allocation to real estate and infrastructure which
13 does provide some inflation protection over the long
14 term.
15 In addition, it also had a balance of
16 more liquid equity allocation to ensure that growth
17 portfolio was not entirely in illiquid assets and it
18 has some diversification into more liquid assets.
19 Mr. Valter Viola appeared in the
20 hearing on behalf of CAC to present issues regarding
21 investment portfolio management and the risk-reward
22 framework, and provided several recommendations
23 related to MPI's investment portfolio design.
24 Mr. Viola questioned the reliance on
25 accounting measurements used by Aon for the asset

1 portfolio design based on net income which did not
2 capture changes in the market value of material assets
3 such as equities, MUSH bonds, and changes in the value
4 of pension liabilities.
5 Mr. Viola recommended that MPI make
6 elections that minimize the discrepancy between net
7 income and comprehensive income for asset liability
8 modelling purposes, even if only on a notional basis.
9 Mr. Viola stated his belief that MPI's
10 focus on short-term rate stability was at the expense
11 of long-term lower premium rate levels potentially
12 through that focus.
13 With respect to operating expenses,
14 total Basic expenses were $207 million in 2015/'16, up
15 from $206.2 million in 2014/'15, and are forecast to
16 be $218.8 million in 2016/'17. Thereafter, Basic
17 expenses are forecast to grow to $223 million in the
18 year of the application.
19 Salaries and benefits are a major
20 component of the operating expenses of Basic,
21 representing over 58 percent of the total operating
22 expenses in the year of the application.
23 Since 2012/'13, the Corporation has
24 experienced a compound annual growth of salaries and
25 benefits of 3.0 percent with compensation that has

1 grown from $109 million in 2012/'13 to $122.2 million
2 in 2015/'16. Salaries and benefits are forecast to be
3 $126.1 million in the current year, and are forecast
4 to be $128.9 million in 2017/'18.
5 MPI is forecasting an increase in
6 compensation expenses net of vacancy allowance of 3.3
7 per -- 3.37 percent in 2016/'17 and an increase of 2.9
8 percent in 2017/'18, which forecasts are in excess of
9 inflation at 2 percent.
10 The collective agreement between MPI
11 and the Manitoba Government and General Employees
12 Union, which covers 90 percent of MPI's workforce,
13 includes 2 percent -- a 2 percent increase for year 1,
14 1.5 percent increase for year 2, and a 2.0 percent
15 increase for year 3 to 5. The five (5) year contract
16 is in effect for the period from September 18, 2016,
17 to September 26, 2020.
18 In this application, MPI has identified
19 fifteen (15) full-time equivalent reductions in
20 2017/'18 and 2018/'19. The annualized savings to
21 Basic on rating year 2017/'18 and 2018/'19 is forecast
22 to be $.9 million in each year.
23 Overall, the Corporation is projecting
24 the staffing level of one thousand nine hundred and
25 fifty-six point one-five (1,956.15} FTEs for 2016/'17.

1 This includes one thousand nine hundred and twenty-
2 seven point four-five (1,927.45) FTEs in normal
3 operations and twenty-eight point seven (28.7) FTEs in
4 improvement initiatives.
5 MPI's current staff complement includes
6 two hundred and twenty-three (223) FTEs to support its
7 IT infrastructure and projects. And MPI makes use of
8 inter -- external IT contractors to deliver it's IT
9 infrastructure.
10 The Corporation has internalized twelve
11 (12) IT positions in 2016/'17 and has one hundred and
12 five (105) IT contractors working in both operations
13 and on improvement initiatives. MPI has indicated
14 that it plans on internalizing twenty-seven IT
15 positions in the next three (3) years, including the
16 twelve (12) in 2016/'17.
17 With respect to capital expenditures,
18 MPI has provided a corporate-wide capital expe --
19 expenditure forecast. The projected capital
20 expenditures are $37.2 million for 2016/'17, $38.2
21 million for 2017/'18, and $35.9 million for 2018/'19,
22 so over $111 million in the next three (3) years.
23 The majority of the capital spending is
24 on IT-related projects, including the Physical Damage
25 Re-engineering Project, which has an estimated total

1 budget of $65 million. This will confer a $13.65
2 million per year benefit once fully in place,
3 including $2.25 million in savings from staff reju --
4 reductions starting in 2018/'19. The extension of
5 this project is expected to be completed in 2021.
6 Board Order 128/'15 directed MPI to
7 conduct an independent assessment of the PDR and
8 Gartner provided a program evaluation. Mr. Martin
9 Geffen, from Gartner, appeared on behalf of the
10 Corporation to speak to the IT bench -- benchmarking
11 CIO scorecard and to comment on the PDR project.
12 Gartner found the overall total budget of the PDR
13 project has not been changed, but costs have been
14 reallocated among various components of the projects.
15 $32.8 million, or 50 percent, has been spent on the
16 project.
17 Mr. -- Mr. Geffen noted that Gartner
18 has found that for pro -- programs as large and
19 complex as the PDR project, it is not unexpected to
20 have a course correction, because for a number of
21 years the organizations will not be where they thought
22 they were going to be at the very beginning, and
23 commented that the Corporation needs to con --
24 consciously and purposely document the changes that
25 are identified to impact both to costs and to the

1 expected benefits.

2 With respect to the savings and

3 benefits of the PDR, Gartner determined a net present

4 value benefit overall of $18 million. The

5 cost/benefit analysis included the maintenance cost,

6 which Gartner estimated based on industry standards to

7 be 18 to 20 percent per annum.

8 Mr. Geffen commented that MPI had

9 improved its overall IT maturity, seven (7) of eight

10 (8) measures are as good or better than its peers, and

11 one (1) area below its peers is business process

12 management. MPI is also undertaking a technology

13 modernization project, budgeting $40 million over four

14 (4) years, a change from last year's GRA of $33.3

15 million for five (5) -- four (4) years.

16 With respect to costs to support

17 information technology, MPI's annual IT expenses

18 increased from $41 million in 2011/'12 to over $52.6

19 million in 2015/'16, a compound annual growth rate of

20 6.4 percent. MPI is forecasting to spend $59 million

21 in 2016/'17, and $62.4 million in 2017/'18 on IT

22 expenses. Thereafter, MPI'S is fore -- forecasting

23 growth in expenses to $83.5 million in 2020/'21,

24 representing a compounded annual growth rate of 7.2

25 percent.

1 With respect to road safety, MPI is
2 forecasting to spend $13.2 million in Basic road
3 safety and loss prevention programs in 2017/'18. The
4 largest component is spent on driver education,
5 including the high school driver education program,
6 approximately $3.6 million or 27 percent of the
7 overall budget.
8 Auto crime prevention strategies are
9 the second largest expenditure at $2.6 million, or 20
10 percent of the overall budget. Impaired driving
11 prevention strategies are forecast at $2.3 million, or
12 18 percent of the overall budget. The balance of the
13 road safety programs are -- are advertising and
14 sponsorships, road safety programming and road watch,
15 which is increased enforcement.
16 Jennifer Kroeker-Hall appeared on
17 behalf of MPI. Ms. Kroeker-Hall had prepared an
18 independent review of MPI's road safety programming in
19 2015, which was filed in last year's GRA. Ms.
20 Kroeker-Hall spoke to her review of MPI's road safety
21 program models. Ms. Kroeker com -- Kroeker-Hall
22 commented that road safety planning needs to be
23 flexible, and evidence based, consultative, and
24 evaluative.
25 Ms. Kroeker-hall also suggests it is

1 valuable to assess in the years ahead whether the
2 funding and the approval of priorities matches the
3 resource allocations to continue to support the
4 priorities that the Corporation has set for itself.
5 MPI has indicated that it has made
6 progress on the implementation of the loss prevention
7 strategy, and that the governance structure
8 recommended by IBM has now been fully adopted and
9 implemented. The Corporation provided an update of
10 the activities of the Provincial road safety
11 committee, and the external stakeholder committee on
12 loss prevention.
13 The Provincial road safety committee
14 hosted a distracted driving and impaired driving
15 summit in December of 2015, which produced consensus
16 on key approaches. The committee is in the process of
17 preparing its road safety plan, and is targeting for
18 its completion this fall.
19 With respect to road safety priorities,
20 the Corporation has identified as its top three (3)
21 behaviour change priorities as distracted driving,
22 speed, and impaired driving. The Corporation's top
23 emerging road safety priorities have been identified
24 as mature drivers, autonomous vehicles, and traffic
25 safety culture.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: The Corporation has completed an analysis included within its Application to determine the impact of the driver safety rating on claims frequency and severity since its introduction in 2010.

The Corporation has reported that since its introduction it estimates an overall total reduction of thirty-nine thousand (39,000) collision claims related to the DSR for a reduction in losses totalling approximately $124.5 million.

With respect to driver premiums by DSR level from 2015 to 2019, total driver earned premiums by DSR was $46.4 million in 2015, and is expected to increase to $56.3 million by 2019.

Mr. Chair and members of the panel, I have attempted to comment on the main issues that arose this year. I would like to thank the panel for its patience and cooperation throughout this process, and I would also like to thank MPI and the Intervenors for their cooperation extended throughout the hearing. Thank you.

THE CHAIRPERSON: Thank you, Ms.

1 McCandless.

2 Mr. Oakes, I believe you're next.

3

4 CLOSING SUBMISSIONS BY MR. RAYMOND OAKES:

5 MR. RAYMOND OAKES: Thank you, Mr.

6 Chairman. Good morning. The CMMG's intervention is

7 primarily concerned with MPI's revised application for

8 a rate increase for motorcycles that necessarily

9 involves a review and analysis of the IRFR and the RSR

10 levels.

11 A large part of our intervention also

12 deals with road safety. With respect to the rate

13 increase, the actuarial required rate in the

14 application as filed was a decrease in the amount of

15 2.1 percent. That rate, if the Corporation proceeded

16 with the nine (9) year methodology that we say is

17 actuarially sound and reasonable, would have resulted

18 in a decrease of minus 7.4 percent. The reference for

19 that is CMMG 2-2.

20 And that amount of a decrease would be

21 in line with the trend of motorcycle claims over the

22 last decade and the experience of the motorcycles that

23 give rise to that trend. Mr. Guimond's comments in

24 MPI .1 a page -- reproduced at page 887 of the

25 transcript, about decreases in the last five (5) years

1 as a result of collaborative action with the CMMG and
2 programs speaks to this trend, as does Mr. Johnston at
3 page 882 of the transcript, referring to the decreases
4 as follows:
5 "So that's what should happen if you
6 have a good loss ratio, and that has
7 been what has been occurring up into
8 the rate application."
9 We heard in Public Utility Board
10 Undertaking 2, confirmed at page 886 of the
11 transcript, that to date, 2016 appears to be a good
12 year for motorcyclists, lower than the historical
13 average. The historical averages have been very low
14 for motorcycle experience, and the Corporation has
15 been making money on motorcycle premiums, page 882 of
16 the transcript and following reviews the average
17 motorcycle loss ratio is some 64.1 percent with a
18 number of years under 50 percent.
19 Much lower than break-even amounts, and
20 much, much lower than private passenger experience.
21 The evidence is that using a nine (9) year methodology
22 these rates should have even been lower over the past
23 several years by 5 percent as per Mr. Johnston's
24 comments at page 898 of the transcript.
25 While the forecasting process and

1 actuarial methodology seems very precise, very
2 mathematical, and scientific, its value is solely in
3 predicting a trend, not with coming up with one (1)
4 specific number. Mr. Johnston, at page 885 says:
5 "We're never going to get it exactly
6 right due to the nature of what
7 we're forecasting."
8 Very similar comments to Dr. Cleary
9 when he talked about his interest rate forecasting
10 where he compared it to guessing beyond a three (3)
11 day weather forecast. But we know that -- from the
12 evidence presented that the trend is a declining
13 motorcycle experience -- claims experience.
14 Especially if you use an equitable, justified
15 methodology which -- which excludes an outlier year
16 that is ten (10) years in the past.
17 So directionally, the final result of
18 this GRA should be a decrease for motorcycles in the
19 order of 7.4 percent. And I'll be speaking about the
20 IRFR and its application later in this presentation.
21 As far as the nine (9) years of data,
22 for smoothing purposes the Corporation is adopting in
23 this GRA, this is long overdue. It's long overdue the
24 Corporation has looked at the equity of excluding an
25 outlier. It's a change that is based on sound

1 actuarial practice.

2 Page 891, Mr. Johnston:

3 "If there's a case where there's

4 some kind of unfairness or inequity

5 by use of that methodology, I

6 wouldn't expect to, in all cases,

7 just demand use of that methodology

8 under all circumstances."

9 He's backed up by the principles of

10 actuarial rate making and moving to this change.

11 We saw the standard one seven three

12 zero point one one (1,730.11) that the actuary should

13 examine data related to the recent past, not the

14 distant past. And I'd submit that ten (10) year old

15 data is not representative of the trend or the current

16 experience.

17 Similarly, we saw actuarial standard

18 one five five zero (1550) talking about reasonableness

19 of result. We cross-examined on the issue of other

20 insurers being past testimony in these hearings that

21 other insurers use a five (5) year period of data.

22 Unfortunately, Mr. Johnston suddenly

23 drew a blank in terms of what his other fellow fellows

24 use in other companies, even the public companies that

25 file their application publicly. But certainly other

1 insurers use capping of extreme losses that are
2 outside the norm, and certainly a five (5) year period
3 for data is reasonable.
4 In terms of the central issues, the
5 IRFR, or the Interest Rate Forecasting Risk, CMMG
6 aligns with CAC on this particular topic. We feel
7 that the DCAT already deals with interest rate risk.
8 Important components of the two (2)
9 year combined scenario ultimately justifies an RSR
10 minimum target. The Corporation says that we need
11 this specific new factor to compensate for a lack of
12 return. And I disagree that the consumer is the one
13 that has to compensate the Corporation for its
14 investment strategies and the decisions that it makes.
15 The Corporation, the Minister of
16 Finance, and their advisors decide what program
17 managers to hire with respect to the portfolios, what
18 investment mix to select, and other variables. And we
19 would submit, if they don't pick well, consumers
20 shouldn't have to pick up the loss, especially if it's
21 unrelated to claims-loss experience.
22 The Corporation can invest more in MUSH
23 bonds that don't have that interest rate sensitivity.
24 They can use the RSR in the event that there are
25 unexpected events that occur with respect to the

1 declining interest rate. That can smooth out years of
2 poorer returns.
3 Or it can sell assets that it has. As
4 a Corporation with $3 billion worth of assets, they
5 can certainly await years when there are positive
6 investment climates.
7 And so I'd ask the Board to see the
8 unfairness of sticking it to the customer in -- where
9 there are declining interest rates. When we look at
10 the converse, page 914 of the cran -- transcript, Ms.
11 Reichert says that, if rates increase by more than the
12 best estimate that they're putting forward, then the
13 money would flow through to the RSR.
14 So they're prepared to empty the
15 consumers' pockets at this time, but if we're wrong,
16 the Corporation just plans to hold onto the money.
17 So the -- there was a question as to
18 whether the Corporation is emphasizing the matching of
19 its investments to claim liabilities first and
20 foremost and at the expense of real money returns on
21 its investments. And that was examined at page 908 of
22 the transcript.
23 I'd suggest to the Board that the
24 responses of the Corporation's witness in that respect
25 are unconvincing. We see unconvincing responses

1 about, if the Corporation was obtaining the same kind
2 of return on investment that TRAF and WCB was
3 obtaining, whether they would be coming forward to the
4 Board and looking for this new -- what we call a fudge
5 factor, the -- the interest rate forecasting risk.
6 And I'd submit that the answer to this
7 issue is one (1) of diversity. It's incumbent on the
8 Corporation to diversify its portfolio to deal with
9 the investment climate. And with respect to the
10 Corporation's experience to date, its real rate of
11 return on its investments over the last several years
12 has been doing well. Interest rates have been fairly
13 stable. There's been minimum decreases over the last
14 number of years.
15 And all during that period, the
16 Corporation didn't need this new factor, and that was
17 even before the ALM-matching strategy, so why would
18 they possibly need it now? You know, we've seen that
19 the Corporation has reduced its interest rate risk in
20 the past few -- few years as a result of the ALM
21 strategy, and I'd suggest that they certainly don't
22 need it now.
23 This is merely a very creative method
24 of the Corporation to continually collect more funds
25 with built-in margins for errors that might result

1 from their decisions. They already have reserves and
2 margins that would amaze the Manitoba consumer.
3 The provisions for adverse deviation
4 are built in on a wide range of components of the
5 premium. There's provisions for adverse deviation
6 called PFAD for short on their receivables, on their
7 claims liabilities, on a huge number of factors that
8 are outlined in the application. There's simply a way
9 to create an additional service, and we don't need a
10 new one called the IRFR.
11 Turning to road safety. We see an
12 entirely different side of the coin. We examined, we
13 just spoke of in the last few minutes, a very creative
14 way the Corporation has found a way to shore up its
15 surpluses and build it into their methodology, build
16 up its RSRs to level -- the RSR to levels that
17 continue to grow to fantastic maximum levels.
18 And I'd suggest, just so the Board is
19 clear, that the -- the CMMG can support a RSR of a
20 maximum of the one hundred and eighty thousand
21 (180,000) -- $181 million level that the -- that has
22 been discussed as a minimum.
23 Certainly when we look at the times
24 that it's been required since its in -- inception, it
25 doesn't justify a sum of even $181 million. Its use

has been very minimal over the time since its inception. We've seen it used for things like immobilizer programs, which are hardly unexpected and nonrecurring events.

So certainly, its use has to be viewed critically in terms of the Corporation's plan to build it over $400 million as a maximum. But the Corporation, when it turn -- when it turns its mind to road safety, moves away from this magnanimous corporation in terms of building up these huge reserves for these unexpected and nonrecurring events, and suddenly becomes very miserly, certainly at least in terms of its motorcycle safety initiatives and the wildlife collision programs.

We can't really call them initiatives, because we haven't seen anything new, or thought-provoking, or substantial in those two (2) areas. With respect to wildlife collision, we -- Manitobans have a $30 million problem where Manitobans have died and Corp -- and the Corporation is spending annually sixty-three thousand dollars ($63,000) out of a budget of 13 point million -- $13.2 million.

We see the only initiative practically is the Corporation renting flashing signs. Well, I hate to tell you, but the deer aren't reading them.

1 We -- the other initiatives that the CMG (sic) have
2 put before the Corporation for examination show
3 initiatives with a success rate of 80 to 99 percent in
4 reducing collisions, and yet the Corporation isn't
5 interested; says paybacks of eight (8) to twelve (12)
6 years aren't an acceptable investment, which is hard
7 to fathom.
8 And, obviously, the reason why CMMG is
9 very concerned about wildlife collisions is the effect
10 that it can have on a motorcyclist who's a vulnerable
11 road user coming into contact with even as something
12 as small as a deer can result in significant injury.
13 When we look at the exhibit that the
14 CMMG brought forward with respect to other
15 jurisdictions, other techniques, we see other
16 jurisdictions investigating selective feeding,
17 fencing, birth control, culling of herds. The
18 Corporation is not interested. Just flashing signs.
19 And their second response is, And
20 someday, the majority of cars on the road will have
21 infrared, and the CMMG doesn't think that's much of a
22 plan. At page 1,393, Mr. Keith indicates that eight
23 (8) to twelve (12) years from now, it will make
24 wildlife collisions much lower than it is today with
25 these technical advances.

1 Again, that's the Corporation's plan,
2 that we'll wait eight (8) to twelve (12) years with
3 $30 million of losses a year, Manitobans dying on the
4 roadways as a result of wildlife collisions, and we'll
5 wait for technological advances. And we've seen this
6 right from the top down with the Corporation, that
7 they're very happy about technology and the gimmicks
8 that come with it instead of deploying the funds where
9 they're required.
10 We see their priorities on road safety
11 being auto crime and student driver training. If you
12 follow the dollars, that's where the majority of the
13 road safety investment goes. And, of course, those do
14 nothing for the vulnerable road users in terms of
15 motorcyclists specifically.
16 The Corporation says that the new
17 evolving priorities are autonomous vehicles, and again
18 that goes back to this Corporation that's very hung up
19 on the technical gimmicks, such as virtual reality
20 headsets and driver training simulators.
21 With respect to the levels of
22 investment in motorcycle safety initiatives, the
23 Corporation has a flat or even declining investment in
24 these initiatives. In the last few years, they've
25 often spent less even than was budgeted for them.

They're spending less on this vulnerable road user than they spend on seat belt initiatives.

And I would suggest that, especially given the experiences approximately a hundred and eighty (180) accidents a year with only one (1) or two (2) serious losses a year, they could certainly address that loss experience and be extremely effective with the investment of their road safety dollars.

We would ask for rebates on experienced rider programs, and we will continually come forward with new initiatives and suggest respectfully that it's time for the Corporation to do the same. We need researchers that aren't working at research for the Corporation part time as part of their job as business analysts. We need new initiatives, and it's time for the Corporation to put motorcyclists and other vulnerable road users front and centre, and address them in a meaningful way, which means spending funds from their road safety budget.

Mr. Chairman, those are my comments this morning. I appreciate the opportunity on behalf of the motorcyclists of Manitoba to address this Board in this hearing, and we will send our application for costs in due course. Thank you.

1 THE CHAIRPERSON: Thank you, Mr.
2 Oakes.
3 Mr. Monnin, any idea how long you'll be
4 in your submission?
5 MR. CHRISTIAN MONNIN: Thank you, Mr.
6 Chair. I -- I figured about -- I -- I told counsel
7 for the PUB about thirty (30) minutes. I -- I think I
8 was a little too modest. I think about forty-five
9 (45) minutes.
10 THE CHAIRPERSON: Okay. You know
11 what, I think given that we're going to finish the
12 submissions of the Intervenors this morning and then
13 break until after lunch to hear from Mr. Williams, I
14 think maybe we'll take a break of fifteen (15) minutes
15 now, and then we'll conclude with -- with the final
16 submissions. Thank you.
17
18 --- Upon recessing at 10:01 a.m.
19 --- Upon resuming at 10:18 a.m.
20
21 THE CHAIRPERSON: Mr. Monnin...?
22
23 CLOSING SUBMISSIONS BY MR. CHRISTIAN MONNIN:
24 MR. CHRISTIAN MONNIN: Thank you, Mr.
25 Chair.

1 (BRIEF PAUSE)

2

3 MR. CHRISTIAN MONNIN: As most are
4 well aware by now, Bike Winnipeg's intervention was
5 granted in order to assist the Board in critically
6 evaluating on three (3) fronts:
7 Critically evaluating the optimum size
8 of MPI's road safety budget and whether it's
9 sufficient to enable a significant reduction in the
10 cost to MPI of injuries to vulnerable road users
11 including, but not limited to cyclists in the short
12 and long term.
13 To assist the Board in critically
14 evaluating the adequacy of MPI's road safety programs
15 with respect to the fatal and severe injury of
16 vulnerable road users including, but not limited to
17 cyclists.
18 And to assist the Board in critically
19 evaluating the quality and clarity of MPI's data
20 collection, analysis, and accessibility regarding
21 collisions involving vulnerable road users including,
22 but not limited to cyclists, particularly in
23 comparison to transportation safety programs from
24 local, national, and international entities and
25 jurisdictions.

1 I put emphasis on critically
2 evaluating, simply because -- allow me to start off to
3 say that on behalf of Bike Winnipeg we've seen some
4 real and meaningful progress on the road safety front
5 on behalf of MPI. But our role in this intervention
6 is to assist the Board in critically evaluating.
7 And in past participations of GRAs that
8 critical evaluation has been viewed as an attack on
9 MPI and -- and the road safety portfolio that they're
10 putting forward; that isn't the case. We're just here
11 fulfilling the obligations of our league to intervene.
12 And we would submit that to critically
13 -- to critically -- to assist the Board and critically
14 evaluate, we are here to point out any differences
15 which are significant, to give a verdict as to what we
16 agree with and what we don't agree with.
17 So I will, in my submissions, walk
18 through the three (3) prongs of our intervention. I
19 will also touch upon, in more specific nature, the
20 issue of social costs, and then finally, briefly, on
21 the issue of -- or the notion of the jurisdiction of
22 MPI with respect to road safety issues.
23 Under the first prong, which is the
24 optimum size of MPI's road safety budget and whether
25 it's sufficient to enable a significant reduction in

1 the cost to MPI of injuries to vulnerable road users,
2 MPI put forward Ms. Jennifer Kroeker-Hall and they put
3 forward Mr. Ward Keith.
4 Now, we've been through this before,
5 but I think it's important to note with regards to Ms.
6 Kroeker-Hall, who was qualified as an expert, there
7 were some caveats put on by the Board with regards to
8 -- to that expertise. In -- in particular regard in
9 terms of road safety loss prevention programs such as
10 impaired driving, distracted driving, unsafe speed,
11 occupant restraint, Ms. Kroeker-Hall gave evidence
12 that she had no experience in delivering these
13 programs.
14 And in addition, Ms. Kroeker-Hall was
15 not able to point to any specific experience or
16 project that she had either with Sirius, her
17 consulting company, or in her prior experience dealing
18 with road safety -- safety issues, in particular in
19 regard to social impact, social cost with respect to
20 fatalities or injuries of other vehicle occupants, but
21 also with regards to vulnerable road users.
22 On the issue of optimization, her
23 evidence was that no one at Sirius, not her or anyone
24 else, and no one in -- in preparation of the report
25 had use of or any experience of Econometric with

1 regards to considering the optimization of road safety
2 budget.
3 And as the Board very well knows,
4 ultimately Kroeker -- Ms. Kroeker-Hall was qualified
5 as an expert, but the Board did reserve its rights as
6 to the weight it will place on her evidence relating
7 to vulnerable users and Econometric as they relate to
8 the optimization of road safety budget.
9 On the issue of optimization, Ms.
10 Kroeker-Hall testified that she could not find any
11 evidence, or very little evidence, that speaks to the
12 appropriate size of road safety budget. She stated
13 that even more challenging was the lack of any
14 guidelines about the maximum percentage of a budget
15 that would be spent on different studies, whether it
16 was an evaluation or an effectiveness assessment.
17 Indeed, she suggested that the dollars
18 allocated are almost, in a Canadian context, very
19 difficult to come by, and we don't see a lot of this
20 in Canadian jurisdictions. However, she did give
21 evidence that although there isn't a budget envelope,
22 per se, the commitment is to funding an initiative.
23 And this demonstrated a somewhat unique commitment to
24 road safety compared to other jurisdictions that she's
25 reviewed, indicated there's not a cap.

1 And when asked by Board counsel with
2 regards to MPI's investments in road safety programs
3 and how that would compare for the $43 million that we
4 see at ICBC, and asked whether she could provide
5 insight into the reasons for that significant
6 difference, she advised that she couldn't speak
7 specifically.
8 She advised that she could speak
9 conceptually to how the budgets are developed, and
10 organizationally, but ultimately, she couldn't speak
11 specifically to the numerical gap.
12 A similar question was put to her with
13 regards to the $28.72 million budget in 2013 for SGI,
14 Sasat -- Saskatchewan Government Insurance. When
15 asked whether she did an analysis and comparison of
16 the reasons for the seemingly increasing funding in
17 Saskatchewan compared to Manitoba, MPI, Ms. Kroeker-
18 Hall indicated that you would have to look at the
19 mandate of the organizations, which is a fair -- fair
20 comment.
21 However, when pushed by PUB counsel on
22 that point as to whether that was something she'd
23 looked at in the course of her report, the difference
24 between the mandates between the entities, her answer
25 was -- and this is at pages 1,075, 1,076 -- that she

1 did so at a very high level.

2 Mr. Keith gave some evidence as well on

3 the optimization of -- of budgets. And the position

4 for Mr. Keith on behalf of the Corporation was on the

5 issue of development of business cases for the road

6 safety budget.

7 He indicated, in terms of the very --

8 in -- in terms of the very nature of road safety and

9 the confounding variables that play a part in terms of

10 whether or not the needle can be moved on a road --

11 road safety program in making a difference, it's

12 difficult to demonstrate a direct correlation between

13 road safety initiatives funded by MPI and resulting --

14 and -- and reductions in collisions claims and claims

15 costs.

16 Mr. Keith, his view was on behalf of

17 the Cor -- the Corporation:

18 "The challenges in being able to

19 articulate that and demonstrate that

20 through a traditional return-on-

21 investment methodology, you are

22 moving the needle."

23 And it's very difficult when it comes

24 to road safety initiatives, very, very difficult,

25 actually, to be able to develop a return-on-investment

1 methodology that specifically correlates expenditures
2 of this nature with subsequent reductions in collision
3 claims and claims costs.
4 However, we'll touch upon this a little
5 further down when we deal with -- with safe systems
6 and Vision Zero. But both Ms. Kroeker-Hall and, a
7 little bit more qualified, Mr. Keith admitted when
8 asked, jurisdictions that have hard targets are more
9 successful in reducing fatal collisions.
10 MPI has -- does not go forward with
11 hard targets, but other jurisdictions have been able
12 to put a direct correlation between expenditures on
13 road safety and a hard-target reduction on collisions
14 and fatalities.
15 It's submitted that, with regards to
16 the optimization of a budget, Ms. Kroeker-Hall's
17 evidence was that she had no access to the
18 cost/benefit analysis themselves when she was doing
19 this report, and it wasn't her assignment at that
20 point.
21 And it's -- there's a key difference
22 between developing the optimal level of funding
23 necessary to accomplish an objective and optimizing
24 the program and resources to efficiently use the funds
25 provided in the budget, the level which is set by an

1 outside process.

2 In other words, optimizing the budget

3 is different than funding the programs to get the

4 desired outcomes and determining the funding that

5 would be required to put the program in place.

6 On the whole issue of optimization of -

7 - of the road safety budget, the yardsticks have been

8 moved. As I said at the outset of these submissions,

9 we commend MPI for the progress that has been done,

10 but clearly, more work needs to be done.

11 The Board has given clear directions

12 that we need to focus on the optimization of the road

13 safety budget. And it isn't sufficient to say, There

14 isn't much literature out there. It isn't sufficient

15 to say that we can't make a direct correlation between

16 these spendings and any reduction in fatalities. The

17 Board has given its directive, and that needs to be

18 responded in a more complete manner.

19 Under the second prong of our

20 intervention, the adequacy of MPI's road safety

21 programs with respect to fatal and severe injury of

22 vulnerable road users, the following evidence, we

23 submit, is of note.

24 With regards to setting overall road

25 safety -- setting overall road safety programs, Ms.

1 Kroeker-Hall's evidence was that there was very --
2 again, very little literature about assessing overall
3 road safety programs and models.
4 In particular regard to the social cost
5 of injuries, when asked whether she could point out
6 any concrete examples to take into account the social
7 that -- pardon me, that take into account the social
8 cost of injuries and fatalities, particular regard
9 again with regards to vulnerable road users, her
10 evidence was, quite clearly, Nothing comes to mind.
11 When asked whether she could point out
12 successful examples of cost benefit analysis of road
13 safety programs, taking into account economic and
14 social impacts elsewhere that could be used as models
15 for MPI, her evidence was, It is not a very common
16 tool that is used in other jurisdictions.
17 When asked what kind of data should MPI
18 be generating to share with entities with regards to
19 social costs and injuries and fatalities the Board may
20 re -- recall that we -- we gave an undertaking -- or
21 we asked an undertaking on that, and we -- we took it
22 back, but in the end was that would be a whole other
23 report that Ms. Kroeker-Hall would have to do.
24 Mr. Williams, on behalf of his client,
25 asked Ms. Kroeker-Hall that, in terms of investments

1 with regards to SGI and engineering, did she dig down
2 into any detail on what types of expenditures that
3 might answer -- that might be the answer to that, and
4 her -- her evidence was she had not.
5 She was also asked whether she exa --
6 examined in terms of the portfolio the relative
7 contribution that went into the ac -- to activities
8 enforcement versus advertising or versus engineering.
9 When asked whether she had dug down to that, the
10 answer was she had not. That would require additional
11 research and consultation with the other
12 jurisdictions.
13 And again, when suggested by Mr.
14 Williams that she wouldn't be in a position to offer a
15 conclusion as to the relative optimization of the MPI
16 portfolio versus the sister corporation of SGI and
17 whether that was a fair statement and that she would -
18 - this would require -- what is the first thing this
19 would require, another level of detailed analysis, her
20 answer was that is -- she -- she agreed with that
21 suggestion.
22 And when asked again what level of
23 detail it would require -- what level of detail would
24 it require for her dig deeper into both the specifics
25 of the two (2) portfolios, being MPI and SGI, she

1 agreed that further investigation would be needed to
2 provide that answer or that information.
3 As I alluded to earlier, she was asked
4 whether she agreed with the suggestion that it's fair
5 to say that there's a positive statistical association
6 between the setting of quantitative road safety
7 targets and the percentage reduction of road safety
8 fatalities. That is something that MPI does not do.
9 But when that question was put to Ms. Kroeker-Hall she
10 answered in the affirmative.
11 Now, Mr. Keith also answered in the
12 affirmative when that question was put to him. It was
13 qualified on the basis that MPI does not have full run
14 of jurisdiction to do these hard targets and this
15 needs to be pushed down the Provincial Road Safety
16 Committee.
17 I'll touch a little bit more on -- on
18 what I refer to as the jurisdiction of MPI on that
19 particular point made by Mr. Keith. What do we have
20 here then is, again, we commend MPI for the work and
21 the progress that's been done, but we're whistling
22 past the graveyard on the basis that there's
23 concurrence from the expert and from MPI that
24 quantitative targets lead to a redu -- a reduction of
25 fatalities and collisions.

1 On the one hand, Ms. Kroeker-Hall
2 agrees with that; on the other hand, so does MPI. But
3 they say: We can't do it. It's not within our
4 jurisdiction. It has to go to the Road Safety
5 Committee.
6 On the third prong of our intervention,
7 the quality and clarity of MPI's data collection
8 analysis and accessibility regarding collisions
9 involving vulnerable road users, the following
10 evidence, we submit, is of note. Ms. Kroeker-Hall
11 readily admitted that, with respect to road safety
12 data, she said, Road safety data is not perfect.
13 And she also indicated the need to
14 collaborate and share data is critically important,
15 not only in terms of its validity, but in terms of the
16 timing of data, data sharing, and the ability to use
17 it for effective prioritization and decision making,
18 so there needs to be a commitment to enhancing the
19 reliability, accessibility of data in an ongoing
20 manner.
21 However, when asked in particular
22 regard to the social costs of fatalities and, again,
23 in particular regard to vulnerable road users, what
24 kind of data ought to be shared and if there are other
25 jurisdictions that share that data, what should that

1 look like.

2 (BRIEF PAUSE)

3

4 MR. CHRISTIAN MONNIN: Her answer at

5 page 1,161 of the transcript is as follows:

6 "Well, there are other studies that

7 have identified more of the elements

8 around social costs of collisions,

9 so -- so I've -- I've mentioned some

10 of them already around the

11 healthcare, policing, and fire, and

12 other types of costs, the social

13 costs of time delays, so there are a

14 number of studies that have tackled

15 particular issue and identification

16 of relevant factors. So whether or

17 not that would be helpful in our

18 Canadian context, it would certainly

19 be a starting place, but I would

20 imagine that it would probably take

21 a couple of months worth of going

22 back to jurisdictions and confirming

23 what their understanding are, and --

24 is of this particular approach,

25 whether they've done any social

1 costing per se, and that may be the
2 easiest part. The more difficult
3 part maybe actually getting access
4 to information and actual sources."
5 I draw the -- the panel's attention to
6 the one (1) line when -- where she says,
7 "So whether or not that would be
8 helpful in our Canadian context, it
9 would certainly be a starting
10 place."
11 Well, the starting place, I would
12 suggest, for the report that Ms. Kroeker-Hall was to
13 give -- or pardon me, has given, was the order of this
14 Board. And that was put to Ms. Kroeker-Hall at the
15 outset of her testimony by My Friend, Mr. Ghikas, at
16 page 995 of the transcript.
17 The Board, I'm sure, is well familiar
18 with this order. However, for the benefit of -- of
19 the transcript, I read it as follows. Mr. Ghikas put
20 this to Ms. Kroeker-Hall:
21 "And when you prepared your report,
22 were you familiar with the Board's
23 Order from December 5th, 2014, that
24 ordered MPI to provide an
25 independent review of the optimal

1 size of a road safety budget
2 portfolio for the Corporation with a
3 view to minimizing the economic and
4 social costs of collisions?"
5 I'll stop there. It goes on. That
6 is, I suggest, the starting point that should have
7 been taken into account with the report provided by
8 Ms. Kroeker-Hall. I would suggest with great
9 deference that her answer, which I referred to earlier
10 at page 1,161, clearly demonstrates that the starting
11 point, the Order from the Board, it's not an
12 incomplete answer. It's -- it's a non-answer to what
13 the Board requested that report to -- to address, the
14 social costs of collisions.
15 Now, we'll touch upon it a little lat -
16 - a little later in my submissions. She did refer to
17 the social costs of how it would affect mature
18 drivers, if we take away their licence, I'm
19 paraphrasing. The same thing with Mr. Keith.
20 The -- the -- it's -- that's not -- we
21 -- we submit that that is not the social costs that
22 were intended by the Board Order. And we'll get back
23 into that, because I -- that was a -- a little
24 perplexing with -- with MPI's dance around social
25 costs, social vision -- or social value, rather, and

1 human toll, and we'll get back to a little earlier --
2 or a little later in my submissions, but we suggest
3 that the report provided by Ms. Kroeker-Hall, although
4 it is compliant with a fair bit of the Order provided
5 at -- at -- the Order given by the Board, it is not
6 compliant at all on the issue of social costs.
7 On the issue of -- again on -- on the -
8 - the quality of the data. Some questions were put to
9 Mr. Keith with regards to dynamic model that must be
10 developed to reflect the scale of effects inherent
11 shift in expenditures. Mr. Keith advised that the
12 work was involved -- work was involved in the process,
13 and that would be ready for sharing in 2018. They
14 intend to complete it in 2017.
15 With respect to the issue of
16 availability of -- availability of data -- excuse me -
17 - where the finding was there was new and considerable
18 work that required to rate a systems data to meet the
19 recommendations of MPI. Mr. Keith advised that this
20 related to their key performance measures in place
21 that are useable, and will use them -- we will use
22 them, and if they aren't, then they have to develop
23 them.
24 An undertaking was provided, an
25 Undertaking 28. I won't take the Board there. It --

1 it's more of the same in the sense that it's -- it
2 says work needs to be done. We agree. Work needs to
3 be done, and that needs to be monitored.
4 Another point which I thought of -- of
5 note, or, rather, Bike Winnipeg thought of note on the
6 issue of -- of data analysis was you may recall that
7 they were -- that MPI -- Mr. Keith's evidence was that
8 a new program was being put in place to identify or to
9 -- to educate distracted pedestrians and vulnerable --
10 vulnerable road users at -- at intersections.
11 All very laudable, but when asked
12 whether the Corporation had any data reports or
13 studies with regards to distracted -- distracted
14 pedestrians or distracted vulnerable road users, and
15 if it was something they were looking at in
16 particular, the answer is, Yes, we're looking into it,
17 but we have no reports and no data.
18 We're pleased to see that vulnerable --
19 vulnerable road users are on the radar. But there
20 needs to be a more meaningful effort to obtain and
21 generate satisfactory data with regards to these
22 demographics.
23 The Board may recall that Bike Winnipeg
24 filed a motion with regards to getting further and
25 better information on an IR. Thankfully, again, and -

1 - and great collaboration with MPI, that motion was
2 withdrawn. There was no need to go forward. And it
3 had to do with providing statistics and information
4 with regards to the enterprise data warehouse vis-a-
5 vis the TCR -- TCSR. And in particular regard here,
6 Bike Winnipeg submits that it is imperative that the
7 information going forward ought to come from the
8 Enterprise Data Warehouse. There's -- there's a --
9 there is a disagreement, I believe, between MPI and
10 Bike Winnipeg on that.
11 However, the following points are, we
12 submit, significant when it comes to considering the
13 value of the data from TCSR and the value of the data
14 that you get from the Enterprise Data Warehouse.
15 On cross-examination of Mr. Keith, he
16 admitted the following vis-a-vis the difference
17 between the TCSR and the EW -- and the Enterprise Data
18 Warehouse. Particularly, the information from the
19 Enterprise Data Warehouse showed the VRE fatal --
20 fatality totals are higher than the ones that shown in
21 the TCSR. They have an explanation for that, however,
22 we don't think that explanation is sufficient to
23 withhold that the -- the full universe of -- of the
24 data that you find in -- in the Enterprise Data
25 Warehouse.

1 In addition, he admitted, on cross-
2 examination that the TCSR information which is
3 provided to the PUB for the MPI GRA is almost two (2)
4 years stale dated. This year was 2014 information
5 when the -- when the filing was applied -- when the
6 application was submitted.
7 And he also admitted that the
8 Enterprise Data Warehouse information is the one that
9 is required or -- or the information is used for
10 financial statements of the Corporation because it
11 gives a global picture, a more complete picture, we
12 would submit, of the Corporation's exposure to claims
13 costs for injuries and fatalities. Ultimately, the
14 actual numbers, the Enterprise Data Warehouse, would
15 not have been provided to the regulator, had Bike
16 Winnipeg not pushed this matter forward.
17 By not providing the PUB with the
18 Enterprise Data Warehouse information, we would submit
19 that it presumes that the PUB does not require timely
20 information with regards to fatalities or road safety
21 issues in its application -- or with -- with regards
22 to the GRA. If -- again, if -- if the Enterprise Data
23 Warehouse is acceptable for financial information, it
24 is also acceptable with regards to the risk management
25 activities, such as road safety.

1 On the issue of social costs, you may
2 recall on my cross-examination that -- that I
3 indicated that I oft -- that I get confused very
4 easily, and this one had me a little bit myst --
5 mystified. And the -- the -- we would submit that
6 what you heard from Ms. Kroeker-Hall and -- and from
7 what we heard from -- from the Corporation on the
8 issue of social costs is somewhat perplexing and --
9 and to an extreme, a little worrisome.
10 On cross-examination, Mr. Keith
11 provided the following, that with respect to our
12 principles, being the Corporation, they are very
13 straightforward. We look to improve on our business -
14 - our business success. On the one (1) hand, MPI
15 states that:
16 "A successful loss prevention
17 strategy can also minimize the econo
18 -- economic and social cost to rate
19 payers, resulting from motor vehicle
20 collisions."
21 As well, MPI, on behalf of Mr. Keith
22 and his evidence and -- and in an IR given to My
23 Friend Mr. Oakes, admitted that historically, it's
24 been their position that social costs were not part of
25 their analysis with regards to road safety issues.

1 And again, as we indicated earlier,
2 that when -- when pushed on social costs -- this is at
3 page 1,165 and 1,166 -- Mr. Keith gave the same
4 example that Ms. Kroeker-Hall provided, which is
5 social costs in terms of your -- in terms of mature
6 drivers and -- and how taking their licence away is a
7 social cost that -- that is -- is considered.
8 But again, that isn't the social cost,
9 we submit, that is found in the Board's order and
10 that, we submit, needs to be addressed in the road
11 safety portfolio. And the -- the Board may recall,
12 and we're going to get just -- just a little further
13 in their submissions, that Mr. Keith, on the issue of
14 the social costs that -- the way we interpret it and
15 the way we think the Board interprets it, he said, The
16 data's there. He referred to reports from Ontario.
17 He refer -- he referred to reports from the National
18 Transportation Institute.
19 It -- it's there, but he said, We -- we
20 don't need Ms. Kroeker-Hall to put another report on
21 that, because we have human toll. Our -- our -- we
22 look at the human toll, and that's just -- just as
23 good as the social costs as -- as we see it, and we're
24 going to get into that.
25 MPI has included what we submit is a

1 new terminology of human toll as part of its priority
2 setting. And it purports to look at human toll. And
3 when human toll is used, that is but one (1) of the
4 elements that looks -- that -- that MPI will look at,
5 and it will maybe drive up the priority of road safety
6 issues.
7 And on the issue of -- the Board may
8 recall, we pushed Mr. Keith on the issue of, Well, we
9 see social costs, we see social value, and we see
10 human toll. Mr. Keith's evidence on that point was,
11 Well, first of all, human toll is -- is a -- a proxy
12 of social costs. I -- I -- that's what I find
13 perplexing.
14 And he also said:
15 "At a high level, the priority
16 setting framework focuses on many
17 different aspects to come to the
18 right decisions in terms of the key
19 road safety priorty -- priorities,
20 and that ought to be addressed. And
21 this includes human toll, the extent
22 to which safety issues are actually
23 killing Manitobans and seriously
24 injuring them."
25 And ultimately, on the issue of social

1 costs, and social value, and human toll, his evidence
2 was that:
3 "The nuances with respect to the
4 wording in each of the social costs,
5 social value, and human toll was not
6 intentional."
7 What -- what else can it be? We know
8 that the -- the evidence of the Board -- or pardon me,
9 of the -- of the Corporation is that social costs, as
10 Bike Winnipeg views it and as we suggest, the Board's
11 order views it, is -- is -- there's data out there we
12 don't -- we don't need to look at it. Ms. Kroeker-
13 Hall doesn't need to make another report on that,
14 because we have human toll.
15 Human toll, because that's what we look
16 at. And ultimately, is -- it's a proxy of social
17 costs. It -- it -- if -- if the nuances in these --
18 these words were not intended, it's very hard to -- to
19 conceive that it's anything but.
20 And on that particular point, it was
21 submitted to Mr. Keith that it's hard to square with
22 the fact that the Corporation's loss prevention filing
23 states clearly, and states consistently that it is
24 continuing to develop and execute loss prevention
25 programs in accordance with best practice, including a

1 requirement for a strong business case, which con --
2 which concludes there is a potential return on
3 investments for the benefit of customers.
4 Now, the Board may recall that -- that
5 I put that to Mr. -- to Mr. Keith, and he said, Well,
6 look, this doesn't run contrary to the notion of human
7 toll, or social costs, or social vision, or Vision
8 Zero, because the evidence is that in relation to loss
9 prevention strategy and framework, that -- that's a
10 broader portfolio product. And that in any event, the
11 Corporation's position is that within the loss
12 prevention portfolio, there's a different set of
13 considerations, a different suite of considerations
14 that apply to road safety other than return on
15 investment for the benefit of customers.
16 The Board may recall that this was a
17 concern at the very outset of this new construct which
18 was put forward about three (3) years ago that in --
19 in folding in road safety under loss prevention, it
20 would get lost in the fray.
21 We're being told by MPI that there's a
22 different set of considerations, human toll. We're
23 not quite sure what that is, to be quite honest, we --
24 we would submit.
25 But what we know in the application,

1 consistently and clearly, is that they will develop a
2 loss-prevention program in accordance with best
3 practice including a requirement for a strong business
4 case which concludes there is potential return on
5 investments for the benefit of customers.
6 And when asked how MPI can reconcile
7 their return on investment consideration and the
8 consideration of human toll, and where would that --
9 where that would fall in the consideration, the evi --
10 the answer from Mr. Keith was very telling.
11 His evidence was -- and this is at
12 pages 17 -- 1172 and 1173 -- that he was having
13 trouble answering because MPI had yet to completely
14 flesh out the extent to which return on investment
15 would even be utilized to assess some of these road
16 safety initiatives.
17 But certainly where it's feasible and
18 where MPI can develop a reasonable return on
19 investment, then it would do so. But he had trouble
20 articulating exactly how that might work at this point
21 for some of these road safety programs. Even MPI
22 seems to be a little confounded with their position.
23 And earlier in my submissions, I
24 referred to a couple of occasions about the data
25 already being there on social costs of fatalities.

1 Mr. Keith's evidence was, in the view of MPI, using
2 human toll as one (1) of the criteria for assessing
3 road safety priorities -- and it's not the same as
4 social costs as commonly known -- it -- it doesn't
5 affect the accuracy or the integrity of their
6 priority-setting process.
7 According to Mr. Keith, the accuracy is
8 not compromised by the fact that they don't use social
9 costing because of the fact that they use human toll.
10 And when it comes to social costing, he admitted that
11 it worked -- that Transport Canada and work was done
12 by Province of Ontario that speaks to social costs of
13 motor vehicle fatality and the social cost of serious
14 injury.
15 His evidence -- and this is at page
16 1168,1169 -- that data is available, but they don't
17 have to ask Ms. Kroeker-Hall to invest in another
18 report to produce that dati -- data as it is publicly
19 available information.
20 But MPI's decision not to use it,
21 according to Mr. Keith, doesn't believe it compromises
22 the priority-setting process because of what they've
23 done in terms of weighting against the human toll.
24 Sounds great, but if you go back to his answer at 1172
25 and 1173, the evidence is that he's having trouble

1 answering how to deal with that.

2 So we know the dat -- we know the data

3 on social costs is out there. That's the evidence of

4 the -- of -- of MPI. Transport Canada has it, the

5 Province of Ontario has it. Your Order asked for it.

6 We submit that the report by Ms. Kroeker-Hall does not

7 address it.

8 MPI would submit that this needs to be

9 dealt with at the Provincial Safety Committee. It

10 should be dealt there -- dealt with there, but it also

11 needs to be dealt with in a coherent and digestible

12 manner before this Board to make that determination

13 based on the order and directions given by the Board.

14 I'm about halfway through my

15 submissions. I expect to be done in about twenty (20)

16 minutes.

17 I now want to talk a little bit on the

18 issue of Vision Zero and Safe Systems. On cross-

19 examination by Bike Winnipeg, Ms. Kroeker-Hall claimed

20 that, with regards to Vision Zero, that it purports to

21 drive initiatives in the road safety environment to a

22 zero tolerance level for fatalities, serious injuries,

23 and injuries generally, and that Vision Zero is an

24 outcome-based concept versus the actual models which

25 may be chosen by different jurisdictions in which to

1 focus their particular initiatives or strategies of
2 funding dollars.
3 And when asked, with regards to
4 minimizing fatalities and minimizing economic and
5 social impact of vehicle accidents and fatalities,
6 whether Vision Zero or Safe Systems was superior,
7 her evidence was that it's not one (1) or the other.
8 And that Safe Systems approach looks at different
9 factors in relation to road safety initiatives that
10 would achieve a Vision Zero outcome.
11 When asked whether it was her
12 understanding that the evolution of MPI's vision is
13 that it seeks to move from Safe System program to
14 Vision Zero, her evidence was that it's not -- that
15 was not her understanding.
16 When asked why that was the case, Mr.
17 Kroeker-Hall's evidence was that that was because the
18 Safe Systems model would be used to identify those
19 particular areas that it would target in order to
20 achieve Vision Zero.
21 And when asked when any particular
22 aspects of Vision Zero program or sys -- or the system
23 could be identified and incorporated into the current
24 Safe Systems program which MPI purports to have
25 adopted, she responded that she did not see the

1 relationship between these two (2) concepts as working
2 in that direction.
3 She -- her evidence was that she
4 understood Vision Zero as an outcome, whereas the
5 Safer Systems model is intended and structured to help
6 achieve zero fatalities, zero serious injuries, and
7 zero collisions on our roads. And that exchange
8 between Ms. Kroeker-Hall and -- and myself is found at
9 page 1143 up to 1149 of the transcript.
10 And on the issue of Vision Zero, when
11 put to -- to Mr. Keith, when asked what MPI meant by
12 including a specific and deliberate focus on changing
13 the road safety culture in Manitoba by introducing
14 Vision Zero, his evidence was that Vision Zero was
15 really the target and, in fact, it's a measure of road
16 safety success.
17 Mr. Keith also added that what it means
18 is that, by next year, MPI really wants to look at is
19 focussing more on behavioural change and behavioural
20 theory as a way to get a changing -- to get to
21 changing the culture around road safety in the
22 Province of Manitoba to the extent that it can
23 themselves and to the extent it can with the
24 cooperation of other stakeholders.
25

1 (BRIEF PAUSE)

2

3 MR. CHRISTIAN MONNIN: I would put --
4 at least my understanding, and again, that's quite
5 limited. I would put the -- the issue of whether MPI
6 is Safe Systems or Vision Zero and where it tends to
7 go is as equally as confounding as its issue -- or as
8 the issue of social costs, social value, and human
9 toll.
10 The exchange between myself and Mr.
11 Keith I think is evidence of that where I put the
12 following question to him. So we have a specific --
13 on one hand, we have MPI seeking the implementation of
14 a specific and deliberate focus on changing the road
15 safety culture in Manitoba by introducing a Vision
16 Zero, also known as towards zero approach.
17 In the IR we have:
18 "Intends to launch a new innovative
19 campaign aimed at overall traffic
20 safety culture which is aligned with
21 Vision Zero but isn't quite
22 necessarily Vision Zero."
23 Answer, Mr. Keith:
24 "Yes, that's my testimony. But I
25 really don't see discrepancy in the

1 wording, quite frankly."
2 Question:
3 "Well, I guess the discrepancy, I
4 would suggest, is either we're
5 seeking a specific and deliberate
6 focus on changing the road safety
7 culture in Manitoba, such as Vision
8 Zero toward zero or the Corporation
9 intends something that's aligned
10 with it, which is to launch a new
11 and innovative campaign aimed at
12 overall traffic safety culture.
13 I'm just trying to get some answer,
14 yes, some clarity."
15 Question:
16
17 (BRIEF PAUSE)
18
19 MR. CHRISTIAN MONNIN: Question:
20 "Some clarity on what the
21 Corporation's position is? Yeah,
22 fair enough. Our position is that
23 we think we need to move to change
24 the overall traffic safety culture."
25 And -- and dealing with the issue of

1 Safe Systems if that's what we have, another exchange
2 between Bike Winnipeg and -- and Mr. Keith is
3 indicative, I think, of -- or we -- Bike Winnipeg
4 submits rather of -- of the lack of clarity in MPI's
5 vision on where it intends to go with road safety.
6 On the Safe Systems, the position is, I
7 gather, that MPI has a Safe Systems approach but at
8 the same time it's saying it does not -- it cannot
9 have Safe Systems approach because it doesn't have
10 full jurisdiction to implement a Safe Systems program.
11 In an exchange between myself and Mr.
12 Keith at page 1,338 of the transcript to thirteen
13 thirty-nine (1,339) and thirteen forty (1,340), I
14 think demonstrates that. And this is with regards to
15 the IR.18 of Bike Winnipeg.
16 Question:
17 "So if I understand correctly,
18 looking still at this paragraph of
19 Bike Winnipeg IR.18, your evidence
20 says that the Corporation has
21 adopted a Safe Systems approach."
22 Answer, "Yes." Question:
23 "But you're also saying in the same
24 vein that the Corporation does not
25 have jurisdiction over safe roads."

1 Answer:
2 "We don't have jurisdiction over --
3 over all the elements that make up a
4 Safe Systems approach."
5 Question:
6 "And you don't have, you being the
7 Corporation, doesn't have
8 jurisdiction over safe vehicles."
9 Answer:
10 "We don't have sole jurisdiction
11 over that, yes."
12 Question:
13 "And you don't have jurisdiction
14 over safe speeds?"
15 Answer:
16 "Well, again I mean I don't want to
17 be argumentative but there's a lot
18 in those two (2) words 'safe
19 speeds.' So we don't have
20 jurisdiction over the establishment
21 of speed limits. That's controlled
22 by the Highway Traffic Board in this
23 province, not by Manitoba Public
24 Insurance."
25

1 (BRIEF PAUSE)

2

3 MR. CHRISTIAN MONNIN: And so on the
4 one hand we have MPI saying, No, no, we've adopted
5 Safe System. On the other hand saying, Well, we don't
6 have jurisdiction to adopt Safe Systems on all these
7 points that -- that need to be adopted to have a safe
8 system.
9 And finally on the issue of
10 jurisdiction of MPI because that's something that
11 we've -- we've heard often. And at page 1,104 of the
12 transcript Mr. Keith states that:
13 "MPI's jurisdiction is limited to
14 education under its legislative
15 mandate, and the challenge for the
16 Corporation has been within --
17 within its current legislative
18 mandate and our current focus
19 primarily on education and
20 awareness. We attempt to establish
21 quantitative targets for activities
22 that we are responsible for."
23 And we would submit that but there's a
24 legitimate dispute between Bike Winnipeg's point of
25 view, and we think a few other parties, and -- and

1 MPI, and what their legislative mandate is there.
2 Under Section 6.2(h) of its enabling legislation,
3 additional powers have been, we submit, clearly
4 granted to MPI. And six point two (6.2):
5 "The Corporation has the power and
6 capacity to do all acts and things
7 necessary or required for the
8 purpose of carrying out its
9 functions and powers, and without
10 limiting the generality of the
11 foregoing the Corporation may; (h)
12 carry out either alone or jointly
13 with other Board, Commission,
14 Corporation, department or agency of
15 government, or any private person,
16 agency, or association, introduce,
17 establish, supervise, finance, and
18 promote programs relating to health,
19 rehabilitation, safety, and the
20 reduction of risk in respect of any
21 branch or class of insurance in
22 which the Corporation is engaged."
23 Now, it does have an education mandate
24 but we would submit that they are reading down what
25 its jurisdiction is in light of Section 6.2(h). And

1 we would submit that MPI has the jurisdiction or the
2 legislative mandate to set quantitative targets for
3 reductions, including fatalities.
4 And MPI in their response to -- to IRs
5 have admitted that high performing jurisdictions
6 furthermore credit their success to the ongoing
7 setting of aggressive goals of reducing the rate of
8 fatalities. They agree with that. Their expert
9 agrees with that. And they need to consider moving
10 forward with aggressive targets.
11 Subject to any further -- to any
12 questions from the Board, those are my submissions.
13 THE CHAIRPERSON: Thank you, Mr.
14 Monnin. Ms. Miller...?
15
16 CLOSING SUBMISSIONS BY MS. ERIKA MILLER
17 MS. ERIKA MILLER: Thank you, Mr.
18 Chair and members of the Board. As you know, over two
19 hundred and three thousand (203,000) Manitobans are
20 card-carrying members of CAA (Manitoba). Often they
21 turn to us when they have questions about insurance
22 rates and road safety, so we appreciate the
23 opportunity to participate in the GRA process and be
24 present at the hearings.
25 While we did regrettably miss two (2)

1 hearings this year, we have been following the
2 proceedings very closely in the interest of gathering
3 facts and information for our members.
4 While Mr. Mike Mager, CAA (Manitoba)'s
5 president, does his best to attend these hearings,
6 business unfortunately precluded him from appearing
7 this year, but he has received regular updates. On
8 that note, he asked me to share the following comments
9 on his behalf.
10 Over the decades that CAA (Manitoba)
11 has been an Intervenor in this process, many things
12 have changed. At a high level, we are pleased to see
13 that MPI has an increased commitment to collaboration
14 and transparency when it comes to these hearings.
15 Many of these topics, including
16 addressing the new frontier of aluminum-bodied vehicle
17 repairs, the project to develop a mobile app for
18 claims, and the planned process to change how dam --
19 damage estimates are done are important to discuss
20 because they will impact Manitobans when they choose
21 to purchase or repair a vehicle or are required to
22 claim a collision.
23 We have heard that the automotive and
24 repair industries are changing, and in fact, we know
25 that the culture of driver -- driving is changing as

1 our world becomes more technologically connected.
2 Road safety, then, is an issue of great magnitude to
3 all Manitobans, whether they're behind the wheel or
4 simply a pedestrian passing by.
5 We know that education is key when it
6 comes to making and breaking habits, so we at CAA
7 (Manitoba) are pleased to see the new cycling
8 education and safety programs rolling out in Winnipeg
9 schools.
10 We also strongly support MPI's
11 commitment to further developing and improving their
12 high school driver's education program through virtual
13 reality and interactive tools, and applaud their
14 collaborative effort with the MKO Grand Chief and
15 council to provide this valuable course to students in
16 that territory.
17 We believe these programs, along with
18 the course offered through IRCOM and in remote
19 communities, are worthwhile and will likely continue
20 to provide good value for money.
21 At CAA (Manitoba) we see it as a good
22 sign when MPI's road safety priorities and public
23 awareness campaigns align simili -- similarly to ours,
24 because we set our priorities based on the feedback we
25 receive from our members here in Manitoba and

1 nationally.

2 With that said, at a national level,

3 CAA has been very active in advocating for clear road

4 safety legislation, public education, and substantial

5 penalties for drug-impaired driving. And so we

6 encourage MPI to work diligently, persistently, and

7 collaboratively with stakeholders and within their

8 task force to keep moving forward on this important

9 issue.

10 Distracted driving is yet another

11 concern that merits serious consideration. While the

12 penalty in Manitoba ranks among the harshest in the

13 country, we have heard that the number and severity of

14 incidents related to distracted driving are on the

15 rise.

16 It takes time and clear, thoughtful

17 public education to enact a culture shift. And that's

18 why we strongly believe that the distracted driving

19 education and awareness campaign budgets should be a

20 larger piece of MPI's road safety pie.

21 As a province, we can continue to

22 stiffen legislation, but ultimately the culture shift

23 will not come without the constant work of

24 communicating safety and habit changes. And this will

25 require substantial investment on an ongoing basis.

1 In fact, if we look to the collision
2 statistics this year, it goes to show that the
3 education and awareness campaigns must never end but
4 continue to evolve to address public complacency or
5 under-use of a safety tool or habit.
6 Finally, we all know that the rate-
7 setting process has a very significant impact on
8 people across the province, from impacting Manitobans'
9 wallets today to their plans to drive and purchase a
10 vehicle tomorrow. We certainly understand that market
11 factors and other considerations that were discussed
12 throughout the weeks play a role in rate setting.
13 But we firmly believe that rates should
14 be fair and reasonable for all ratepayers, and we know
15 our members and Manitobans would agree that balanced,
16 stable rates are the standard that Public -- Manitoba
17 Public Insurance, as a Crown corporation serving
18 Manitobans, should strive to achieve and uphold.
19 Our president, Mike Mager, would like
20 to make it clear to the Public Utilities Board,
21 Intervenors, and MPI that CAA (Manitoba) wrestles with
22 MPI's application to raise the Basic premium as well
23 as to collect an additional interest rate risk
24 forecasting factor.
25 CAA (Manitoba) has been an Intervenor

1 for over twenty (20) years, and in recent memory, some
2 rate increases have been proposed and then rebated.
3 And so we continue to watch and question the reserves
4 and reserve process.
5 There is no doubt that hail and
6 interest rate income fluctuations are a reality, but
7 our president and the organization believe these
8 should be covered by the reserves that have been built
9 for exactly such extraordinary events.
10 When it comes to investment portfolios,
11 CAA (Manitoba) and our present -- president agree with
12 and support our colleagues at the Consumer Association
13 of Canada and their witnesses who've recommend --
14 recommended MPI investigate and employ a conservative,
15 properly balanced, and diversified portfolio to reduce
16 the risk of financial shortfalls.
17 We acknowledge that rate setting is an
18 imperfect process, but predictability is an excellent
19 goal to aspire to achieve and one (1) that is not
20 entirely out of reach, especially when we collaborate
21 on the process and recommend methodology through the
22 Public Utilities Board.
23 The Public Utilities Board process is
24 an important check-and-balance measure for ratepayers
25 and we appreciate the hard work by all parties that go

1 into this process. We especially thank our colleagues
2 at the CAC for their persistence and their review and
3 consideration of the materials during this hearing.
4 In closing, CAA (Manitoba) does not
5 support the rate increases overall and we hope that
6 the members of the Public Utilities Board will agree
7 that this application is unreasonable and unfair, and
8 will demonstrate their support with their decision.
9 On behalf of our president, Mr. Mike
10 Mager and CAA (Manitoba), I thank the members of the
11 Public Utilities Board, their counsel, and other
12 Intervenors for their comprehensive and prudent
13 examination of the evidence throughout the
14 proceedings. We look forward to hearing the final
15 decision. Thank you.
16 THE CHAIRPERSON: Thank you, Ms.
17 Miller. Thank you to all of the Intervenors and to
18 Board counsel who spoke this morning. We're going to
19 adjourn now until one o'clock this afternoon when Mr.
20 Williams will put in his submission. Thank you.
21
22 --- Upon recessing at 11:10 a.m.
23 --- Upon resuming at 1:04 p.m.
24
25 THE CHAIRPERSON: Mr. Williams...?

1 MR. BYRON WILLIAMS: Yes. Thank you
2 and good afternoon, members of the panel. To my right
3 is my client Ms. Desorcy, who has been watching me
4 like a hawk through the whole hearing. I'll just
5 indicate that we have a PowerPoint, which I'll suggest
6 be marked as CAC-27.
7
8 --- EXHIBIT NO. CAC-27: PowerPoint presentation
9
10 CLOSING SUBMISSIONS BY MR. BYRON WILLIAMS:
11 MR. BYRON WILLIAMS: And we -- there
12 are extra copies coming. I do apologize for folks in
13 the rooms that they're not all ready just yet, but
14 they should be here -- on they way. We did get enough
15 copies for the Board. And Diana is going to -- to
16 walk with me.
17 But I did just want to, moving to slide
18 2, just remind you about my client's long-standing
19 presence before the Public Utilities Board, guided
20 always by the evidence and by four (4) fundamental
21 consumer rights: to be informed, to choose, to be
22 heard, and to consumer education.
23 And, of course, recognizing that
24 Manitoba Public Insurance is a monopoly in terms of
25 Basic and a defacto monopoly in terms of Extension,

1 their right to choose really is expressed in the
2 regulatory setting, where they vote with their
3 opinions, and the Public Utilities Board sits in
4 judgment.
5 Turning to the next slide and -- and
6 the statutory test, we all know that it's a just and
7 reasonable rate standard flowing from the Public
8 Utility Board Act, informed by the Crown Corporation,
9 Public Review, and Accountability Act.
10 I do want to stay on the words 'onus'
11 for just a moment, because in this hearing -- and
12 especially when we go to road -- excuse me,
13 information technology expenditures, we will argue
14 very strongly that MPI has not demonstrated that its
15 portfolio of expenditures for information technology
16 are -- are justified and prudent.
17 And certainly, we will argue that we
18 gave them ample -- ample opportunity to make their
19 case and they declined.
20 The just and reasonable standard, as we
21 turn to slide 4, is there's five (5) essential
22 elements. The Board is well familiar with this, so I
23 will not go through it in any detail today.
24 But really in -- in our client's view,
25 turning to slide 5, the just and reasonable rate is

1 all -- always about balance. The balance between the
2 right of consumers to pay no more than they would for
3 an efficiently run corporation, and the right of the
4 Corporation to be healthy, to be sustainable.
5 And in this hearing, turning to the
6 next slide, we think you will be and have been exposed
7 to two (2) sharply contrasting approaches to this
8 question of balance. At slide 7, you see MPI's
9 approach as we characterize it with the curious focus
10 of its investment strategy on the short-term goal of
11 avoiding rate volatility.
12 And in our submission,
13 mischaracterizing no doubt inadvertently the
14 investment risk by failing to fully capture the
15 magnitude and the volatility of market risk. We see
16 the MPI perspective in a highly constrained investment
17 portfolio design, which in our client's core
18 submission accepts undue risk and unduly constricts
19 the return that should be there to -- to support rates
20 and to ensure the long-term health of the Corporation.
21 We see the MPI perspective in the
22 higher than average ratios as compared to peers for
23 information technology FTEs, full time equivalents.
24 And we see that MPI perspective in a commitment to
25 major and relatively high risk information technology

1 expenditures without appropriate business cases, in
2 our respectful submission.
3 Turning to the next slide, again from
4 the MPI approach we see their corporate actuary
5 legitimately troubled by the case reserves flowing out
6 of BI3, which in his view may fail to reflect Manitoba
7 Public Insurance risk exposure. And we see the
8 Corporation employing a rate setting indicator that is
9 not consistent with accepted actuarial practice, and
10 which in our client's view invites excessive interest
11 rate volatility not related to the accident year.
12 We see the MPI perspective in the
13 reliance on an interest rate forecast risk factor, in
14 our client's view, an effect of double counting of
15 risk, and certainly in the recommendation of what our
16 client believes is an excessive and inflated Rate
17 Stabilization Reserve that would not only shield
18 against forecast variance and extreme events but, in
19 our client's view, enable inefficiency.
20 Our client's perspective is very
21 different, and this is the overview of what I will be
22 trying to share with you over the next twenty (20)
23 minutes, or perhaps somewhat longer. Hopefully no one
24 is timing me.
25 Number 1, refocusing the investment

1 strategy on the long-term sustainability of the
2 portfolio. At the very onset of this hearing, the
3 panel's opening comments spoke to the long-term
4 interest of this Corporation as -- as well as the
5 short term, and that's certainly in terms of the
6 investment portfolio where our client is focused.
7 It is focused, as well, on capturing
8 the magnitude and volatility of the market risk
9 associated with the investment portfolio. And to take
10 a holistic approach to the investment portfolio, the
11 ultimate team game involving risk budgeting,
12 consideration of the minimum risk portfolio, and once
13 we have protected the base, once we've ensured the
14 sustainability, a healthy application of modern
15 portfolio theory.
16 Our client's perspective in terms of
17 protecting consumers and protecting the Corporation is
18 driven by a -- the necessity of ensuring that all
19 information technology investments are subject to
20 stringent business case analysis based, as the Gartner
21 group suggested, on total cost of ownership, and
22 include -- including the application of appropriate
23 metrics. And in our client's view, those metrics
24 despite reteat -- repeated attempts to see them
25 applied in business cases for information technology

1 projects are sadly lacking.
2 And a requirement for MPI de --
3 demonstrate its investments in information technology
4 can be justified both at a special -- specific project
5 and portfolio level. Given the high risk elements of
6 the PDR project and the negative ongoing challenges
7 with BI3, our client will be recommending that this
8 PUB insist on frequent reporting of the PDR project.
9 Going forward, our client will also
10 invite the Public Utilities Board to explore the
11 implications for claims liability forecasting of
12 ongoing challenges with the BI3 case reserves and case
13 duration management and to make progress towards
14 evidence-based road safety and loss prevention
15 portfolio management aimed at tangible targets,
16 whether it's fatality and collision reductions, or
17 perhaps as our friends from Bike Winnipeg might
18 suggest, elimination as a -- as a vision.
19 Our client will be recommending that
20 this Board direct MPI to employ a rate setting
21 methodology consistent with accepted actuarial
22 practice and which will at least assist in elim --
23 eliminating the impact of interest rate volatility not
24 related to the accident year.
25 It will be asking the Public Utilities

1 Board to reject the impro -- poverished analysis of
2 Dr. Cleary and the interest rate forecast risk factor
3 based on the record of this hearing but recognizing
4 that interest rate forecasts have significant and, at
5 times, countervailing impacts on the bottom lines of
6 our Crowns, such as MPI and Hydro.
7 Our client will be recommending that
8 the PUB direct a truly collaborative technical
9 workshop on interest rate forecasts in early 2017
10 involving stakeholders, as well as the Crown, such as
11 MPI and Hydro and, again, adopt an evidence-based RSR
12 methodology centred on the D-C-A-T, or dynamic capital
13 adequacy testing.
14 Mr. Viola was an entertaining witness,
15 I would submit. The Board had the opportunity to hear
16 him on Friday. And between talking about hockey,
17 basketball, thermometers he came up with a great
18 analogy in terms of conflicting approaches to the
19 investment portfolio.
20 And he suggested that MPI was dealing
21 with it in a siloed manner, whacking a mole over here
22 only to see a risk pop up somewhere else. And he
23 suggested a sheet of plywood might be a better tool.
24 And if you look at those
25 recommendations for our clients on pages 9 and 11,

1 that's our client's sheet of py -- plywood. A
2 reinvigorated look at the investment portfolio. Real
3 rigour in -- in major capital projects relating to I -
4 - information technology. A collaborative -- a truly
5 collaborative approach to interest rate forecasting,
6 taking some of the volatility out of rate setting by
7 focussing on the accident year. And, finally, an
8 evidence-based RSR. That's our client's vision. And
9 it's one we -- we suggest strongly to the Board.
10 We are now going to go into a number of
11 sections. And you know I'm an unusual person at
12 times, so I'm going to start with my recommended
13 findings for each section, run you through a bit of --
14 of the argument, and then finish up for each section
15 with the recommended order for the Board.
16 So I'd like to start with investments,
17 and this will be a lengthy one. Our client believes
18 and would suggest that Mr. Viola's findings regarding
19 the investment portfolio be given heavy weight based
20 upon his experience, his analysis, and -- and his
21 outstanding performance on Friday.
22 They caution that the asset liability
23 study performed by Aon in 2014 has limited utility in
24 making efficient portfolio decisions given its return
25 risk metrics and excessive constraints.

1 As a core message, they ask the Board
2 to observe, to find, and to conclude that the higher-
3 risk elements of the MPI portfolio, the red bucket of
4 which Mr. Viola spoke, look very different from other
5 portfolios in a manner that cannot be explained by
6 evidence-based risk tolerances.
7 In particular, the weight assigned to
8 Canadian equities as compared to other equities is not
9 consistent with evidence or the historic advice of
10 experts. And they remind the Board that losses
11 related to Canadian equities were one (1) of the big
12 three (3) in terms of the 2015/'16 loss experienced by
13 the Basic line of the Corporation.
14 Diana, next page, please. Slide 14,
15 please.
16 It's trite to say that investment
17 income is vital. This is simply an authority or a
18 comment from the record that notes this. But as we
19 turn to slide 15, the Board has recognized this. And
20 this is from -- just one (1) second.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: I apologize, Mr.
25 Chair and members of the Board. I got so excited that

1 I slipped slide 13. And, Diana, you can just give me
2 heck if I do that. I apologize for that.
3 In terms of our other recommended
4 findings, our client recommends that this Board find
5 that there are grounds to be concerned that the MPI
6 portfolio is inadequately protected against real
7 interest rate risk, and that the Corporation's focus
8 on short-term rate stability comes at the expense of
9 the long-term interests of ratepayers and leads to an
10 acceptance of an excessive level of risk for the
11 return gained, and indeed that the Corporation's
12 selection of risk-return met -- metrics understates
13 the market risk faced by the Corporation.
14 In terms of risk profile, the
15 Corporation also invites the Board to find that the
16 characteristics of the pension liabilities are
17 inherently different than the characteristics of the
18 claims liabilities in terms of interest rate and
19 inflation risk, and that the composition of this
20 portfolio has implications for the overall health of
21 the Corporation, including the RSR.
22 Turning to slide 15, it had been a
23 while since I had read Board Order 98/'14. This is a
24 lengthy procedural order, but here you have the Board
25 as it was constituted in 2014 highlighting the

1 importance of this portfolio, flagging on page 15 a
2 concern about MPI's partial withdrawal from US markets
3 and lack of investments in foreign markets, and again,
4 the concern with the interest-rate environment, the
5 Board highlighting as well that these are relevant and
6 central to the Board's jurisdiction, not just in terms
7 of determining rate forecasts, but in the context of
8 the Corporation's overall financial health.
9 And again, if you turn to slide 16, I
10 will not dwell on this page, but there is additional
11 advice and -- and insight from the Board in 2014
12 highlighting how critically important this issue is to
13 it, to ratepayers, and to the long-term health of the
14 Corporation.
15 Slide 17, Ms. Reichert a few week -- a
16 few days ago was kind enough to teach me about
17 portfolio theory. And I think there are three (3)
18 important messages that we just want to highlight from
19 portfolio theory 101.
20 Diversification in a portfolio is not a
21 bad thing. And to the extent that the -- the
22 correlations or the relationships are less than one
23 (1) can actually decrease portfolio risk without
24 sacrificing return. And that's particularly important
25 when we look at the Canadian bias of Manitoba Public

1 Insurance and the cost of that bias in terms of
2 heightened risk.
3 Again, the -- there are tradeoffs in
4 terms of risk tolerance, but bullet 3 is -- is quite
5 important. A rational investor would only choose a
6 portfolio from those that are efficient. And one
7 wonders, and it is legitimate to question the
8 rationality of the excessive focus on Canadian
9 equities by Manitoba Public Insurance through the
10 investment working group.
11 This is Mr. Viola's entire case theory
12 on one (1) page, slide 18 of CAC Exhibit 77,
13 highlighting some of the symptoms of the challenges
14 MPI pla -- is experiencing, including poor liability
15 protection related to the absence or dearth of real
16 return bonds, the shaky goalie. The puck hog,
17 Canadian equities. The consequences of a larger than
18 average home bias. And the fact that MPI is playing
19 short-handed in terms of risk diversification and
20 adding value through the absence -- the unusual
21 absence of international equities.
22 Those are just symptoms of what he
23 describes as the true problems and problems that are
24 not unique to MPI. A focus on short-term rate
25 stability at a cost of lower long-term level

1 protection for consumers. Smooth accounting that
2 conceals, inadvertently, but doesn't remove volatile
3 market risks.
4 And asset based rebalancing rather than
5 risk budgeting. And finally, perhaps a dated
6 assumption that one does a asset liability study every
7 four (4) years and then just let's those assume that
8 the risks stay constant. And we know in this
9 incredibly volatile marketplace that rick -- risk is
10 ever changing and ever -- ever adapting.
11 And certainly Mr. Viola points to the
12 need for much more frequent intensive risk informed
13 discussions. To put it into three (3) sentences, from
14 out client's perspective the MPI investment portfolio
15 both understates its risk, underachieves its
16 potential, and smooths the wrong end. Smoothing the
17 investment returns rather than the rate setting
18 methodology where there are some opportunities to
19 remove some volatility.
20 I simply note at slide 20 the elements
21 of this highly constrained portfolio, 80 percent
22 constrained in terms of minimums. Of the total
23 portfolio, 10 percent having to be devoted to Canadian
24 equities directed by the investment committee working
25 group.

1 And as we turn to the next slide, we
2 make the point that this excessive weight to Canadian
3 equities is not consistent with any of the expert
4 advice on the record of this hearing. Captured in CAC
5 1-69 are historic investment reports from Mercers, Aon
6 in 2008, and Hum and Simpson in the 2010 report, all
7 recommending that less weight be given to Canadian
8 equities and more to non-Canadian equities.
9 Now, it is our understanding that Aon
10 in 2014 was not asked for an opinion on the overweight
11 to Canadian equities. And so we -- we do not
12 criticize them for not asking (sic) an opinion when
13 they were not asked. But as we turn to slide 23
14 you'll see that even Aon, in this highly constrained
15 report, is warning of the consequences of these
16 minimum constraints.
17 Bullet number 1, these minimum
18 constraints leave limited room for other asset
19 classes. Bullet number 2, a desire to target about 15
20 to 30 percent inflation sensitive assets, but that, I
21 think I've got two (2) "thats" there, might not be
22 feasible while resplect -- respecting the other
23 constraints. I think, ultimately, there's about 15
24 percent at least tempered inflation protection in the
25 portfolio, but here's Aon warning about the

1 consequences of those constraints.

2 As we turn to the next slide, being

3 slide 24, Mr. Viola used a white peppermint jar as a

4 symbolic analogy for a red bucket of risk, noting that

5 there would be the water -- the water portfolio, the

6 less risky portfolio, and the red bucket of risk, and

7 that there might be differences in terms of risk

8 tolerances in terms of how much went into the water,

9 how much went into the red bucket.

10 But separation theorem, directing your

11 attention to the last paragraph on slide 24, but while

12 you have different allocations, but when you look

13 inside the risky busket -- bucket, you should see the

14 same mix, essentially the same mix between Canada, the

15 US, and international equities, all other things being

16 equal.

17 But the record of this hearing shows

18 that MPI is a profound outlier in terms of that red

19 bucket of risk. And as we turn to slide 25, you'll

20 see one (1) example. This is comparing MPI to the

21 Morgan Stanley World Index and to Teachers. You'll

22 know that -- you'll note that Teachers and the Morgan

23 Stal -- MSCI, 5 percent or less in Canadian equities

24 with the remainder international and the US. And then

25 you see the outlier, and in heroic mathematical

1 proportions, 67 percent in the Canadian marketplace.
2 Slide 26 makes the same point, and at
3 the top of the page on the right, you'll see MPI being
4 compared in terms of its public equity mix to its
5 sister Crown Corporation, SGI. And you'll see that
6 SGI does have a bit less than half in Canadian equity
7 but significantly less than MPI. SGI is the second
8 column from the end.
9 In terms of US equity, relative
10 balance, but then in international equity, a gross
11 differential. And again, you see SGI has over 50
12 percent of its portfolio outside of Canada, while two-
13 thirds of the public equity mix for MPI are within
14 Canada. And the bottom on the right simply compares
15 the PIAC summary of public pension plans in Canada.
16 And again, you see a gross disparity between the
17 weight given to Canadian equity.
18 Slide 27 makes the similar point
19 comparing Manitoba to -- Manitoba Public Insurance to
20 Teachers. And again, you'll see Teachers has a 63
21 percent foreign exposure as compared to MPI.
22 Failure to adhere to the separation
23 theorem does not suggest MPI somehow has a lower risk
24 tolerance. As Mr. Viola explained, overweight to
25 Canadian equities suggests an unreasonable and

1 excessive assumption of risk. And slide 29 at the
2 bottom makes that point -- this is from 2000, and it's
3 Nortel, and you can -- what it's pointing out is the -
4 - the good fortune, or the good judgment of -- of the
5 Canada Pension Plan to get out of Nortel, still
6 suffering a significant loss, but -- but recognizing
7 the risk of being over-concentrated in the Canadian
8 marketplace.
9 In the early 2000s it was Nortel, but
10 as we turn to the next slide, we again see that not
11 only does Canada constitute a small part of the world
12 marketplace for the purposes of the red busket --
13 bucket, but it's also highly concentrated in just
14 three (3) sectors, and this is pointed out by the
15 witness for Aon: Financial, energy, and materials.
16 These are muted words representing a relatively large
17 pro -- proportion of the TSX.
18 I believe Mr. Viola on Friday said
19 often in excess of 70 percent, but certainly in excess
20 of 50 percent.
21 So a small part of the world, and --
22 and even smaller part of the sectors, MPI has
23 excessively concentrated there. Now, you can't judge
24 the MPI portfolio by one (1) year. You can't judge it
25 by a few years. But we can observe, going to the next

1 slide, that there was a big hit in the Canadian
2 marketplace related to one (1) of those key sectors in
3 2015. And a major factor in the major loss of
4 2015/'16 is that $28.5 million write down in Canadian
5 equities.
6 Mr. Viola's submission at slide 32 is
7 that the MPI focus on short-term rate stability came
8 and has come and continues to come -- come at the
9 expense of long-term lower premium rate levels.
10 And we asked the witness for Aon,
11 turning to slide 33, in terms of whether she had other
12 clients that had identified short-term volatility of
13 the premium rate requirement as a primary concern.
14 She said, Not every fund. As you go on with that
15 discussion, you'll see that she doesn't identify
16 another single fund.
17 So certainly, this focus on short-term
18 volatility as the primary objective, in our client's
19 view, is unusual, and it's inconsistent with the long-
20 term health of the Corporation.
21 Turning to the next slide. You've seen
22 -- seen this slide before. I won't dwell on it. It's
23 the, 'Why Risk Budgeting Matters,' at slide 34. But
24 if we turn to slide 35, these metrics matter, and the
25 witness for Aon made this point, because the metrics

1 that you choose drive your conclusions about the
2 efficient portfolio.
3 And, as Aon confirms on slide 36, the
4 accounting metrics were -- that they chose were driven
5 by that concern with short-term volatility and that
6 other comprehensive income and AOCI both were excluded
7 from the metrics.
8 And Mr. Viola made this point in his
9 evidence, and it -- I quote it at slide 37.
10 "The portfolio design is being
11 driven by this inappropriate
12 selection of these risk and return
13 metrics, understating the risk,
14 unduly constraining the portfolio
15 outcomes."
16 And this is central to our client's
17 conclusion, that the 2014 Aon report cannot be
18 reasonably relied upon for investment choices by
19 Manitoba Public Insurance.
20 And again, I hope the Board, turning to
21 slide 38, has a affection for Mr. Viola's analogies.
22 I certainly did. They helped me to understand complex
23 subjects. On slides 38 and 39, we -- we'll -- we'll -
24 - we don't need to go to -- we can stay at 38 for a
25 minute, Diana.

1 Mr. Viola simply states that the
2 metrics that MPI has chosen for looking at its
3 investment portfolio, the accounting metrics don't
4 make the risk go away. And it's -- it's just like, as
5 we turn to slide 39, when you moved from Celsius -- to
6 Celsius from Fahrenheit, you put a new temperature
7 thermometer in the room, but the temperature didn't
8 change.
9 And his concern -- and this is not an
10 academic concern. This is a fundamental concern that
11 their asset liability management analysis is
12 understating the risks of the Corporation, the true
13 risks, which are the market risks.
14 It's not what shows up in the financial
15 statement, it's what shows up in the marketplace that
16 are the risks that he is concerned about. At slide
17 40, My Friend, Mr. Ghikas, I'm not supposed to cro --
18 laugh during his cross-examinations, but he did make
19 me laugh last Friday, because he noted Mr. Viola's
20 deep interest in real-return bonds.
21 Again, this is not a fixation based on
22 a personal fetish. It is Mr. Viola's core belief
23 based upon a quarter of a century as a leading
24 investment advisor in North America that, as a
25 starting point for your benchmark portfolio, your

1 minimum-risk portfolio, you need to start at least
2 with your benchmark with looking at real-return bonds,
3 and his conclusion that the MPI portfolio provides
4 poor liability protection against unexpected inflation
5 risk and less effective duration management.
6 Now, if you read Mr. Viola's evidence
7 carefully, he doesn't suggest that ultimately MPI, has
8 to select any particular level of real-return bonds.
9 But he says, When you do your benchmark portfolio,
10 that's your starting place.
11 And he notes in his evidence that,
12 across Canada, pension funds have on average 3 percent
13 real-return bonds, which is 3 percent more than MPI
14 has.
15 Why do you do that? His point is,
16 protect your home base first. You don't want a whole
17 team of 6-footers kind of all average of everything.
18 Have a team using the basketball analogy at slide 41.
19 Pick some little guys that are good on defence, pick
20 the real-return bonds. That allows you to go on
21 offence to assume more risk on the -- on the other
22 side of the equation. And that's his judgment.
23 At slide 42, Mr. Viola points out that
24 one (1) of the most respected pension funds in the
25 world, and certainly in Canada, one (1) of the

1 largest, Ontario Teachers', at -- in the range of 170
2 billion, has a portfolio that looks very different
3 from Manitoba Public Insurance.
4 To MPI's claims that it's hard to get
5 real-return products, he observes that they have 19
6 percent, and that that -- that level of RRBs, or real-
7 return bonds is still high even in these low interest
8 rates.
9 Observe as well his point about
10 diversification: 44 percent in non-Canadian equities
11 and 2 percent in Canadian equities. Doesn't mean this
12 is the right mix for MPI, but the evidence, in our
13 client's submission, is overwhelming. It is
14 irrefutable that MPI is an outlier, and it is an
15 outlier that has -- has real consequences for
16 consumers in terms of risks and foregone returns.
17 Slide 43. To the credit of the Aon
18 2014 study, they flag the inherent difference in risk
19 between the pension liabilities of Manitoba Public
20 Insurance and the claims liabilities.
21 This is the Aon witness, Ms.
22 Spiropoulos, noting that the nature of the liabilities
23 is inherently dis -- different in terms of sem --
24 sensitivity to interest rate fluctuations and to
25 inflation, and observing as well that in the MPI

1 portfolio, pension assets are commingled with
2 insurance assets.
3 Ms. Spiropoulos on behalf of Aon
4 certainly sees value in considering distinctly and
5 separately the risks of pension liabilities and
6 exploring that issue further. And Mr. Viola is in
7 absolute agreement with her on that issue, as is our
8 client.
9 A final interesting point from -- from
10 the Aon witness appearing at slide 45. As you will
11 recall, Aon was told to focus on rate volatility,
12 premium volatility. And in this conversation captured
13 at slide 45, she notes that she's -- even with the
14 lower risk port -- portfolios, you are still observing
15 significant volatility.
16 And this goes to the whack-a-mole
17 argument. And Ms. Spiropoulos is suggesting that you
18 might have to go outside the investment portfolio to
19 set -- to see a solution, to go to the -- to the --
20 the rate side. Now, her particular solution related
21 to smoothing the RSR rebates and dividends, but we
22 think this is an important insight from the Aon
23 witness.
24 And we also think it's -- it's -- it is
25 analytically consistent with our client's submission

1 that revisiting the rate-setting methodology using
2 except -- accepted actuarial practice for those
3 indicators is -- is at least part of the tool. That
4 you need a -- to deal with volatility, you need more
5 than an IRFRF. You need more than an investment
6 portfolio. And that a significant tool that has been
7 overlooked to date in our regulatory processes is
8 setting rates based upon the act -- actuarial
9 indicator for the accident year rather than the
10 financial year.
11 In terms of our client's
12 recommendations relating to the investment portfolio,
13 Mr. Viola has eighteen (18) -- I contemplated reading
14 out them to the -- them out to you very slowly.
15 Instead they're marked as -- and attached to the end
16 of this PowerPoint. I won't go through them. Our --
17 our client endorses those recommendations.
18 Certainly, our client believes that it
19 is important that a new ALM be ordered, and also as we
20 -- when we move to the RSR dialogue and the DCAT
21 dialogue, we invite the Board to observe and conclude
22 that the RSR is not intended to protect against
23 investment portfolio selections at odds with the best
24 evidence.
25 Our client is concerned about undue

1 risk being put on Manitoba consumers through the
2 investment portfolio selections at Manitoba Public
3 Insurance. From our client's perspective, those
4 decisions, against good evidence, against expert
5 advice, are not what the RSR was intended for.
6 As we turn to information technology,
7 and Mr. Chairman, and members of the Board, this is
8 kind of the second big section. What I'm going to
9 suggest, subject to your guidance, is I expect we'll
10 be done at -- at -- towards -- in about forty (40)
11 minutes or so. That might be a chance for a brief
12 break, and then I -- I certainly expect the heavy
13 liftings at the start. Hopefully, I've -- I've not
14 crushed you with the -- the paper that I've sent you
15 so far.
16 From our client's perspective, we
17 recommend the following findings regarding information
18 technology to the Board:
19 1) That IT staffing and capital
20 expenditures are a significant driver of current and
21 future cost pressures.
22 2) That significant challenges still
23 exist with regard to the 2010 Bipole III -- excuse me,
24 wrong -- wrong public monopoly. Well, I'm not going
25 to withdraw that statement, because I believe there's

1 a lot of challenges with Bipole III, but for the
2 purposes of this hearing, I believe that's irrelevant.
3 Significant challenges still exist with regard to the
4 2010 BI3 rollout.
5 Specifically, after six (6) years, MPI
6 is not confident that BI3-driven case reserves reflect
7 its risk exposure. Secondly, the duration benchmarks
8 still exceed pre-BI3 benchmarks. And finally, that
9 the primary savings from BI3 were to flow from leakage
10 savings, based in large part on duration expectations.
11 And that raises concerns about BI3, but
12 as the Board thinks ahead to the Physical Damage Re-
13 engineering Project or -- or PDR, much of the benefit
14 justification come -- associated with that comes out
15 of, in quotation marks, "leakage savings."
16 That's not to say that the leakage
17 savings will not be achieved with BI3. It is not to
18 say that they will not be achave (sic) with --
19 achieved with PDR. But this Board is entitled to
20 adopt a jaundiced eye when it sees these allega --
21 expectations of leakage savings.
22 Slide 48. There is a really
23 interesting information response by the Corporation in
24 CAC-1-37 that describes its new value management
25 process operated out of finance, and it sounds so

1 promising but in our client's submission MPI, while
2 it's talking the talk is not walking the value
3 management walk.
4 We will submit to you and hopefully
5 persuade you that MPI has experienced profound
6 challenges in this hearing in supplying business
7 metrics and demonstrating that it is actually
8 employing them.
9 In terms of the PDR project, we will
10 ask you to find based on the observations of the
11 Gartner group that the original design of PDR suffered
12 from a failure to follow the value management
13 gatekeeping process, which of course was not in place
14 at MPI when the PDR was started. And that fundamental
15 concerns remain about the PDR.
16 The business case does not inspire
17 confidence, especially after Board counsel's cross-
18 examination of last week. The return on investment
19 calculation excludes operating cost. And in essence
20 PDR -- you're getting the same -- allegedly same $65
21 billion budget but for significantly reduced
22 functionality.
23 Our client also observes that from its
24 perspective there are two (2) significant risks
25 associated with the PDR. It doesn't mean it'll be a

1 failure. It doesn't mean it'll be a success. But
2 these are two (2) major risk factors.
3 The first is that first notification of
4 loss, or FNOL, and advanced analytics. The
5 technologies that are at the heart of the PDR are not
6 mature technologies. I can't -- we'll come to the
7 actual language. I think one (1) is in the hype
8 stage, according to Gartner, and the other one (1) is
9 in some sort of trough of -- I'll come up with the --
10 the proper language when we -- when we come to the
11 Gartner quote -- quote.
12 The other significant risk related to
13 the PDR is whether the oversight approach based
14 heavily on advanced analytics will be effective in the
15 face of a significantly different business model, and
16 change negotiating power flowing from industry
17 concentration.
18 Just in terms of that different
19 business model, remember that today and certainly two
20 (2) years ago most of the estimates were done at least
21 initially by MPI estimators and then enhanced through
22 the shops. Through distributed estimating, that will
23 change. And Mr. Guimond's evidence was that up to 70
24 to 75 percent of estimates will be performed through
25 distributed estimating. It doesn't mean it's a bad

1 thing. It just means are we confident that the
2 oversight tools will be there.
3 And then the reality of industry
4 concentration, which is coming whether we -- whether
5 we think it's a good thing or not, it's coming. But
6 how, if at all will that change the balance of
7 negotiating power between Manitoba Public Insurance
8 and -- and the industry? Does it make a difference
9 when you're down to seventeen (17) firms, or so, doing
10 75 percent of the estimates? Does that make a
11 difference?
12
13 (BRIEF PAUSE)
14
15 MR. BYRON WILLIAMS: In terms of the
16 submission that information technology is putting
17 pressures on today's and future rates, we note the
18 change from the '16 General Rate Application to the
19 2017 General Rate Application and the compound annual
20 growth rate in terms of amortization expenses
21 increasing from 2.5 percent to 7.5 percent out to
22 2020/'21, driven by three (3) major projects:
23 technology innovation, technology risk management, and
24 the PDR.
25 In terms again -- going to the next

1 slide, in terms of rate -- pressures, historic
2 pressures on MPI costs, Board counsel in cross-
3 examination with the Gartner group highlighted the
4 fact that the number of FTEs in IT increased by 6.4
5 percent compounded year over year between 2010/'11 and
6 2014/'15.
7 The Board is familiar on slide 52 with
8 these statistics from the Gartner group. Personal
9 FTEs and personal spending on staff levels still
10 higher than peers. MPI's spending more on its IT
11 budget on personnel versus its peers, and a
12 disproportioned amount of contractors. And this flows
13 from the Gartner group's score card as well as my
14 conversation with the CEO for MPI.
15 Slide 53 makes a point, and there's an
16 excellent PUB Information Request, PUB-1-27, because
17 it tracks out the growth of information technology
18 FTEs, both internal and consultants, out to '18/'19.
19 The 2014/'15 base was three hundred and
20 twenty (320). You'll see it on the previous slide.
21 In this conversation, Mr. Guimond is confirming that
22 the total number of FTEs for information technology
23 will be higher than the 2014/'15 base and all four (4)
24 years. It ain't going down.
25 A small point on slide 50 -- 54, but

1 when one looks to the drivers of normal corporate
2 operating expenses -- and this is from Manitoba Public
3 Insurance -- the average increase between '16 and
4 '18/'19 of 3.9 percent.
5 CPI was a factor, and then you see the
6 quote from the Corporation, also the expected laptop
7 refle -- refresh as well as computer and monitor
8 refreshes 2017/'18, 2018/'19.
9 And from our client's perspective, we
10 all want new laptops and monitors, and I'm always
11 excited when I get one from my boss. But we do remind
12 the Board and the Corporation that MPI is seeking in
13 excess of 4 percent in terms of rate increases for the
14 '17/'18 year.
15 And at slide 55, we asked MPI if it was
16 thinking of cutting back just a little bit on those
17 expenditures. And at this point in time, deferring
18 the laptop refresh does not seem to be on the table.
19 That could change.
20 Our client is going to spend a few
21 minutes, or I will on their behalf, highlighting the
22 challenges existing with the 2010 BI3 rollout. And of
23 course this relates to the personal injury protection
24 plan. BI3 was a major information technology
25 expenditure employing the FINEOS, F-I-N-E-O-S,

1 product. And we'll see in a couple of slides some of
2 the tools it was intended to provide in terms of
3 duration management.
4 The simple point our client wishes to
5 make on slide 56 is that we've talked about the three
6 (3) drivers of the budget variance in '15/'16. One
7 (1) of them was higher non-interest-related adverse
8 developments related to the Personal Injury Protection
9 Plan. Ms. Reichert confirms in the range of 34, 35
10 million non-interest related.
11 Slide 57. When we look to the 70
12 million incurred but not related -- sorry, incurred
13 but not reported, or IBNR adjustment, in large part
14 that was driven by PIPP, P-I-P-P, adjustments
15 amounting to about 75 percent of that total. And
16 there you see the sources for that calculation which
17 we did on the record.
18 And from our client's concern, slide 58
19 highlights this. We're six (6) years into BI3. Mr.
20 Johnston, on behalf of the Corporation is a thoughtful
21 diligent actuary. There's no doubt about that. On
22 the next two (2) slides you will see him expressing
23 discomfort with the BI3 driven case reserves.
24 And on this page, you see Mr. Johnston
25 in the second quote talking about this new case

1 management system implemented in 2010. And that, I'll
2 ask you to accept was BI3. And as we turn to the next
3 slide you'll see that it made profound changes in
4 reserving practices in four (4) different places, the
5 initial reserves, the subsequent reserves to align
6 with rehab planning, the step reserving permitted
7 after the first twenty-four (24) months, and then
8 after that, the reserving calculator.
9 And on slide 60, and I -- we've
10 underlined this commentary from Mr. Johnston, this is
11 an exact quote. You'll see him saying that:
12 "I'm not convinced that lower case
13 reserves under BI3, particularly in
14 the most recent years, represent
15 lower exposure."
16 Normally one would expect that lower
17 case reserves would be a good thing for MPI and for
18 consumers. All other things being equal they would
19 tend to lead to lower claims incurred. But what
20 happened in the most recent year is there was a
21 significant adjustment by Manitoba Public Insurance to
22 the IBNR. And what Mr. Johnston is explaining here,
23 you can see it perhaps better stated right at the top
24 of the page, is that the lower case reserves are not
25 necessarily translating into lower overall exposure.

1 And Mr. Chair, and members of the
2 panel, just before I move on I do -- did want -- I
3 meant to say this at the start, we try to always
4 honourably cite the transcript. When you see the
5 numbers on the left-hand side, like the 14, you know,
6 to 25, that's a direct quote and that's cited the page
7 number. When you see the ones where it's a -- a
8 citation like at the top of the page, but you don't
9 have the numbers on the side, that is our paraphrase
10 of the conversation.
11 We put the tran -- the -- we -- we
12 believe that it honourably reflects the transcript,
13 but I just forgot to mention that at the start and I
14 apologize for that.
15 So here we have Mr. Johnston saying,
16 Okay, I'm not confident that these BI3 case reserves
17 are translating into lower risk exposure. Well, one
18 (1) way to check on that, as he explains, would be to
19 look at the duration of claims. If the duration of
20 claims is lower then maybe that does reflect lower
21 overall exposure.
22 And we can turn to slide 61. Here you
23 see Mr. Johnston explaining to me a very good
24 indicator of exposure would be just how many claims
25 are still open and receiving payments. And in the new

1 era, like the BI3 era, that might be a helpful
2 indicator.
3 At the top of this slide, slide 61,
4 we've made a reference to PUB-MPI 1-50. And Board
5 counsel, I believe it was still Ms. Grammond, I guess
6 I -- I'm not even sure what I call her now, My Lady,
7 but at that time she took MPI through their comparison
8 of BI3 duration benchmarks versus pre-BI3 benchmarks.
9 That's in PUB-MPI 1-50.
10 And the conclusion from that discussion
11 was that the duration benchmarks are still exceeding
12 the pre-BI3 benchmarks. BI3 was supposed to be about
13 managing leakage, about managing claims duration. Ms.
14 -- Ms. Grammond's conversation with MPI shows that our
15 duration benchmarks post-BI3 still exceed the pre-BI3
16 benchmarks.
17 Next slide, please. And here I'm
18 slowly grasping Mr. Johnston's point on slide 62. And
19 to the extent that claims actually have a longer
20 duration as they appear to have under BI3, that is
21 reinforcing his concerns that the BI3 reserving
22 practices may not be fully reflecting risk exposure.
23 And you can see him confirming my -- my suggestion.
24 On slide 63, we simply highlight that
25 the primary source of BI3 savings was to be leakage.

1 And this is found in a CAC exhibit. I think it's
2 twenty-one (21), pages 18 and 19, but I'm going from
3 memory. But here you see my conversation with the CEO
4 of MPI that in terms of cost savings, the primary
5 source from BI3 was to be the avoidance of claims
6 leakwi -- leakage, and you can see tied at least in
7 part to duration management. And again, from our
8 client's perspective, there's little evidence and --
9 that -- that durations are reduced. In fact, the
10 evidence goes the other way.
11 Slide 64 just notes some of the
12 observations of the Gartner Group about a lag in
13 business process management maturity, and the need for
14 business cases. Unless over the next fifteen (15)
15 slides you can conclude that I'm obsessed with
16 business cases, our client hopes that -- that you'll
17 see Gartner thinks they're pretty important, too, to
18 hold stakeholders and IT accountable for achieving
19 projected benefits and values, and is an integral part
20 of good planning and ensuring that costs incurred are
21 prudent, necessary, and justified.
22 So what would prudent and reasonable IT
23 management look like? Gartner Group and Ms. Reichert
24 have given us some good advice. One is good
25 gatekeeping. Setting up those gates so that before

1 spending more and more on projects, you have greater
2 and greater confidence that you're going to get your
3 benefits. And we're going to come back to that one on
4 PDR, or Physical Damage Re-engineering.
5 Another would be on benefits
6 realization. Having mature benefit realization
7 metrics. Understand what your baselines are. And
8 here we are with BI3, for example, six (6) years after
9 the fact, still struggling to identify our baselines.
10 A third element would be the use of
11 business cases, and as Mr. Geffen on behalf of Gartner
12 points out, as you move beyond specific gates, you get
13 more and more detailing in structuring a business
14 case. And certainly that's what our client has been
15 looking for throughout this hearing, the business
16 cases underlying the significant MPI investments.
17 An evaluation of the total cost of
18 ownership with -- which both Ms. McCandless and I
19 explored with the Gartner Group, and finally on slide
20 70 and 71, robust portfolio management. And here you
21 have five (5) key questions submitted by our client,
22 which Ms. Reichert quite properly agreed are at the
23 essence of management of the MPI portfolio.
24 So then after we consider the baseline
25 for good management of IT, the question becomes: Is

1 MPI walking the IT value management walk? And
2 certainly, Mr. Guimond in my conversation with him was
3 quite emphatic that -- that MPI has always done value
4 management with regard to IT. And perhaps Mr. Guimond
5 understands value management differently than our
6 clients, but we must respectfully disagree.
7 And certainly going to slide 74, his
8 submission, in our client's view, is contradicted by
9 past practice. And here you have just a discussion of
10 the ITO Program. Our client was trying to identify
11 the financial metrics associated with it. A very
12 significant program.
13 There you'll see underlined MPI's
14 response that identifying financial measures to
15 justify the ITO pro -- program was not a priority for
16 the project development in 2011.
17 In our client's view, Mr. Guimond's
18 submission that the value management process is
19 nothing new at MPI is contradicted by MPI's own words.
20 Here you have three (3) separate information responses
21 describing the process out of finance as new, with
22 metrics being refined, a new process, a new process
23 being applied to new projects.
24 And of course, our client's adventure
25 in this hearing was to try and determine if it

1 actually is being applied, and whether MPI would be
2 able to demonstrate that.
3 Mr. Guimond's submission that MPI has
4 always practised good value management, in our
5 client's view, at slide 76, is contradicted by the
6 Gartner Group's analysis of the Physical Damage Re-
7 engineering project.
8 And you'll recall that the Gartner
9 Group talked about some quite significant changes in
10 direction of the PDR project in 2015 and of
11 significant delays. And -- and here you see a
12 conversation between myself and Mr. Geffen of -- on
13 behalf of Gartner about gating and whether it was
14 applied to PD -- PDR.
15 And he notes it -- it didn't exist when
16 PDR started. And bolded at the bottom of that page:
17 "Had that gating process been in
18 place, we would have had fewer
19 delays and fewer changes in
20 direction."
21 And in our client's view, not only is
22 Mr. Guimond's characterization of the value management
23 process at MPI contradicted by history and by his --
24 by MPI's own words. It is also, turning to slide 77,
25 contradicted by current reality.

1 And at slide 78, our client has tried
2 forever, or at least forever as defined as the course
3 of this GRA, to get some idea of what are the metrics,
4 what's the business case, what's -- what's underlying
5 the investment in the technology modernization
6 program?
7 I don't cite -- this is a program
8 involving roughly $40 million of expenditures out to
9 2019/'20. The PUB did dig up a business charter in
10 Information Request 2-16, but there were no
11 quantitative financial metrics within that charter.
12 So as we turn to slide 79, you'll see
13 me looking for the beef, looking for the proof,
14 expecting MPI to meet its onus. I'm asking Mr.
15 Guimond, Are there financial metrics? And he tells
16 me, We'll get back to you.
17 So we asked for the quantitative
18 financial metrics, and he says, We can provide that.
19 And that response came, I think just yesterday as MPI
20 Exhibit 67, and these are the first words in that
21 response, and there's a warning to you -- to me right
22 there: We sought the financial metrics. Well, this
23 is unique from other IT programs.
24 At slide 81, we urge you or your
25 advisors to examine that exhibit and look for

1 financial or business metrics. Try to reconcile that
2 response with the description of the value management
3 process which sounds so good in CAC-1-37.
4 We suggest you will search in vain for
5 the financial metrics which MPI is to be applying to
6 new processes. Our client is still awaiting those
7 metrics.
8 The financial re-engineering project is
9 another big-ticket item. I understand it's going back
10 up to the Board for approval at some point in time.
11 It's $13 million. We did find the business charter
12 related to it, but there's certainly no financial
13 metrics there.
14 Our early Information responses, I
15 think CAC 1-63, did seek a business case as well.
16 Apparently that is captured in a consultant's letter,
17 and is to be provided in some form for the next GRA.
18 But again we looked and could not find. And this is
19 not an insignificant project.
20
21 (BRIEF PAUSE)
22
23 MR. BYRON WILLIAMS: Slides 83 to 87,
24 I am not going to go through them in burdensome
25 detail. But lest you think our client aided by the

1 excellent consultants at Aalen weren't seeking these
2 metrics, we've included just some of the questions in
3 our client's never ending journey to try and find the
4 business metrics underlying the IT expenditures to try
5 and assist Manitoba Public Insurance in meeting its
6 onus of proof.
7 CAC-1-35, to the next page you'll see
8 CAC-1-40 and 1-42, notably going back to that page for
9 a second seeking total cost of ownership data, Aalen
10 like Gartner group would like to see it, and is still
11 looking. CAC-1-44, another noble effort, as are
12 forty-seven (47) and forty-eight (48).
13 Slide 87 details the questions in CAC-
14 2-22, and there actually are some metrics there. And
15 we were advised out of that Information Response that
16 they would be applied to -- to projects, and that was
17 our cross-examination of MPI two (2) weeks ago looking
18 for their Application and not finding them. And again
19 CAC-2-27, trying again to identify how total cost of
20 ownership is -- is made, or determined, or if it is
21 even considered.
22 At slide 89, we draw a contrast between
23 the opaque nature of the identification of the
24 financial metrics behind the IT programming as
25 contrasted with -- within the same corporation with

1 road safety. If you want to see all the business
2 plans for road safety, go to CAC-1-109. Now, the
3 business plans there are of mixed quality. Some are
4 not as good.
5 But they're certainly far better than
6 the road safety program was doing a few years ago.
7 And some of them, in particular 1-109(c), about
8 enhanced enforcement, is relatively rigorous. There's
9 some good stuff there that our client was able to
10 identify with one (1) simple Information Request.
11 In our client's view, an adverse
12 inference has to be drawn to the Corporation's failure
13 to justify the business case to articulate the
14 portfolio management actualization. Not just words,
15 how it actually works. And our client has searched in
16 vain, and you'll see from the PUB IRs as well, that
17 MPI has just not been able to produce the quality of
18 information we would have expected, and which the
19 folks at road safety produced at the drop of a
20 Information Request.
21 So in our client's view, MPI has not
22 satisfied its onus. There's a lot of talk, and again
23 CAC-1-37 looks really good but where are the financial
24 metrics actually applied? Where is an overview of the
25 portfolio and its trade-offs? Where are the reliable

1 metrics for keystone projects such as PDR? And we'll
2 come to that in a second, and the very able cross-
3 examination conducted by Board counsel.
4 Our client submission is that you
5 cannot take confidence from the cost benefit analysis
6 supplied in support of the PDR. And here as -- you
7 see Ms. McCandless trying to get insight into how the
8 3 percent discount rate was selected, and Mr. Geffen
9 candidly disclosing it was a bit of an arbitrary rate
10 just to give you a baseline; that in and of itself is
11 not the end of the world.
12 But as you turn to slide 92 you'll see
13 Board counsel trying to get a sense of the ongoing mat
14 -- maintenance cost per year associated with physical
15 damage, re-engineering, or PDR, 18 to 20 percent per
16 year. And asking, does the cost benefit analysis
17 include any costs for maintaining the system?
18 And it doesn't, to our surprise, and we
19 suspect the surprise of Board counsel.
20 Slide 93 you see Mr. Geffen again,
21 candidly in terms of these ongoing maintenance costs
22 and focussing you on the bottom paragraph of this
23 page, conceding that those actually should be
24 addressed in some kind of a total cost of ownership
25 analysis and you are right, we have not included

1 those.

2 At slide 94 Ms. McCandless goes on to

3 inquire whether a tot -- total cost of ownership

4 analysis was undertaken and recall that our client was

5 seeking this with regard to the portfolio elements.

6 Gartner group has said it's important. But

7 unfortunately there has been no calculation of total

8 cost of ownership.

9 For those reasons, our clients submit

10 you should not have confidence and should not accept

11 the cost benefit analysis underlying the PDR. And we

12 would recommend that you conclude that it is not

13 reliable.

14 At slide 95, and you'll recall that in

15 the Gartner group report there was a -- a discussion

16 about how the budget for the PDR has managed to ret --

17 remain at $65 million over the years despite the

18 delays, despite the program direction. A suggestion

19 that at least the project was on track financially.

20 And our clients would recommend to you

21 and -- and certainly submit to you that while the

22 budget may look the same, the project does not. And

23 that there has been a significant loss of

24 functionality. Back in 2014 the idea was not to have

25 a separate non-integrated system between bodily

1 injuries and physical -- physical dam -- damage, but
2 to have a -- a FINEOS sol -- solution, F-I-N-E-O-S,
3 which already existed on the bodily injury side and
4 migrated -- migrate some of that to the physical
5 damage side.
6 So that in essence, there would be a
7 common platform for both bodily injury and physical
8 damaging claims being FINEOS. That was the
9 functionality expl -- planned upon as late as 2014.
10 At slide 96 you'll see that the
11 expectation behind that is that it would strengthen
12 the integration between estimates and adjusting and
13 improve the overall claims processing, a bold
14 ambitious vish -- vision in 2014.
15 And as we turn to slide 97 you start
16 to see the scope retreat in terms of the project. And
17 here I think it's aptly summarized in a cross-
18 examination of Mr. Geffen. A) They are no longer
19 using FINEOS for first notification of loss. B) No
20 longer expecting a common platform for the physical
21 damage and personal injury sides of the business. And
22 C) No longer expecting a CARS replacement. And CARS,
23 I always forget the acronym, but that is on the
24 physical damage side.
25 Part of the bold plan for the PDR was

1 to replace CARS and that was a central aspect of it.
2 So that's slide 97.
3 What were the consequences for the
4 functionality of the PDR? Again, the budget's the
5 same, but in our client's view, it's not the same
6 program. Here's the CARS acronym. With the Claims
7 Administration and Reporting System replacement
8 removed from the program, these are MPI's words found
9 in CAC-2-51:
10 "Much of the originally-anticipated
11 functionality from the first notice
12 of loss and the adjusting process
13 was removed from scope."
14 And Mr. Geffen at slide 99 confirms
15 this: look at the same budget, but it excludes the
16 replacement of CARS. Same budget, less functionality.
17 Very recently -- and actually, I
18 misspoke about Exhibit 67. That didn't come
19 yesterday, but this one did, Exhibit 80. And you may
20 recall my conversation with Mr. Geffen. He said,
21 Well, maybe they're just not going to replace CARS.
22 Maybe, you know, this will revitalize it.
23 So here we see in MPI Exhibit 80 that
24 the replacement of CARS -- it's been removed from the
25 PDR program, but there is going to be a CARS

1 replacement program now envisioned to be part of the
2 Corporation's technology refresh initiative. So take
3 it out of the PDR budget, so the budget stays the
4 same, renew it under another budget.
5 From our client's perspective, as
6 articulated at slide 101, this is not the same budget.
7 You stay at 65 million, but lose the CARS replacement
8 and significant functionality, and then put CARS in
9 another budget line.
10 Slide 102 begins to highlight, from our
11 clients' perspective two (2) significant risks related
12 to the PDR, which our clients and certainly we -- we
13 anticipate the Board will wish to be alive to. The
14 significant risk 1 is its reliance on technology that
15 is not mature.
16 The words "Trough of Disillusionment"
17 and "Hype Cycle," I wish they were mine. Sadly, I
18 think Gartner has a copyright on those words. These
19 are Gartner's words. And you'll recall the -- the 'S'
20 -- 'S' curve where it started in the -- and -- and
21 where it moves out to maturity.
22 At the heart of the PDR are two (2)
23 important technologies: first notif -- notice of
24 loss, which sounds to me like a mobile app. And
25 secondly, the data analytics. And apparently

1 distributed estimating will only be feasible with the
2 FNOL, or first notification of loss. But the Gartner
3 Group has observed that consumer adaption for these
4 mobile apps remains low.
5 And in terms of the maturity of this
6 tech -- technology -- and you'll recall from the
7 Gartner Report it flagged risks related to Mitchell's
8 development of this application. Here you see me
9 discussing with Mr. Geffen where the -- the mobile
10 apps appear on -- on the 'S' curve. And apparently,
11 they're -- they're down in the Trough of
12 Disillusionment.
13 And you'll see some concerns with
14 adoption, and we've already talked about those.
15 And then moving to slide 104, just the
16 sobering realization not that these technologies will
17 not deliver something, but maybe that they may not
18 deliver what you expect them to deliver.
19 And that's where the critical first
20 notification of loss is. And if you look at the
21 budget for the PDR, originally that technology was not
22 going to attract a significant investment. But you
23 now see MPI moving close to certainly in excess of 8
24 million, and -- and probably closer to 9 in terms of a
25 -- a mobile phone app for FNOL.

1 The other issue in terms of the
2 significant technology risk relates to advanced
3 analytics, slide 105. And in terms of that, Gartner
4 noted that it was at the hype cycle with maturity
5 expected to happen within two (2) to five (5) years,
6 not to say that this is not a good investment, but --
7 but that they're -- you may not have the same deep
8 levels of analytics or algorithms built into them at
9 this stage.
10 So that is a risk from our client's
11 position. Again, the other significant risk is
12 whether oversight will be effective and realizing that
13 we're moving from estimates -- first estimates
14 primarily being done by MPI to a model which Mr.
15 Guimond suggests where up to 70 to 75 percent will be
16 done through distributed estimating and relying on
17 data analytics as -- for oversight and -- and also key
18 performance indicators.
19 So you see, Mr. Guimond's observations
20 about the dramatic industry consolidation, context of
21 great change, losing over half the -- or losing is the
22 wrong word, suggesting that over half the accredited
23 repair shops don't do enough volume for the new world
24 of PDR.
25 Slide 107, noting that when you get

1 down to distributed estimating you're moving even --
2 even farther into consolidation. Not saying it's good
3 or bad, but just that it's a dramatic change in the
4 marketplace. Currently there's seventeen (17) firms
5 participating in distributed estimating and I think
6 I've heard some discussion of perhaps again, up to
7 twenty (20).
8 There you have the seventeen (17)
9 currently involved in the pilot. At slides 108 you
10 see Mr. Guimond's estimates that as much as 75 percent
11 of these estimates will no longer be done by MPI
12 staff.
13 And at slide 109, certainly we'll move
14 through this quick -- quickly, but Mr. Guimond -- me
15 putting to Mr. Guimond that -- that firms may have
16 some incentive to puff up their estimates.
17 And at slide 110 he acknowledges that
18 and talks about the need to put processes in place
19 through key performance index. And going to the
20 bolded at the bottom of the slide, slide 110, you
21 really have to have in processes that can mitigate
22 potential leakage. We applaud his attention to this
23 issue, but that's the risk.
24 And -- and certainly at a time of very
25 significant change with technologies that -- in terms

1 of at least data analytics that do not appear
2 particularly mature, that is a risk that we have to be
3 alive to collectively as Manitobans.
4 In terms of our client's
5 recommendations on IT and they ar -- will be
6 extensive, we recommend that the Board find that there
7 is a significant concern regarding whether BI3 case
8 reserves reflect risk exposure.
9 That it find that BI3 is not currently
10 meeting its pre-BI3 benchmarks in terms of durations.
11 We recommend that MPI be directed to
12 file value management analysis for large scale
13 completed IT projects, including BI3, that address --
14 I shouldn't say demonstrate, but that address whether
15 they've realized the benefits in line with their
16 expectations.
17 Our client strongly urges this Board to
18 find that MPI has not demonstrated that the business
19 case for -- has not demonstrated the merits of the
20 business case for PDR at this point in time, or that
21 the significant risks are outweighed by the financial
22 rewards at this point in time.
23 That it recommend that MPI be directed
24 to file a proper PDR cost/benefit analysis, or
25 business case, taking into account operating costs,

1 and addressing total cost of ownership, similar to the
2 observations made by Mr. -- by the witness for
3 Gartner.
4 Our client notes that the distributed
5 estimating project is still ongoing, and that -- and
6 they recommend that MPI be directed to file an
7 evaluation of it -- and I should note that these last
8 two (2) bullets are actually supposed to be part of
9 the bullet number three (3) -- in terms of reducing
10 both incurred claims and claim's expenses, in terms of
11 its impact on repair shop administrative expenses,
12 improved customer serpi -- services, and faster repair
13 cycle times.
14 These are the indicators that were
15 identified for the distributed estimating project, at
16 least to our knowledge, the expectations, and we think
17 it would be prudent to see how it is performing, at
18 least on those limited indicators.
19 Going forward, our client would
20 recommend that as part of the minimum filing
21 requirements, that MPI do -- be directed to file
22 business cases for major, current, and ongoing IT
23 projects. The Board may wish to select a material --
24 materiality level. Consumers shouldn't have to go
25 through this never-ending journey trying to -- to find

1 this information.

2 Again, on that first bullet, there's

3 actually two (2) bullets merged there. There should

4 be also a plan in terms of expected improvements in

5 terms of IT FTEs against the industry standard. Our

6 client would appreciate and seek an explanation and

7 concrete examples of how portfolio management actually

8 works at the IT level. Again, the CAC-1-37 has a

9 great paper description, but no practical examples.

10 And for finance re-engineering and

11 technis -- technology modernization programs, cost

12 totalling -- I've got 4 -- 54 million here, I think

13 it's more properly 53, detailed cost/benefit analysis,

14 and an explanation of what these programs involve.

15 Mr. Chair and members of the panel,

16 that probably takes me more than two-thirds of the way

17 through our presentation, but I -- I would suggest

18 with your -- with your -- subject to your wishes, that

19 we stand down for -- and I -- I can get a coffee and

20 perk myself up a little bit.

21 THE CHAIRPERSON: Okay. So we'll --

22 we'll stand down for -- how long -- how much longer do

23 you think you'll be, Mr. Williams? Another hour?

24 MR. BYRON WILLIAMS: I -- sorry, I

25 would expess -- expect less than an -- an hour, but

1 I'm going to say somewhere between forty (40) minutes
2 and -- and an hour, yeah.
3 THE CHAIRPERSON: Okay. We'll --
4 we'll break for -- well, we'll break for twenty (20)
5 minutes.
6
7 --- Upon recessing at 2:35 p.m.
8 --- Upon resuming at 3:02 p.m.
9
10 THE CHAIRPERSON: Mr. Williams...?
11 MR. BYRON WILLIAMS: Thank you, and --
12 and turning to slide 13, I'll just indicate we'll --
13 we'll have a -- a bit of a brief conversation about
14 claims incurred, move to road safety, then the
15 interest rate forecast, and then the -- the rate-
16 setting methodology and the -- then the DCAT, and then
17 our client's final rate recommendation will be the --
18 the last area.
19 In terms of claims incurred, our client
20 has spent a bit less time on that in this hearing.
21 They simply note, and this has been a -- an issue of
22 some duration before the Board, that with the PIPP
23 program, and -- and the reality that certain long-term
24 claimants may be on the program for certainly in
25 excess of twenty (20) years, and often -- or maybe up

1 to forty (40) years, there's just not the track record
2 in terms of years of experience for Manitoba Public
3 Insurance.
4 They have a mortality table which
5 projects the terminations from the program --
6 "terminations" meaning whether people pass on or
7 leave, no longer receive benefits -- and that the
8 actual terminations are moving at a faster pace than
9 the expectations of the mortality table. And that
10 certainly has implications on the Personal Injury
11 Protection Plan side for long-term claims.
12 And it was our client's submission last
13 year, and certainly Ms. Sherry's evidence that
14 Manitoba -- in last year's proceeding, that MPI would
15 be -- would benefit from looking at the experience in
16 Quebec, where their no-fault program dates back to the
17 late 1970s.
18 And on slide 114, you just see my
19 conversation with Mr. Johnston about -- that people
20 are -- are leaving the program faster than expected.
21 He was at pains to point out that's on the count side,
22 but that the -- the financial side, he didn't see the
23 same experience.
24 But certainly with regard to the -- the
25 -- what's called the tail factor, this is important

1 information in terms of whether MPI's got its
2 estimates -- estimates right.
3 Slide 115, the Board directed Manitoba
4 Public Insurance to follow up on the SS -- or SAAQ
5 data last year. Certainly insurers such as SGI, where
6 Ms. Sherry worked previously, had done so for
7 assistance in developing their expectations of the
8 pattern of termination of long-term claimants.
9 And this could be a big-ticket item.
10 We do not know. And it's not that MPI is refusing to
11 do it. The -- Mr. Johnston's evidence was that there
12 were just many competing demands. So the reality is,
13 though, that that directive in terms of the
14 conversation and the follow-up with the SAAQ has not
15 taken place. And we've flagged that on slide 116.
16 Going to slide 117, MPI has indicated
17 an expectation that it will meet with SGI and the SAAQ
18 next year. You will see an interesting commentary by
19 Mr. Johnston about the third line down that changes in
20 your mortality assumptions could be material, could
21 indeed cause extreme changes in the results.
22 So that's the status of -- of where we
23 are on this important issue, not just for the short
24 term, but certainly over the long term in terms of
25 what we say -- set aside for these longer-term claims.

1 And our client's recommendation on
2 slide 118 in terms of claims incurred is that MPI be
3 directed to report back on this discussion in terms of
4 terminations and long-term claimants, including
5 implications for liabilities and forecasts.
6 And this is simply what we recommended
7 to the Board last year and which, to our
8 understanding, in general terms, the Board directed.
9 We think this is important insight. There is data
10 that terminations are quicker than MPI's expected, and
11 it's important for consumers to have a sense of what,
12 if any, implications the -- these have for personal
13 injury claims and costs.
14 Turning to road safety, our client
15 would ask the Board to find that, as compared to
16 western Crowns, MPI is still playing catch-up when it
17 comes to cost/benefit analysis and portfolio
18 optimization.
19 Secondly, although Ms. Kroeker-Hall's
20 evidence was to consider optimization of the program,
21 there was insufficient evidence before her to do -- to
22 draw conclusions on whether MPI was optimizing its
23 loss prevention and road safety programs. We'll
24 detail that in a moment.
25 Our clients do want to observe,

1 certainly over the last three (3) to four (4) years,
2 and certainly since Ms. Mavis Johnson appeared on
3 behalf of CAC (Manitoba), that they detect sincere
4 efforts on the part of the Corporation to improve its
5 road safety and loss prevention business case
6 development and portfolio management. And CAC-1-109,
7 from our client's perspective, is good evidence of
8 that.
9 We expect that next year, we will still
10 have profound disagreements, but while we've been
11 highly critical of the portfolio management on the
12 information technology side, fairness dictates that we
13 acknowledge really significant strides on the road
14 safety side.
15 And -- and if you were to take two (2)
16 business cases, one (1) from a few years ago, if -- if
17 you could find one (1) on road safety and one (1) from
18 today, the dif -- difference in our client's
19 submission is profound and -- and it's -- it's
20 laudatory.
21 The clients also note that the
22 portfolio checklist is still in progress. And that is
23 going to be an atten -- essential tool by which MPI
24 optimizes its -- its portfolio.
25 Our client's submission, and we believe

1 that it was accepted by Ms. Kroeker-Hall in her
2 evidence, is that to make good decision making in
3 terms of road safety and loss prevention, in terms of
4 reducing or eliminating collisions, and injuries, and
5 fatalities, as well as reducing claims costs, that
6 modern cost/benefit analysis is -- is integral to that
7 analysis.
8 There's not an unlimited pot of money.
9 And effective planning requires clear criteria for
10 justifying use, looking at alternatives, and making
11 priorities. And these are comments from Ms. Kroeker-
12 Hall in -- in support of that analysis.
13 Slide 121. You see the external
14 witness for MPI in road safety. And the second bullet
15 identifying two (2) key assessment methods being
16 cost/benefit analysis and cost-effectiveness analysis.
17 Going to the point of catch up, the Board has had
18 evidence before it on a number of occasions that ICBC
19 is a fair bit ahead in terms of the analysis of
20 programming and the creativity in which it's -- brings
21 to these programming.
22 It certainly employs cost/benefit
23 analysis and -- and has a strong reputation in that
24 regard. And at slide 123, Ms. Kroeker-Hall notes as
25 well that -- that SGI uses cost/benefit analysis to

1 look at both the impact of individual safety programs
2 and to guide program selection.
3 And interestingly, and this may go to
4 some of the issues of Bike Winnipeg, they look at
5 claims costs, but they go beyond claims costs to
6 societal costs. And that is an integral part of their
7 analysis. And that is something that attracted our
8 client's interest.
9
10 (BRIEF PAUSE)
11
12 MR. BYRON WILLIAMS: What is important
13 in terms of Ms. Kroeker-Hall's conclusions was that
14 when she was looking at the optimization of the MPI
15 portfolio, the cost/benefit analysis, cost-
16 effectiveness analysis was, to be charitable, still
17 under development. It was -- it was in quite a
18 nascent, N-A-S-C-E-N-T, stage.
19 And she confirmed this at slide 125. I
20 suggested to her there wasn't enough information to
21 form a considered opinion about how these tools were
22 being used. And she agreed, not as to how they were
23 being used, but that they were planning to use them.
24 And so that -- that's helpful, it -- it -- but she
25 wasn't in a position to determine what -- what type of

1 decisions they were making, and whether they were
2 making prudent optimization decisions.
3 We're still not today. And that's --
4 you heard our conversation with Mr. Keith. For next
5 year's application, they want to bring forward a
6 dashboard and a sco -- scorecard to assist in looking
7 at the portfolio as a whole. IBM has recommended a
8 return on investment criteria at least for the loss
9 prevention programs.
10 And MPI is still developing the model.
11 So while the conversation and the -- and the mandate
12 for Ms. Kroeker-Hall was to comment about the
13 optimization, in our client's submission, it's
14 premature. MPI is not at that stage yet, although you
15 can see clear evidence of -- of progress. Whether our
16 clients will ultimately agree with them is another
17 question, but we should acknowledge their significant
18 strides forward in this regard.
19 In terms of road safety, our client
20 recommend that no final determinations be made in
21 terms of whether the expenditures are being optimized
22 at this point in time. There's just not the evidence
23 to make that call.
24 Our client believes very strongly that
25 it is important for MPI in consultation with

1 stakeholders to adopt an aspirational target, or
2 targets, for the reduction and/or elimination of
3 accidents, fatalities, and collisions. And that those
4 targets should drive its prevention and road safety
5 programming always, of course, measured against
6 ensuring that expenditures are optimized with
7 reference both to claims costs, and to the broader
8 mandate of societal costs.
9 The Board has wondered whether there
10 should be a -- going to the next slide, the fourth
11 (4th) bullet down -- a budget cap, or target. Our
12 client would -- would not be supportive of such a cap
13 or target. They think that portfolio should be
14 optimized based upon good analytic, good business
15 principals, taking into account both claims costs and
16 social costs.
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: The last bullet
21 on slide 128 is that MPI be asked to report back on
22 efforts to leverage other stakeholders to invest.
23 Some of the Board members were here when Ms. Mavis
24 Johnson testified. Her evidence is -- is captured in
25 prior Board Orders.

1 Ms. Johnson spoke quite powerfully
2 about the fact that MPI was not the only solution to -
3 - to these programs, and could not be the only
4 investor. And our observation of the record in this
5 hearing is that MPI continues to be doing much of the
6 heavy lifting, which is appropriate as long as they're
7 getting good value for its programming, but our
8 client's hope was that the working groups at the
9 Provincial level would -- would be encouraging others
10 to step up to the plate, as well.
11 And we think that's an important
12 strategic opportunity, and certainly we would ask the
13 Board to invite MPI to report back on efforts to
14 leverage other stakeholders to invest.
15 Interest rates, which I don't think are
16 a very controversial subject in this hearing. Our
17 client's recommended findings start with the reality
18 that interest rate forecasting has been tough in the
19 aftermath of -- of the 2008 financial crisis. And
20 that this is an issue that's important not just to
21 Manitoba Public Insurance and its consumers, but to
22 Manitoba Hydro. And when our client is participating
23 in this hearing, it's mindful of the fact that any
24 precedent or decision made by the Board in this
25 hearing may have significant implications when

1 Manitoba Hydro comes in next year with its General
2 Rate Application and its anticipated cost related to
3 ten (10) or more billion dollars in new borrowings.
4 So from our client's perspective,
5 they're wearing both their hats as MPI consumers and
6 as Hydro consumers, and -- and they are of the firm
7 belief that as sustainable interest rate best estimate
8 is in the interest of consumers and MPI and -- of both
9 MPI and Hydro, as well as those two (2) Crown
10 monopolies.
11 From our client's perspective, the
12 Naive Forecast should not be adopted as a sustainable
13 best estimate. It's out there, although no one's
14 claiming any allegiance to it in this hearing. Our
15 client note that MPI has been unable to identify an
16 existing precedent for its 50/50 recommendation. And
17 based on the evidence of this hearing, our client
18 recommends that the Board reject the 50/50
19 recommendation in favour of the consensus forecast
20 based on the record as it stands today.
21 From our client's perspective, Dr.
22 Cleary's evidence should be given liven -- limited
23 weight given the absence of statistical tests, the
24 truncated time frame for his analysis, the
25 impoverished, to be charitable, literature review, and

1 his analytical inconsistencies with -- with the
2 authorities that he actually cited.
3 We note and -- that Dr. Simpson, while
4 he was not retained to provide comment on the
5 predictive accuracy of the interest rate forecast, was
6 certainly invited to by both MPI and Board counsel,
7 and that he offered a number of evidence-based and
8 concrete recommendations which, in our client's view,
9 deserve some weight.
10 Our client made this recommendation a
11 couple years ago. They -- they remake this
12 recommendation, the second-last bullet on slide 130.
13 Given the interests of consumers as
14 well as MPI and Manitoba Hydro in restoring confidence
15 in interest rate forecasting, they recommend that a
16 truly collaborative technical workshop be held prior
17 to the hearing of the next Hydro GRA and prior to the
18 filing of the next MPI rate application.
19 And finally, our client asked the Board
20 to make a finding that the August 2016 workshop does
21 not reflect good practice collaboration.
22 Slide 131 highlights the fact that
23 interest rate forecasts are important to other Crowns,
24 and that the precedent made in this Board Order will
25 have implications for others. The over- or under-

1 estimation of the cost of debt can have a very
2 significant impact on Hydro's revenue requirement.
3 Slide 132 cites a Board Order 59/'16,
4 page 16, and a swing of over $700 million between one
5 (1) financial forecast and the next over the next ten
6 (10) years due to lower-than-forecast interest rates.
7 From the MPI perspective, lower-than-
8 forecast interest rates tend to be more of a bad thing
9 than a good thing. From the Hydro perspective, if
10 their estimates are a bit high, and interest --
11 interest costs are lower, that tends to be a good
12 thing for Hydro, for their financial line.
13 So there we have the importance of this
14 precedent for both Crowns and for all their consumers.
15 And from that perspective, our client thinks the onus
16 is heavily upon Manitoba Public Insurance to
17 demonstrate on a going-forward basis that -- that
18 moving away from the standard interest rate forecast
19 is justifiable and sustainable over time.
20 Starting at slide 133, we talk about
21 the Naive forecast. And again, it's on the record.
22 MPI is talking about rate increases, if memory serves
23 me right, in the magnitude of 7 percent, if that was
24 filed.
25 Our client believes it's important that

1 -- to acknowledge that no witness in this proceeding
2 has suggested that it is the best estimate going
3 forward. You see Dr. Cleary rejecting that in his
4 conversation with PUB counsel.
5 Again, Dr. Simpson again wasn't
6 retained to look at this, but he was asked, and he
7 prefers the consensus to the Naive forecast. And I
8 think at the bottom of page 2,085 and the top of 2,086
9 of yesterday's transcript, he suggests that assuming
10 that interest rates are going to stay at the current
11 level for the next four (4) years is probably a bad
12 forecast. So he clearly does not adopt the Naive
13 forecast, and both MPI and Dr. Cleary have suggested
14 over time they see a diminished role for the Naive
15 Forecast going forward.
16 Slide 134 also notes that the Alberta
17 Utilities Commission's decisions from October 7th,
18 2016, I put to Dr. Cleary the fact that an assumption
19 that interest rates will rise during the '16/'17
20 period would be inconsistent with the expectation of
21 the Naive Forecast, and of course he agreed. And from
22 our client's perspective, that's an implicit rejection
23 by that regulator of the Naive Forecast, at least in
24 the context of its assessment of cost of capital
25 models.

1 During cross-examination with Dr.
2 Cleary, I put to him a neat little paper from 2014.
3 As you're aware, our client has criticized Dr. Cleary
4 for his absence of statistical tests, and for failing
5 to address the implications of the massive structural
6 change related to the finance -- finance crisis.
7 On slide 136, you see a little bit of a
8 discussion of Kunze, K-U-N-Z-E, his work as found in
9 CAC Exhibit 22, testing for structural breaks. And
10 going to slide 137, the conclusion of Kunze that
11 relying on a simple Naive Forecast would be a major
12 mistake.
13 So perhaps we've bludgeoned the Naive
14 Forecast enough. Just from our client's perspective
15 on a sustainable going-forward basis, there's
16 significant challenges with it. And rigorous analytic
17 testing offers some empirical support for that.
18 I don't want to suggest that the record
19 of this hearing suggests everyone is jumping up and
20 down for joy or in loud hosannas for the Standard
21 Interest Rate Forecast. I don't think that would be a
22 fair description of the record of this hearing. But
23 when we parse the record of this hearing, our clients
24 suggest that there are some indications of more
25 confidence in the Standard Interest Rate Forecast on a

1 sustainable basis going forward.

2 We note the AUC again in determining

3 that it expected interest rates to rise cited experts,

4 and also cited the consensus forecast. Again

5 differences in terms of the speed and magnitude of any

6 interest rate increase. It's interesting as well, at

7 slide 139, that if one goes to Dr. Cleary's evidence

8 from this year before the Newfoundland Board of

9 Commissioners, again it's not a robust empirical

10 analysis, but he does suggest that bond yields would

11 increase and in support of that proposition cites the

12 consensus view of most economists.

13 And in the -- in the course of this

14 hearing, slide 140, again, our client doesn't put an

15 overwhelming amount of weight on Dr. Cleary's evidence

16 for reasons that will became -- but it is interesting

17 to observe that he suggests that more recent standard

18 interest rate forecasts are much more tempered.

19 And indeed in discussion with Board

20 counsel at slide 141, he describes the S-I-R-F as a

21 reasonable forecast although he still is not of the

22 view that it's a best estimate. And perhaps we're

23 misreading his evidence but he seems more nuanced on

24 the Standard Interest Rate Forecast than we might have

25 observed in his testimony before other proceedings.

1 A very interesting line of cross-
2 examination in the course of this hearing, both of Dr.
3 Cleary and by Dr. -- of Dr. Simpson, was led by Board
4 counsel. And in terms of the -- the reality that
5 banks which are betting heavily on interest rates
6 place heavy reliance on consensus like or standard
7 interest la -- rate like estimates.
8 Again, this was not part of Dr.
9 Simpson's retainer, but he did note that interest rate
10 forecasts are integral to the bank's business model,
11 that they've developed sophistic -- sophisticated
12 algorithms over time, which have to be adjusted and
13 adjusting in the face of the demonstrated short coun -
14 - comings so that they're adjusting over time. And
15 that there is reason to regard their estimates on a
16 prospective basis as a sustainable best estimate,
17 notwithstanding the clear challenges with the forecast
18 in the midst of the financial crisis and recession.
19 Again, Dr. Simpson was quite candid in
20 the fact that they have not had an admirable forecast
21 record over the last few years. This wasn't part of
22 his retainer, but you'll see a very interesting
23 discussion from him on a number of pages in the
24 transcript, but I've cited 2080 to 2082.
25 At slide 143 we flag a conversation

1 between Dr. Clearly -- Dr. Cleary, excuse me, and Ms.
2 McCandless. And she asks him did -- could he think of
3 a reason that the banks and Global would publish
4 interest rate forecasts that are not best estimates.
5 And he candidly admitted that he couldn't. And so
6 that, again, is of some interest.
7 To our knowledge and the knowledge of
8 MPI at slide 144, there is no regulatory precedent for
9 the 50/50 recommendation as represented by the IRFRF.
10 MPI and Ms. Reichert, who is a -- a very capable
11 witness says here that -- suggested, there are unique
12 circumstances facing Manitoba Public Insurance. Our
13 client is not sure that is the case, but they do note
14 that MPI did not identify other precedents.
15 And here it's a tough judgment call,
16 but there's not a lot, from our client's perspective,
17 that suggests that MPI has discharged its onus. At
18 slide 145 you see the admission by Dr. Cleary that the
19 50/50 did not perform best over the sample period.
20 Again, caution should be used in
21 looking at his conclusions. It's not based on a
22 robust statistical analysis, but he was qualified.
23 And so some weight should be given to his views. And
24 you see that commentary as well on slide 146 as well.
25 At slide 147 we do want to note that in

1 his area of expertise, in finance, Dr. Cleary is a --
2 a well, well regarded expert. He's a leader in some
3 of the -- the best regarded finance texts. So our
4 criticism of him in this hearing is not meant as a
5 judgment on his overall abilities, which are clearly
6 well recognized.
7 But his report was clearly done in
8 haste, more than twenty (20) hours, less than fifty
9 (50) he testified. In an area where he had not
10 performed peer reviewed work or demonstrated a
11 research focus. He has testified before the AUC, but
12 this is not the core expertise of Dr. Cleary.
13 Slide 148, we flag challenges with the
14 -- his evidence. Unlike the authorities that he
15 cites, he did not perform standard statistical tests
16 for bias or predictive accuracy. And in terms of
17 structural breaks, that's more relating to Kunze, a
18 much more recent authority, which -- which he did not
19 cite.
20 As Dr. Simpson pointed out, if you're
21 going to draw appropriate conclusions you have to look
22 at longer term patterns, and Dr. -- Dr. Clearly --
23 Cleary did not. And again, in the interesting cross-
24 examination Board counsel noted that he weighted all
25 observations equally.

1 And if you look at the variation in
2 estimates you'll see a smaller gap in recent times.
3 And the implicit suggestion of Board counsel's
4 questions, not necessarily their conclusions, was that
5 he might have considered heavier weighting for recent
6 experience.
7 Additional challenges with the evidence
8 of Dr. Cleary, his literature review, which one would
9 expect from an academic entering a field that is
10 relatively new to him could best be described as
11 selective, identifying only two (2) sources, and none
12 more recent than 2008, not citing a single post-
13 financial crisis study, arguably -- well, clearly, it
14 is inconsistent with the characterization of the
15 literature by others.
16 And we cite Dr. Villadsen, who is cited
17 by the AC -- AUC, Alberta Utilities Commission, in the
18 Board Order we referenced. And Dr. Cleary suggested
19 that the literature was not robust. And to repudiate
20 and refute that suggestion we invite you to look at
21 CAC-22, Kunze's work, and look at his literature
22 review.
23 In addition, at slide 50, Dr. Cleary
24 seems to suggest that the bias inherent in the
25 Standard Interest Rate Forecast was of a MEAN

1 reversion, a reversion to MEAN, but it took some work,
2 but one (1) of the two (2) authorities he cites,
3 Spiwok (sic), draws exactly the opposite conclusion.
4 That's in his 2008 report that Dr. Cleary did manage
5 to dig up, as well as his more recent reports which we
6 shared with him.
7 And Ku -- Spiwok (sic) refutes Dr.
8 Cleary's theses and, whether you accept it or not,
9 describes a robust tendency to status quo bias. Bias
10 is not an encouraging thing to find, but it's -- Dr.
11 Cleary's reliance on Spiwok (sic) is -- is a bit
12 puzzling.
13 And you note here he's -- when pressed,
14 in terms of the conclusions of one (1) of the two (2)
15 authorities, he cites towards the bottom of the page,
16 he's now taking issues with some of the ways Spiwok
17 (sic) in -- interpreted things. So, in effect, he's
18 impeaching one (1) of the two (2) authorities that he
19 relied upon.
20 Again recognizing Dr. Cleary's immense
21 academic achievements, our client would characterize
22 this report as a disappointing and light report to
23 which limited weight should be offered.
24 I want to go back to Dr. Simpson. And
25 I have to say I totally enjoyed My Learned Friend's

1 cross-examination of him on -- yesterday, it was quite
2 entertaining.
3 But let's remember that Dr. Simpson was
4 not retained, unlike Dr. Cleary, to address the
5 predictive accuracy of interest rate forecasts. Dr.
6 Simpson, consistent with his prior evidence before the
7 Board, was focussed on the DCAT and risk analysis, yet
8 in a few scant minutes he articulated a far more
9 nuanced and rich understanding of a proper evaluation
10 of predictive accuracy, including the use of time
11 series regression.
12 Again recognizing that this was not
13 what he was retained for, he offers on slide 154:
14 "If you're going to venture into
15 this field and prodess -- profess
16 expertise here are some of the
17 considerations you should be looking
18 at: Some contextual historical data
19 you could test whether using time
20 series regression or otherwise;
21 tests for structural change; and to
22 express extreme caution in terms of
23 the size of the sample."
24 And clearly going back just six (6)
25 years is not enough to develop statistical reliable

1 results.

2 I've entered -- we didn't have much

3 time to look at yesterday's transcript, but a couple

4 of references from Dr. Simpson. There's an additional

5 one which I did not locate relating to a time series

6 regression, but those are -- those are two (2) of the

7 references that I did find.

8 Dr. Simpson, in the course of this

9 hearing, you'll note that he offered quite short

10 reports in his areas of analysis, financial risk

11 analysis. But it's important to note that those

12 reports built on four (4) different pieces of evidence

13 that he's filed with the Board before in 2007, 2013,

14 2014, and 2015. And indeed, the 2015 report is part

15 of that record.

16 So our client didn't feel the need for

17 him to reinvent the wheel and wanted him to just focus

18 on -- on getting to the heart of the issues as he saw

19 them.

20 Slide 156. I should note that our

21 client has had some good collaborations with MPI,

22 certainly on -- there's been a good dialogue on the

23 DCAT. There is an ongoing discussion in terms of road

24 safety that at least they're at the table on a regular

25 basis.

1 That August 16th -- August 2016
2 workshop, in our client's view, does not represent
3 good practice collaboration. And we question whether
4 it should even be termed 'collaboration'. We would
5 call it a workshop.
6 We note that MPI announced the
7 collaborative process before stakeholders were invited
8 to it, that there was no discussion with stakeholders
9 about the terms of reference or information they would
10 have appreciated. Our clients certainly would --
11 would view that not as a collaboration, but as a
12 product pitch, which lacked even a proper literature
13 review.
14 Slide 157. And I will say, from our
15 client's perspective, they have no problems making --
16 and in fact, they feel very strongly about these
17 recommendations. They -- that the IRFRF should be
18 rejected based on the evidence of this hearing as the
19 best estimate and the Standard Interest Rate Forecast
20 accepted.
21 But our client, as they have expressed
22 for at least half a decade, still do have some
23 discomfort with the overall direction of interest rate
24 forecasts. And they would be very supportive of an
25 Intervenor workshop, a truly -- and Crown monopoly

1 workshop, a truly collaborative process supported by a
2 proper literature review and a proper review of
3 regulatory practice in other jurisdictions.
4 What are other rate regulators doing
5 with interest rate forecasts? That would be good
6 advice and information for all of us as we go forward
7 in these highly uncertain times.
8
9 (BRIEF PAUSE)
10
11 MR. BYRON WILLIAMS: Slide 158
12 constitutes our recommended findings regarding
13 actuarially -- actuarial rate making. I want to be
14 clear, that first bullet relates to developing a rate
15 indicator based upon the fiscal year instead of the --
16 the accident year. And it's not an overarching
17 criticism of the entire MPI portfolio. And if that
18 wasn't clear on that point, I felt I should make that.
19 The current MPI approach, which we
20 understand has developed over decades of interaction
21 with the Public Utility (sic) Board, in our client's
22 view, involves and adds unnecessary volatility by
23 introducing prior-year case reserve and IBR -- IBNR
24 adjust -- adjustments, and the inclusion of investment
25 income as well.

1 There is some evidence suggesting the
2 impacts of moving to an accident year rate indicator
3 consistent with accepted actuarial practice. Our
4 client is not confident in the information on the
5 record, and would note that the impacts of the
6 transition cannot be determined in the absence of
7 certain adjustments, including more robust trending
8 pro -- practices and improved treatments of re-
9 insurance.
10
11 (BRIEF PAUSE)
12
13 MR. BYRON WILLIAMS: Ms. Sherry's
14 evidence was just yesterday, so I merely at slide 159
15 highlight some of the highfo -- high points. The
16 actuarially indicated rate should be the expected
17 value of future costs. By working off of a fiscal
18 year we are blurring. and -- and -- that distinction,
19 and -- and circumventing it. Not for any ill --
20 intent or anything like that, that's just the result.
21 And I've already noted the implications of that,
22 including the -- in bringing in prior case reserves
23 than IBNR, and in -- investment income.
24 In Ms. Sherry's view at slide 160, and
25 in our client's, going to setting rates based upon the

1 accident year would simplify the regulatory process,
2 the MPI process, and would lead us to the same place.
3 A break even position over time.
4 But again from our client's
5 perspective, and Ms. Sherry spoke briefly on this
6 subject on November the 1st, yesterday, in terms of
7 required improvements in trend analysis, and treatment
8 of re-insurance but her evidence from last year's GRA
9 is also on the record of this proceeding on these two
10 (2) points, so she did not feel the need to elaborate
11 upon it.
12 Our client is supportive of
13 implementing an actuarially indicated rate based upon
14 the accident year. It recognizes there may be
15 transition issues in terms of what will be the impact
16 on this year and next year's ratepayers. But it
17 believes that it certainly has identified issues in
18 this hearing certainly in terms of cost control on the
19 information technology side that would mitigate any
20 expected rate impacts materially.
21 In terms of the Rate Stabilization
22 Reserve, the MCT is a solvency test. It walks like a
23 solvency test. It's described as a solvency test.
24 And it is a solvency test. And the simple reality is
25 a Crown monopoly is not at risk of insolvency.

1 Kopstein made this point almost thirty (30) years ago.
2 And the Rate Stabilization Reserve is not about
3 solvency.
4 It is about mitigating rate shock. It
5 is unfair, from our client's perspective, and
6 inappropriate to use an MCT derived target, a test
7 developed for a different purpose, for the Rate
8 Stabilization Reserve. In contrast from our client's
9 perspective, the DCAT is responsive to risk, and
10 tailored to the -- in -- in the Manitoba context to
11 the mitigation of rate shock.
12 It's not the tool we had to use but it
13 was compromise that CAC and MPI and the Board achieved
14 back in 2013. And from our client's perspective,
15 there is an inter-generational equity issue engaged
16 here. To the extent that the RSR is too large, given
17 its intended purpose of mitigating rate shock, it may
18 raise fairness issues for today's consumers of both
19 Basic which is a legal monopoly, and extension which
20 is a de facto monopoly.
21 So from our client's perspective in
22 terms of the RSR the central issue is, Do we use a
23 tesk -- test that is responsive to the risk based by
24 the Corporation, the DCAT, or a test expressly
25 developed for a different purpose, and that in our

1 client's positi -- submission does not respond
2 appropriately to risk.
3 From our client's perspective there's
4 no disputing that the MCT is a solvency test. We note
5 some language in -- in some background papers to that
6 effect on slides 165. Slide 166 I'm going to come
7 back to in a different context.
8 But here at slide 167 you see Mr.
9 Johnston candidly admitting that it would be fair to
10 consider the MCT as a solvency assessment.
11 And certainly as we note at slide 168,
12 and Ms. Sherry made -- the point she made repeatedly
13 in her evidence yesterday, there is a good reason to
14 employ a solvency test for private insurers in a
15 competitive marketplace. Because if the firm has
16 enough unhappy customers who go elsewhere and it
17 doesn't have deep enough reserves, there is a risk it
18 could bro -- go broke and that it's -- the people who
19 are insured by it could be prejudice.
20 That's why we have these stringent
21 guidelines from the office of the superintendent of
22 financial insurance at a federal level and applied at
23 a provincial level as the record demonstrates, for
24 private insurers in a competitive marketplace.
25 Slide 169, here you have a quote from

1 the Board noting the MPI monopoly over Basic and
2 effectively over Competitive. And noting the
3 magnitude of business that MPI enjoys on the Extension
4 side.
5 At slide 170 Mr. Johnston confirms this
6 and notes that on the Extension side the market is
7 approximately 95 percent.
8 At slide 171 Mr. Johnston confirms that
9 MPI does not face insolvency risk. That risk is non-
10 existent for MPI and its DCAT, D-C-A-T, reflects that.
11 Slide 172 makes the same point. And
12 this is me putting to Mr. Johnston a statement from
13 the DCAT.
14 At slide 173 we note the observation by
15 Dr. Simpson that the MCT has no direct link to any
16 specified risk scenario at any specified tolerance
17 range.
18 And perhaps the best elaboration of
19 that is found at slide 174. Because as you'll recall,
20 MPI has sold the IRFRF as a risk mitigation tool. And
21 here you see Ms. Reichert sharing her belief that it
22 will reduce -- the IRFRF will reduce the risk of
23 adverse financial outcomes for Basic. And noting that
24 when the DCAT was rerun, the bottom end of the RSR
25 target was lowered, which would support Ms. Reichert's

1 hypotheses that the IRFRF would reduce the risk of
2 adverse financial outcomes.
3 The 100 percent MCT was also changed.
4 But interestingly, the target wasn't reduced. It was
5 actually increased from 404 million to 411. How is
6 that risk related? From our client's perspective that
7 is a -- a fatal indication of -- of the fact that the
8 MC target -- MCT target is not an appropriate upper
9 bound.
10 By contrast, the collaborative effort,
11 the develop dynamic capital adequacy testing has
12 demonstrated significant risk -- sorry, significant
13 rigour. It requires specific risk scenarios based on
14 historical or empirical justification. And
15 importantly for consumers, it requires a specification
16 of a reasonable risk tolerance.
17 In protecting against rate shock, what
18 are we going to ask consumers to put away for, a 1:10
19 event, a 1:20 year event, a 1:40, as the Board appears
20 to be leaning towards, a 1:5000 year event?
21 Consumers can make an informed choice
22 on the type of risk that the Board is setting money
23 aside for. So -- so, from our client's perspective,
24 that is an important element of transparency for
25 consumers flowing from the DCAT.

1 And here are from Dr. Simpson's
2 evidence some of the ranges you could get out of the
3 DCAT. Again, this was based on the original DCAT,
4 which we think is appropriate. It was before
5 management action. Our client would recommend after
6 management action. But these are the types of ranges
7 and the associated probability that would flow from
8 it.
9 And going to slide 177. It is clear
10 that the upper limit set by the -- if it is set by the
11 100 percent MCT will be beyond rate shock pro -- shock
12 protection against a 1:200 event. We would suggest
13 arguably at or above a 1:5000 event. Is that the kind
14 of rate shock protection consumers are demanding or
15 would expect? Our clients believe very strongly it's
16 excessive.
17 Slide 178, which clearly it was getting
18 -- early in the morning I neglected to put a headline
19 there. This will be at about 5:30, it looks like to
20 me.
21 The point being made on this slide is,
22 in the event that the Board adopts the Standard
23 Interest Rate Forecast based on the evidence of this
24 hearing as the best estimate, interest rate volatility
25 -- vola -- related to lower than expected net income

1 related to interest rates, that's what the DCAT was
2 intended for. And Dr. Simpson's evidence on this
3 point is clear, in our -- in our client's view,
4 persuasive.
5 Slides 179 and onward. MPI has made a
6 great deal about the fact that BC has a minimum 100
7 percent MCT, Saskatchewan employs the MCT, and that
8 other jurisdictions do, as well, and that's fine. But
9 in Manitoba, for the specific purpose, not of
10 solvency, not of -- simply for rate -- rate shock
11 purposes, we have had an independent tribunal working
12 with stakeholders and with MPI to develop an
13 appropriate risk-based methodology with clear
14 transparent risk tolerances that actually responds to
15 changes in risk.
16 And that is a process that our client
17 is very proud of and -- and would recommend that the
18 Board endorse. We do note that there are insurers in
19 -- in, for example, Ontario who are exempted from the
20 guidelines in the event that they have other
21 mechanisms for capital adequacy.
22 And at slides 181 and 182, that the 100
23 percent MCT target is set by the regulator. Excuse
24 me, let me with -- withdraw that, is set by the
25 politicians. It's set by special direction by the

1 Lieutenant Governor-in-Council. Rebates are set by
2 the regulator, as My Learned Friend pointed out
3 yesterday. So that is not the -- the hundred percent
4 threshold is not dictated by an independent tribunal,
5 it's dictated by the cabinet.
6 So, from our client's perspective, they
7 adopt the recommendation of Dr. Simpson and Ms. Sherry
8 to set the RSR range based on the DCAT plausible
9 adverse scenarios and certainly based upon after
10 management action.
11 You may press me, if you have any
12 questions, about whether the client prefers a wider
13 range or a narrower range. I'm not sure we resolved
14 that yesterday, so she may do a little more thinking
15 about that. Our client is -- sees the strengths of
16 both ranges.
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: Finally, there's
21 a typo on slide 184 under the first bullet and the
22 second sub-bullet. "Should be phased in" are -- are
23 probably words that -- that were inadvertently left in
24 from an earlier draft.
25 Our client is recommending that the

1 Board reject a 4.3 percent rate increase, that it
2 reject based on the record of this proceeding the --
3 the IRFRF. Assuming that the indicated rate-setting
4 metho -- methodology is consistent with accepted
5 actuarial practice, i.e., it is based upon the
6 accident year, our client would recommend a rate
7 increase in the range of 3 percent if you're going to
8 move to the actuarially-indicated rate indicators.
9 It's -- it's difficult to under -- to
10 follow the evidence on this hearing. MPI, I think,
11 absent the IRFRF estimated that using a rate
12 indication with accepted actuarial practice would be
13 in the range of 4.8 percent. Subtracting 1 percent to
14 allow for investments, that put it to 3.8 percent, at
15 least by my calculations and our client's.
16 Our client believes that -- that 3.8
17 percent is too much, and it's too much because MPI has
18 not demonstrated that it is running the information
19 technology side of its business in a prudent, cost-
20 effective, or reasonable manner.
21 Our client for that reason is
22 suggesting a rate increase in the event that one (1)
23 adopts the actuarially-indicated rate of in the range
24 of, or below, 3 percent, noting that there are
25 opportunities for cost efficiency as demonstrated by

1 the IT discussion, and also noting that there are
2 significant missed opportunities related to the
3 investment portfolio.
4 We think that this would send a proper
5 -- on behalf of our client, we would submit that this
6 sends -- would send a proper signal to Manitoba Public
7 Insurance of the need to bring its information
8 technology and in -- investment portfolio management
9 practices back up to a reasonable and prudent
10 standard.
11 Finally, there are a -- a couple of
12 recommendations that we'll just leave with you
13 relating to operational efficiency. One (1) of these
14 is for next year. Service fees are a pretty
15 significant part of the revenue requirement. It's
16 been a while since these -- the fee structure has been
17 reviewed. And our client certainly would recommend a
18 detailed analysis of the various fees charged.
19 And there's also been a discussion in
20 the course of this hearing in terms of certain IT
21 consultants moving to IT -- internal staff, and our
22 client would appreciate and recommend that the Board
23 direct more detailed analysis of cost savings achieve
24 -- achieved by -- allegedly achieved by moving these
25 consultants into staffing positions.

1 Finally, in terms of future
2 collaboration, our client does appreciate every
3 opportunity to meet with Board advisors, or MPI,
4 outside of the formal hearing process. Here are our
5 client's recommendations, that we consult about doing
6 a collaboration before announcing it. That they take
7 place outside the rate-setting process. That
8 stakeholders be engaged in setting the agenda. That
9 there be independent and well-researched materials in
10 support. And that we all acknowledge that one (1)
11 meeting does not equal collaboration.
12 Subject to any questions by the Board,
13 I think I called the timing on this last bit not bad.
14 So I -- our client is very appreciative of the
15 opportunity to appear here, and thank you.
16 THE CHAIRPERSON: Thank you, Mr.
17 Williams.
18 Does anybody on the panel have a
19 question for Mr. Williams?
20
21 (BRIEF PAUSE)
22
23 THE CHAIRPERSON: No. Thank you, Mr.
24 Williams. We're going to adjourn now until 9:00 a.m.
25 on Friday when we will receive the submission from

1 MPI. Thank you.

2

3 --- Adjourned at 4:04 p.m.

4

5

6

7 Certified Correct,

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10 _____

11 Sean Coleman, Mr.

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