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

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1 APPEARANCES

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1 --- Upon commencing at 9:00 a.m.

2

3 THE CHAIRPERSON: Good morning,

4 everyone. Mr. Ghikas...?

5

6 CLOSING SUBMISSIONS BY MR. MATT GHIKAS:

7 MR. MATT GHIKAS: Thank you, Mr.

8 Chairman and members. Two (2) orders of business

9 before I launch into it this morning. The first is

10 introductions this morning. In addition to Mr.

11 Guimond and Ms. Reichert and Mr. Keith and Mr.

12 Johnston, as you -- you're familiar with, there --

13 there are other executives from MPI here this morning.

14 And indeed I think over the course of

15 the morning, as schedules allow, we'll see all but one

16 (1) of the executives trickle -- trickle in.

17 Christine Martin, the vice-president of

18 customer service and chief operating officer, is back

19 there. And Brad Bunko, the vice-president of IT,

20 business transformation, and chief information

21 officer, is also here somewhere. There he is in the

22 middle at the back. And we'll also have Curtis

23 Wennberg, the vice-president of operations, coming in

24 at some point.

25 The other order of business is to

1 hopefully put your mind at ease that I'm not going to
2 be reading the document that's sitting in front of
3 you. What -- what I'm going to do is -- what we've --
4 what we've got is obviously a detailed submission that
5 has a lot of footnotes in it.
6 And the -- the intent of putting that
7 work in was that it would hopefully relieve the burden
8 of you from doing that work during your deliberations,
9 so that really we have all of what MPI regards as the
10 important evidence footnoted and cited and organized
11 in a way that will help you get guided right to the
12 right spots in the transcript.
13 And so that -- that is the -- that is
14 the hope. And this morning what I intend to do is to
15 use it as a guide. I will walk you through it and I
16 will highlight portions of it, spending more time on
17 what I think are the key issues that have been raised
18 during the course of -- of the proceeding.
19 We've also put together a PowerPoint
20 presentation so that you're not forced to stare at
21 that piece of paper the whole time. But it really
22 does track -- with the exception of the introduction
23 that I'm about to give, really does track the key
24 points in each of the section headings as it goes
25 through, and has slide -- the visual slides that are

1 from the -- the written presentation blown up in a
2 larger size so they're easier to read.
3 So it does track very closely what's in
4 there, as I say, except for the introduction which --
5 which I will use the slides to speak to.
6 And -- and I should say this is -- you
7 know, this was obviously a collective effort. It's
8 not something that I could have pulled together
9 myself, and so I did want to acknowledge the fact that
10 MPI and a lot of its folks there have put a lot of
11 time into putting that closing together.
12 And in my submission, it -- it is worth
13 the effort, and -- and it plays into -- what one (1)
14 of my themes is going to be is that, when one looks at
15 the whole picture and the whole evidence rather than
16 portions of the evidence, it tells a different story -
17 - the evidence tells a different story than what was
18 presented to you on Wednesday.
19 So if we can start with the PowerPoint
20 presentation, and I -- I should say before I -- I dive
21 into it if anybody has any questions from the Boards
22 or wants clarification of something feel free to
23 interrupt me and stop me, and I'm happy to -- to deal
24 with any questions. I'd -- I'd be pleased to address
25 any of the issues that you're struggling with, or --

1 or -- you know, rather than have you wonder about it,
2 so feel free to do that.
3 Now, the introduction. Premium rates
4 that are predictable and stable are essential to
5 ensure the long-term success of public auto insurance
6 in Manitoba. Now, you heard this from Mr. Guimond at
7 the beginning of the proceeding, and it is front and
8 centre in this closing proceeding because it is
9 absolutely imperative to Manitoba Public Insurance
10 that we acknowledge that rate stability and
11 predictability are important.
12 The successful track record of low and
13 stable rates over the long term is a demonstration
14 that the existing model that's been in place for three
15 (3) decades since the Kopstein report works. It is
16 not a problem that we should be rushing into fixing,
17 and we should be working to help support and be
18 consistent with that framework in the context of this
19 application.
20 MPI is taking us back in these
21 submissions and with this slide to first principles,
22 Mr. Chairman, because there were several issues raised
23 in this proceeding and arguments made by Intervenors
24 that really represent challenges to these fundamental
25 ideas that have been in place and have worked well for

1 three (3) decades.

2 And I'm alluding specifically first of

3 all to using the SIRF when the likely outcome is

4 deficient rates. And secondly, pressing for an RSR

5 band even lower than what we have today by turning the

6 bottom into a target with a tolerance band that goes

7 down to one (1) in twenty (20), or even one (1) in ten

8 (10) as was proposed by Mr. Simpson -- Dr. Simpson and

9 Ms. Sherry.

10 And pressing to narrow the RSR band

11 because it's the width of the RSR band that allows

12 absorbing volatility because what we're trying to do

13 when we speak of volatility, and what the RSR is there

14 to do, is to guard against a situation where you are

15 rebating.

16 And then you suffer an unexpected loss

17 and you find yourself below the lower target, and

18 you're rebuilding. And that is the definition of rate

19 volatility, and something that needs to be avoided.

20 And when you have a wider band, you position yourself

21 to avoid that situation.

22

23 (BRIEF PAUSE)

24

25 MR. MATT GHIKAS: So if we turn to the

1 second slide, what MPI submits fundamentally in this
2 proceeding is that achieving that stable and
3 predicable rates that Manitobans have expected and
4 seen for three (3) decades is the reaffirmation of the
5 long-standing focus of break-even rate meeting --
6 making based on net income.
7 And that involves using best estimates,
8 including using a best estimate of the interest rate
9 forecast. It involves confirming the RSR definition,
10 which is consistent with the way the RSR has been
11 used.
12 It involves setting an RSR upper target
13 of 100 percent MCT on more than a notional basis. And
14 it involves confirming the one (1) in forty (40) DCAT-
15 based RSR lower limit that was the product of the
16 collaborative effort.
17 Now, most of these issues set out above
18 have been debated for quite some time. And you will
19 hear from me this morning an emphasis on resolving
20 issues, ending debate, bringing closure, and moving
21 forward. Those are themes that underlie my
22 submissions today, and I cannot underscore those
23 enough, that certainty on these matters is really
24 important.
25 Because if you step back and you think

1 about it, the role that the Board has is fundamental
2 to MPI being able to carry on its business for the
3 benefit of policy holders. The rates that the Board
4 sets are determinating -- are determining the revenues
5 that MPI has to spend on the costs that MPI incurs.
6 The RSR is MPIs capital to invest, to
7 be there when there's unexpected volatility in an
8 inherently uncertain and volatile business. Those are
9 two (2) absolutely fundamental components to running
10 any business, and even more so when your business is
11 insuring against uncertainty and insuring against
12 risk.
13 And so what MPI is respecti --
14 respectfully looking to the Board to do in this
15 proceeding is to bring and be a force for
16 predictability and certainty in those key matters that
17 will allow MPI to move forward and govern its business
18 in the best interest long-term of the company, and
19 aligned with that, Manitobans.
20 At the outset of the proceeding I took
21 you through what I wanted to -- wanted the Board to
22 find at the end of the proceeding. And this is really
23 revisiting those. The wording is different, but the -
24 - the points are fundamentally the same. And in my
25 submission, the evidence supports these findings.

1 And they've got chap -- or section
2 references to them, which refer to the section
3 references in my submission this morning.
4 The first is that MPI's rates have been
5 low and stable and the requested order reflects the
6 principles of breakeven ratemaking and adequate
7 capitalization. And those are the principles, of
8 course, that come out of the Kopstein.
9 That MPI's rate request reflect
10 significant efforts to control and manage costs. And
11 I will emphasize that, because there is a lot of
12 evidence that MPI has been doing just that. And that
13 evidence was absent from the submissions that you
14 heard on Wednesday.
15 MPI's rate request reflects appropriate
16 methodologies for forecasting premiums and claims
17 costs. And this -- even though one (1) of the primary
18 -- or the primary driver of rates are related to hail,
19 and frankly to mathematical result of interest rate
20 changes, those were very, very thinly discussed during
21 these proceedings, but they are the drivers of the
22 rates.
23 I won't spend a lot of time on those
24 today, because no one else did, but the evidence is
25 there that the main driver of the rates are things

1 that are beyond MPIs control.

2 A best estimate interest rate forecast

3 give equal weight to the SIRF and the Naive forecast.

4 That's the 50/50 approach and I'll spend a little more

5 time on that discussion. That's one (1) of the

6 sections I will be emphasizing.

7 MPI's proposals for the RSR provide

8 appropriate protection against rate volatility. And

9 that is another section, that not surprisingly, I will

10 be spending a little more time on.

11 The investment strategy developed with

12 government incorporates appropriate independent advise

13 and is irrelevant to MPI's current circumstances.

14 And, of course, those current circumstances are one

15 (1) where there is considerable uncertainty, not only

16 with the underlying business, but also as a result of

17 the ongoing debate about the RSR and -- and rate

18 adequacy in terms of interest rates.

19 And the int -- investment strategy

20 reflects that. And it -- it will come as no surprise,

21 in my submission, that a low risk investment strategy

22 flows from the uncertainty in those key parameters for

23 any business.

24 Section 8 is MPI compares well against

25 financial and service benchmarks. I won't spend much

1 time on that. The benchmarks relating to cost and IT
2 are dealt with in the sections that deal with those.
3 MPI has an appropriate governance model
4 for IT management. And Gartner's findings show that
5 MPI is walking the walk. And the -- the quotation
6 there, "walking the walk," is obviously a reference to
7 CAC's submissions where the thrust of their submission
8 on IT was, Sure, this framework looks good, but are
9 you walking the walk.
10 And what I will come back to is they --
11 they tell a very bleak story. They -- they spent 40
12 slides talking -- asking the question: Where's the
13 evidence of walking the walk.
14 And, of course, they didn't include the
15 Gartner evidence. The Gartner evidence on this is the
16 evidence that MPI is walking the walk. And I will
17 take you to that evidence. And it demonstrates that,
18 overall, MPI is walking the walk.
19 And CAC had one (1) slide on this, and
20 it pulled out two (2) -- two (2) points that -- on
21 maturity, one (1) of eight (8) maturity rankings when
22 the overall maturity score tells the exact opposite
23 story, and the same with costs.
24 So I will take you to that. And I
25 think it is very telling that when you look at the

1 complete picture it's a very different story from what
2 you heard on Wednesday.
3 Section 10 is PDR. I will spend a
4 little bit of time on that, but it is well set out in
5 the document. MPI is making significant investments
6 in road safety and loss prevention and is employing an
7 appropriate framework to identify and optimize those
8 investments. I will spend a little bit of time on
9 that. But the evidence in my submission on that is
10 very compelling and it is set out in detail in the
11 document.
12 And, finally, there's a section, an
13 other section, which deals with accepted actuarial
14 practice and motorcycle rates. And the key point
15 there is really that we should be certainly continuing
16 to consider and discuss the implications of accepted
17 actuarial practice, but that it would be premature to
18 do that prior to having those discussions.
19 Now, I will be getting into telling
20 MPI's story, but I wanted to deal upfront with the
21 story that you heard on Wednesday. And, in
22 particular, you heard from CAC a story where they left
23 you with what they referred to as two (2) sharply
24 contrasting approaches. One (1) was a dark image of
25 MPI with MPI focussed on the wrong things and being

1 mismanaged and misguided investors and the CAC vision,
2 and the ray of sunshine that comes through bringing a
3 solution to the issues.
4 But what these next few slides
5 demonstrate is that that portrayal does not hold up
6 when we look at the evidence on -- as a whole. And I
7 will deal with that part going forward. But the part
8 that these next slides address that when one looks at
9 the story that you heard on Wednesday, the extent to
10 which it's built on internal contradiction is very
11 telling. And, in my submission, it is worth dealing
12 with that right off the bat, and that's what I will do
13 now.
14 The first point, CAC says just and
15 reasonable rates require reasonably reliable
16 forecasts, but wants to use an interest rate forecast
17 that Dr. Simpson has said exhibited bias for eight (8)
18 years.
19 CAC is critical of MPI for not
20 focussing on long-term sustainability with
21 investments, expresses concern about undue risk being
22 imposed on customers but is prepared to compromise
23 long-term stability of Basic by setting deficient
24 rates and by using a one (1) in ten (10) DCAT
25 tolerance.

1 And let me pause there for a moment.
2 Let's put that into English. What that means is that
3 MPI should reasonably expect to insolvent once every
4 ten (10) years with management action. That's what
5 that means. Once a decade, we would be without money
6 with -- without capital with management action.
7 And, of course, management action is a
8 euphemism. What that means is rate increases. So we
9 would have rate increases and we would have no money
10 once every ten (10) years. That, in my submission, is
11 remarkable, and it is something that, in my
12 submission, no prudent corporation would -- would even
13 entertain.
14 And if we go over to the next slide.
15 CAC rejects Dr. Cleary's impoverished analysis of the
16 SIRF in favour of no analysis. And that's a reference
17 to Dr. Simpson's note, which did not contain, in my
18 submission, tellingly, any empirical analysis, nor any
19 analysis of current map -- capital market conditions,
20 which is something that should not go unnoticed.
21 Dr. Cleary was speaking to current
22 capital market conditions, which obviously matter.
23 When you're looking even at statistics, they don't
24 tell you the whole story if you don't know what's
25 going on in the world today. And Dr. Cleary, in my

1 submission, added a lot of value in that respect.
2 CAC is concerned about
3 intergenerational inequity with the RSR, but not when
4 it comes to setting deficient rates. And of course,
5 my point there is that, when you're setting deficient
6 rates, you're under-recovering from today's customers
7 with the expectation that future customers are going
8 to pick up the tab, or perhaps with the expectation
9 that Optional is going to pick up the tab.
10 And we've heard that MPI has some
11 serious and, in my submission, well-based concerns
12 about doing that going forward for things other than
13 unforeseen events.
14 Dr. Simpson says we need to go back to
15 the inflation period to verify bias in the SIRF. But
16 the inflation period has been removed from the DCAT.
17 So the DCAT -- you heard Mr. Johnston's reluctance
18 about the DCAT and hesitation about it, and that
19 certain periods had been removed.
20 Well, in my submission, it is sucking
21 and blowing to say that we need to be worried about
22 inflation when it comes to verifying interest rate
23 forecasts, but we don't need to worry about inflation
24 at all when it comes to having financial modelling and
25 stressing of the Corporation's capital position.

1 The DCAT is praised because it's
2 specific to MPI's circumstances. But the 50/50
3 forecast is criticized because it's unique to MPI's
4 circumstances.
5 Next. CAC emphasizes a Crown monopoly
6 is not at risk of insolvency when its own expert, Ms.
7 Sherry, agreed that managing a Crown corporation that
8 way would be irresponsible. And in my submission, it
9 is plainly obvious that it is irresponsible to manage
10 a corporation not worrying about whether you have no
11 money in the bank.
12 CAC agrees that the RSR relates to the
13 mitigation of rate shock, but advocates a one (1) in
14 ten (10) RSR tolerance that suggests MPI could expect
15 to have zero capital once a decade, even with rate
16 increases, and would have to rebuild.
17 The purpose of the RSR upper limit is
18 to avoid rebate and rebuild scenarios, losses down to
19 the RSR target. But CAC is referencing tolerance when
20 it -- tolerances when it comes to the upper limit, one
21 (1) in five thousand (5,000), that are based on losing
22 all the capital down to zero, despite rate increases
23 that are compounded as 12.46 percent over three (3)
24 years.
25 So they're looking at the wrong

1 measure. When you're looking at the upper target,
2 you're not looking at whether the capital zeros out.
3 You're looking at whether -- the capital zeros out
4 with -- with management action.
5 You should be looking at whether the
6 capital will drop below the lower RSR limit without
7 management action, because of course, if you're trying
8 to promote rate stability, getting rate stability by
9 increasing rates doesn't make sense. It's circular.
10 So you should be looking at no
11 management action, and you should be looking at the --
12 the risk of falling below the lower level. And you
13 will see, I will take you there, that that probability
14 is one (1) in forty-nine (49), and that looks an awful
15 lot like the type of risk-based scenario that is used
16 in the DCAT.
17 Go ahead. CAC rejects MCT for being a
18 solvency test -- in favour of a solvency test, the
19 DCAT. CAC looks to ICBC and SGI for road safety,
20 despite different legislative frameworks where ICBC
21 and SGI are building infrastructure projects and
22 financing police.
23 But ICBC and SGI are irrelevant when it
24 comes to MCT. Of course, both of those corporations
25 not only using MCT, but their minimums, in the case of

1 ICBC, is a hundred (100), and their target for paying
2 out is set by the regulator -- not legislation, the
3 regulator -- at one sixty (160). And SGI's target is
4 one hundred (100), and of course with the equivalent
5 by a point of comparison, the equivalent for MPI, the
6 lower RSR is the equivalent of 28 percent MCT as the
7 lower. So that comparison -- the relevant point of
8 comparison is the 100 percent for the other crowns.
9 Intervenors want low and narrow RSR
10 range, but targeting long-term returns means having
11 more capital on hand to -- to absorb short-term
12 volatility. And of course this is, you know, the
13 investing principal. When you're young, you can
14 invest in growth stocks because you can ride out
15 volatility.
16 When you're -- when you're on a fixed
17 income and you're sixty-five (65), you don't want to
18 be investing in things that have volatility in income
19 because you're going to need the capital in the short
20 term. And there is an internal contradiction in those
21 positions.
22 CAC is critical of MPI not buying
23 expensive inflation hedging Real Return Bonds, and
24 you'll recall Mr. Viola did agree that it was
25 expensive right now, when DCAT inflation scenario was

1 neutered through collaboration. So this is another
2 instance where we don't need to worry about DCAT when
3 we're fixing the RSR lower level, but MPI is
4 criticized for not having inflation hedging in its
5 portfolio, and you can't have one without the other.
6 Ms. Sherry advocates accepted actuarial
7 prefer -- practice, but would be professionally unable
8 to sign off on the DCAT tolerances that she's asking
9 Mr. Johnston to sign off on.
10
11 (BRIEF PAUSE)
12
13 MR. MATT GHIKAS: CMMG calls the RSR
14 "emptying consumers' pockets" but wants MPI to take on
15 more investment risk that will necessitate a larger
16 RSR. CAC devotes fifty (50) slides to asking for the
17 evidence that MPI walks the walk but never mentions
18 Gartner's overall conclusion that MPI is more mature
19 overall and lower cost than peers, and still
20 improving.
21
22 (BRIEF PAUSE)
23
24 MR. MATT GHIKAS: CAC wants the PUB to
25 find that the RSR is not intended to protect against

1 investment portfolio selections at odds with the best
2 evidence, but seems happy to use the RSR for interest
3 rate selections at odds with the best evidence.
4 CAC advocates moving to accepted
5 actuarial practice on a principled basis, but doesn't
6 like the 4.8 percent result right now so it recommends
7 sending a 1.8 percent proper signal to MPI on, in my
8 submission, a very non-principled basis. There is no
9 rate making principle that suggest sending a signal to
10 a utility that is not based on evidence and, in my
11 submission, that is not based on evidence.
12 So to sum it up, it's not realistic to
13 eat your cake, eat it again, and eat it one (1) more
14 time. I'm always reluctant to throw proverbs in but I
15 couldn't come up with anything better because, of
16 course, you're eating it with rate stability, you're
17 eating it again with a low RSR, a thin RSR, and you're
18 eating it one (1) more time with a high risk
19 investment strategy that promotes growth.
20 So in my submission, the requested
21 relief that MPI seeks will promote rate stability, and
22 it will support the long-term financial health of the
23 Corporation just as it's done for a very long period
24 of time. It will position us well to go forward, and
25 the proposals sought are just and reasonable, and

1 should be approved.

2 Now, I can skip to Section 2 of the

3 submission, and if you would have the -- the

4 submission open and I will highlight some passages for

5 you that should assist in the review of the document.

6 And Section 2 of this document really is our

7 touchstone. It's going back to first principles, and

8 it's talking about break-even rate making, adequate

9 capitalization, and rate stability.

10 And what are those principles? Well,

11 at -- at paragraph 46 I say that Break-even rate

12 making means that rates are forecast to produce income

13 approximately equalling expenses over the rating

14 period. And why are we talking about that now?

15 Well, as I indicated before in

16 paragraph 47 it reemphasizes this, but the SIRF is

17 threatening rate deficiency and acceding to the

18 demands for the lower RSR is threatening the adequacy

19 of capitalization and MPI's ability to manage rate

20 volatility.

21 And converting the RSR lower level into

22 a target, we're pushing this to an even more extreme

23 position where we have the Intervenor expe -- experts

24 recommending a -- a tolerance band as low as 1:10.

25 So the key points, which are actually

1 summarized on the slide, that I want you to take away
2 from this section is that breakeven ratemaking and
3 adequate capitalization are reflected in both the
4 Kopstein Report and the subsequent PUB orders.
5 And the breakeven ratemaking has
6 produced low and stable rates in past years. And that
7 MPI's current challenges make it all the more
8 important to adhere to breakeven ratemaking.
9 So if you flip over to paragraph 49,
10 this is the Kopstein Report, and I won't dwell on
11 this, but if you see paragraph 50 there, the quote
12 summarized from the Review Commission, Judge Kopstein
13 said -- recommended that:
14 "The Corporation not budget
15 deliberately for losses in any year,
16 but budget for surpluses where
17 reserves have been reduced below
18 target levels and so on."
19 And it goes on to say in paragraph 51:
20 "This approach will allow for a more
21 stable financial operation at
22 Autopac and that it's, in my
23 submission, and imperative objective
24 that serves not only MPI, but
25 Manitobans generally."

1 And that the -- the two (2) are aligned
2 in that respect. Now, the PUB's acknowledgment of
3 breakeven ratemaking starts at paragraph 52. And I
4 make the comment in there that thirteen (13) of the
5 past sixteen (16) PUB decisions have actually
6 commented on rate stability.
7 We obviously haven't included passages
8 from all of those, but we did include one from 2000,
9 which is in paragraph 52, where the Board is
10 encouraging future applications to be prepared based
11 on operating results that are closer to breakeven.
12 And in paragraph 53:
13 "The Board agrees with MPI that at
14 minimum Basic insurance operations
15 should achieve annual breakeven
16 result."
17 And so the submission, which is at 54,
18 is the key one (1), and that is that these PUB orders
19 recognize that MPI and policy holders have a common
20 interest in rate stability and the long-term health of
21 Basic.
22 The next point is that MPI's rates have
23 been low and stable. And if you look at the next
24 figure, which is on the screen in front of you as
25 well, you'll see how it has brought stability. And

1 it's striking that the largest rate increases during
2 the period are 3.4 and 3.7 percent; that is -- that is
3 remarkable considering that you're dealing with an
4 inherently inflationary product in insurance.
5 And if you turn over to the next slide,
6 in paragraph 56 we have the across Canada comparison.
7 And those are obviously absolute dollar comparisons of
8 rates showing how well Manitoba fares.
9 And slide 50 -- sorry, the next slide
10 shows the premium growth, the dynamic growth of it.
11 And what you see in these slides is that rate
12 stability is a favourable objective and outcome. It's
13 not a problem that needs to be fixed, and that the
14 current approach has served us well.
15 And it's served us well not just in
16 terms of short-term rate stability, it's also served
17 us well in terms of low rates over a long period of
18 time.
19
20 (BRIEF PAUSE)
21
22 MR. MATT GHIKAS: And, of course, rate
23 stability doesn't just exist in the Kopstein
24 principles, it exists in things that the Board does on
25 other matters as well. Of course, you have examples

1 of rate capping, for example. That is a recognition
2 of the value of rate stability.
3 Now, section 2.4 which starts at
4 paragraph 60 deals with positioning Autopac to meet
5 the present challenges. And the present challenges
6 are -- are threefold, in my submission. One (1) is
7 investment volatility. We're in an uncertain
8 environment when it comes to investment volatility.
9 We're in a period of uncertain claims costs.
10 You heard about the hail. And you
11 heard about the third one, which is the automobile
12 industry driven changes, and those are significant and
13 fundamental changes to MPI -- MPI's business. And it
14 brings with it challenges, opportunities, but also
15 uncertainties.
16 And the magnitude of the losses that
17 MPI has suffered over the last couple of years, and
18 they're addressed in paragraph 62, really underscores
19 why MPI is so concerned about using the SIRF and about
20 the Intervenors' preferred approach of pushing the RSR
21 lower and thinner.
22 And we point out in paragraph 62 that
23 the losses that have experienced alone would have
24 required a 19 percent RSR rebuilding fee but for the
25 capital transfers. And what -- I mean, we're talking

1 hundreds of millions of dollars here.

2 And when you're talking about

3 magnitudes of that nature it -- it underscores both --

4 it underscores how unsustainable a model is. If you

5 are not using best estimates and you are moving

6 forward with systemic deficiencies in rates expecting

7 to top it up using the other lines of insurance, that

8 -- that is not a sustainable model.

9 And you heard that from Mr. Guimond and

10 Ms. Reichert, that it was imperative that rates be set

11 on a -- on a go-forward basis using best estimates and

12 with the expectation of break-even rates.

13 And you also heard from them that the

14 well is drying up and that those types of transfers

15 are simply unsustainable and that they had tapped out

16 Optional, as well, and that's an important factor.

17 But on a principled basis, rates should be set on a

18 sustainable basis whether or not there's capital in

19 the Optional line.

20 Now, the next slide that's up on the

21 screen before you is something that was in Ms. -- Mr.

22 Guimond's presentation, the transitioning towards the

23 new normal. And, of course, the new normal is the

24 uncertain -- the uncertainty of the transition towards

25 vehicles with more complex parts, more automation,

1 more expensive repairs, and -- and, frankly, changes
2 to -- changes of such significance that, you know, it
3 really does get to the heart of the product that's
4 being offered by the Corporation.
5 And that -- that is a pretty
6 fundamental change, and it again brings significant
7 uncertainty, that any Corporation going forward would
8 be prudent to guard -- be aware of and guard against
9 in its operations.
10 Now, section 2.4.3 which starts at
11 paragraph 65, you see the reference there of the 148.2
12 million that was transferred. And I want to spend a
13 moment on -- on this because this -- this is the
14 section where MPI explains why -- what it -- why it's
15 taking the position it's taking with respect to
16 transfers from Optional.
17 MPI understands that that may not be
18 the most popular thing. But I think it's important to
19 emphasize that the conviction that Mr. Guimond
20 expressed and that Ms. Reichert expressed, that it's
21 the right thing to do. And it's not just the right
22 thing to do for the Corporation. It's the right thing
23 to do for Manitobans to be ensuring that there is not
24 continual transfers from the Cor -- from the Optional
25 side to the Basic side because, of course -- and this

1 is the key point that Mr. Guimond cited, is the
2 executive of MPI are fiduciaries, and they're
3 fiduciaries to the Corporation, the Corporation as a
4 whole. And it really is not a sustainable model to be
5 going forward transferring money to support a systemic
6 deficiency.
7 And in my submission, MPI should be
8 commended for taking this decision, which is obviously
9 a difficult one and a potentially unpopular one, but
10 one that really does reflect good corporate governance
11 and appropriate stewardship of the -- of public
12 insurance in Manitoba. And Mr. Guimond put it like
13 this:
14 "For me [and I'm at 67] -- for me,
15 this priority about having the best
16 estimate of break-even net income
17 and having adequate reserve in place
18 to handle it, handle the volatility
19 that we don't expect or can't
20 predict, this is really key from my
21 perspective to the ongoing success
22 of Basic insurance."
23 That is Mr. Guimond's conviction, and
24 in my submission, that is a compelling case and -- and
25 should be accepted.

1 Now, section 2.5, the concluding
2 remarks on the role of regulation as a stabilizing
3 force. And of course I alluded to this previously,
4 but paragraph 70 contains a very important point, and
5 it is that, in an environment where there is so much
6 uncertainty, that MPI is respectfully looking to the
7 Board to be a force of stability and -- and one that
8 is not contributing to the uncertainty that is faced.
9 And -- and that stabilizing force, in
10 my submission, really does get to the fact that the
11 Board has influence and these decisions matters to
12 fundamental aspects of being able to govern a
13 corporation, the capital and the revenues.
14 Those are absolutely fundamental, and
15 when you have certainty on those things, it positions
16 you well to do the things you need to do going
17 forward, whether that is planning for the new normal,
18 whether it is investing in a different investment
19 portfolio or what have you.
20 But those things depend on -- on
21 knowing where you stand with money in the bank,
22 knowing where you stand with Where's the next pay
23 cheque coming from; right?
24 We -- people who are living paycheque
25 to paycheque, for example -- and this is stretching

1 the analogy, but you know, they're not investing in
2 high-risk investments because they don't know where
3 the next pay cheque is coming from.
4 Now, obviously that's an extreme
5 example because, you know, there's been a long-term
6 record of setting rates and going forward and having
7 capital in place. But -- but I'm really just saying
8 that to underscore the fact that these -- these are
9 fundamental decisions.
10 These do influence -- they are
11 parameters in the ALM studies. You know, how much
12 capital you've got determines those things. And so
13 when you lock those down, it really positions you to
14 move forward on a whole bunch of different fronts.
15 And so that paragraph really is getting
16 at MPI's hope that a lot of the issues that have been
17 going on for a number of years can be resolved and
18 ensure that they aren't just pushed to another year to
19 deal with.
20 Moving to chapter 3, section 3, the --
21 the key points are on the slide there. And really the
22 point -- and I won't spend a long time on this, but
23 the operating expenses aren't contributing to the
24 proposed rate increase. So MPI has offset
25 inflationary pressures.

1 And obviously a rate increase, the --
2 the factors that drive the rate increase, are changes
3 in -- in things. And so the -- what -- what we're
4 looking at here is that there's -- there is -- that he
5 change in operating expenses is not driving a rate
6 increase and -- and inflationary pressures have been
7 kept under control. And those reflect significant
8 efforts to control costs.
9 The more detailed submissions are on
10 slide 23 up in front of you, detailed points I should
11 say, that -- that MPI has formalized its framework for
12 identifying and realizing cost savings. And that its
13 efforts in prior years -- and there is a -- there is a
14 cost containment committee that does that work now.
15 Efforts in prior years have achieved
16 immediate successes, including significant savings
17 last year. That MPI's cost containment committee has
18 been examining all areas of the Corporation for
19 potential savings, and the savings this year are
20 material, and that they're appropriately accounted for
21 -- the savings are appropriately accounted for and --
22 and have a favourable impact on both benchmarks and
23 the rate indication.
24 And this -- this is an area which
25 didn't get mentioned in -- on Wednesday, but it is key

1 to the story that casts a very different -- shines a
2 different light on -- on MPI in terms of its -- in
3 terms of the two (2) contrasting visions that CAC left
4 you with.
5 So the material savings, I won't dwell
6 on this, but the slide in front of you, twenty-four
7 (24), is just simply encapsulating the material
8 savings from the prior year.
9 And then the next slide is the
10 additional 8 million in savings that was achieved this
11 year, and that's reflected in this year's rate
12 indication, as well, and that Ms. Reichert emphasized,
13 and this is at paragraph 83 of the submission, that --
14 that this represents .5 percent of a rate, and -- and
15 that -- that is material.
16 Now, the -- the point that -- what is
17 particularly notable -- if we can go back one (1)
18 slide -- what is particularly notable about this is if
19 you look at the composition of that $8 million, what
20 that shows you is that there's a number of smaller
21 amounts that are adding up to something that's
22 material. And in my submission, what that shows you
23 is the extent to which MPI is looking in the various
24 corners of the Corporation to find savings.
25 The -- the low hanging fruit is gone.

1 And what MPI is now doing is really looking for the
2 savings coming from various areas in the Corporation,
3 and -- and in my submission that is very, very telling
4 in terms of the efforts that MPI is going to.
5 The final point on -- on costs that I
6 want to make here is in -- in the slide before you
7 here, and it's -- it's the benchmarking scores. These
8 were in Ms. Reichert and Mr. Johnston's presentation
9 but if you look at these, that is -- those are
10 impressive, and they exceed the benchmark by a very
11 wide margin. And -- and we can't, in my submission,
12 lose sight of that when we're considering the two (2)
13 contrasting visions that CAC put before you.
14 The next section is four (4), and it's
15 the external factors driving the rate increase. And -
16 - and you'll see in the next slide here that the --
17 the two (2) really are -- the first one (1) is hail
18 driven, and the other one (1) is changes in interest
19 rates driven, and a component of that is the switch to
20 the meth -- of the methodology, as well, using a new
21 SIRF methodology. And I'm on slide 28, and paragraph
22 93 of the submission.
23 There is in -- we spent some time in
24 the submission walking through the actuarial process,
25 sort of one-o-one (101) of what the actuaries are

1 doing when they're forecasting these claim's costs and
2 how it ends up in the rate indication.
3 And I won't spend much time on that,
4 but if you -- if -- you'll see if you look at Section
5 4.1 of the submissions starting at paragraph 96,
6 there's a number of paragraphs there that show how
7 these forecasts get picked up in the rate indication.
8 And really with the hail one, the story
9 is a simple one. It's that in the last five (5) years
10 we're seeing a different hail pattern. And the
11 actuary, Mr. Johnston, has to reflect that in the
12 trends. And the last year's loss is -- is -- was a
13 very significant one, and it -- it shows -- it -- it's
14 just illustrative of -- of the changing patterns that
15 Mr. Johnston has to be acutely aware of.
16 The next section is one that I'll spend
17 a little bit of time on and that is the best estimate
18 interest rate forecast. And this starts at 119 of the
19 submission.
20 And in 119 I quote that -- I -- I
21 indicate that more than half of the proposed rate
22 increase, or 2.3 percent, which was referred to as the
23 IRFRF, but I won't refer to it as that. I'll just
24 refer to it as best estimate interest rate forecast so
25 that I don't have to use the acronym.

1 It's 2.3 percent of the requested rate
2 increase. And Mr. Guimond, as I reference in
3 paragraph 119, he characterized the need to address
4 the risk char -- created by the interest rate forecast
5 as, quote/unquote, "imperative to MPI." And in my
6 submission, that is absolutely true.
7 One only has to consider the magnitude
8 of the risk facing MPI and policy holders to know that
9 Mr. Guimond is correct in that regard. And the number
10 to have in mind is $32.7 million per year on average
11 for the two (2) year rating period. That is the
12 exposure if interest rates stay flat.
13 And that is a significant number, 65
14 million bucks. And in my submission, it is
15 unnecessary to take on that risk and it needs to be
16 addressed by using a best estimate 50/50 approach to
17 the SIRF.
18 The slide in front of you, slide 30,
19 essentially reflects the -- the bullets in paragraph
20 120 of the submission. But the points that I want the
21 Board to come away with in this discussion are that
22 that it's well established that rates should be
23 reflecting best estimates of interest rates. This is
24 not a new principle.
25 That the SIRF is not a best estimate of

1 interest rates given the available evidence. That a
2 50/50 approach is a best estimate. And that the best
3 estimate bring significant benefits in terms of the
4 financial health of Autopac and rate stability. And
5 that the risk created of relying on an optimistic
6 forecast will not be resolved by simply altering the
7 inputs of the SIRF.
8 And that MPI's request for an IRFRF was
9 an appropriate response to unique circumstances and
10 that the collaborative approach that was undertaken
11 was a worthwhile exercise. And I'll spend more time
12 on some of these points than other, but that is --
13 those are the points that are captured in the written
14 submission in section 5.
15 So I'm at Chapter -- sorry, section --
16 paragraph 121 of the submission. And this is where
17 the topic of the propriety of using a best estimate
18 interest rate forecast is -- is addressed. And the
19 point that is in here is that -- that this principle
20 has been recognized by the Board previously and that
21 it is not new and that the -- the PUB recognizes that
22 best estimates are key.
23 But the -- the quotes that are in this
24 section also highlight something else that I want to
25 underscore. They highlight the fact that the Board's

1 prior reliance on the SIRF had more to do with the PUB
2 identifying shortcomings in MPI's evidence on the
3 issue than any real love for the SIRF.
4 And in my submission, that's important,
5 because the evidentiary shortcomings that the PUB had
6 identified previously have been addressed. And in
7 this sub -- and in my submission, that there is a --
8 there is an adequate and appropriate evidentiary
9 record where the PUB can, with confidence, adopt a
10 best estimate based on a 50/50 rather than the SIRF
11 this year.
12 So if we turn to paragraph 122 you'll
13 see a quotation from a -- the Board. And actually,
14 the last paragraph of that quotation is the one (1)
15 that I want to read. And that is that, "MPI has
16 stated..." -- and this -- this comes to the evidence
17 point:
18 "MPI has stated that it has no
19 expertise in interest rate
20 forecasting and has submitted no
21 evidence to support the submission
22 that the low growth rate forecasting
23 methodology represents the best
24 estimate and should be accepted. As
25 such, the Board isn't in a position

1 to accept it."

2 And then if you look on to the 123, the

3 Board is saying, with respect to the interest rate

4 forecasting methodology, the Board's of the view that

5 it has insufficient evidence upon which to make a

6 decision in the underlying portion. But the Board has

7 heard no expert evidence with respect to interest rate

8 forecasts.

9 And -- and I say in 124, of course,

10 that the evidentiary gaps that were being identified

11 in those passages I just read have been filled. And

12 the Board can revisit this issue with a full

13 evidentiary record.

14 There is expert evidence. There is

15 expert evidence informed both by empirical evidence of

16 the past performance of forecasts, and, importantly,

17 in my view, expert evidence from Dr. Cleary on current

18 capital market conditions.

19 And there is also evidence which didn't

20 get much attention in this proceeding, and I'll point

21 you to why that's the case, but what the market is

22 actually doing, what are people putting their money

23 on. And forward prices indicate that the market is

24 not putting their money on the SIRF. They're putting

25 their money on something that is even more

1 conservative than the 50/50 forecast.

2 So Dr. Cleary's evidence about the

3 50/50 being a best estimate starts at paragraph 125.

4 And the portion -- in paragraph 126, there's a -- a

5 quote from Dr. Cleary. And I'm not going to read to

6 you all, but -- to the whole thing, but the last two

7 (2) paragraphs are the ones that I'd want to highlight

8 for you.

9 That -- and he notes that the evidence

10 shows that even directionally, the economists have not

11 done a good job, not only in terms of forecasting the

12 absolute level, but even the direction it's going to

13 go. They have a poor record of forecasting the

14 direction. And, in my submission, that's an

15 understatement, particularly in the last eight (8)

16 years.

17 But here's -- here's the -- the

18 interesting point, and it's one that is intuitive and

19 logical, and I'd like to emphasize it. Is that, by

20 establishing a starting point where we are today as

21 one (1) of your limits, I believe that we will

22 minimize forecasting errors. And I've put here the

23 chance of being way off.

24 So if you think about it intuitively,

25 if you weight where we are today in your approach, you

1 are inherently minimizing your risk of being wrong
2 when you're forecasting. And that is the point that
3 Dr. Cleary is making when he shows that the Naive
4 forecast has actually been doing a better job than --
5 than the SIRF over time because, you know, you're
6 weighting where you are today.
7 And if you're putting that weight on
8 it, you are giving some recognition that you have to
9 leave where you are today in order to get to the SIRF.
10 And -- and that is a compelling point, in my
11 submission, that -- that should be given considerable
12 consideration.
13 Now, on -- paragraph 129 is where we
14 get into the evidence, and, in my submission, it's
15 compelling evidence, that the SIRF is not a best
16 estimate. And, in my submission, the evidence on this
17 point is overwhelming.
18 And starting at paragraph 130, we have
19 the heading, "Another year, even worse performance."
20 And that sums up the point very nicely, in my
21 submission. And what this section is really
22 addressing is, you know, the track record. And we see
23 it up in front of us. And we've seen it a number of
24 times previously with the -- the far right being the
25 50/50 forecast, the green one, and the red being the

1 SIRF.

2 And, of course, it -- it asks the

3 question, how many times -- you know, it -- one will

4 ask this: How many times do we have to be wrong

5 before we start to question it? And you'll recall

6 that in cross-examination, I asked Dr. Simpson: What

7 would happen if -- if MPI came in and or -- forecast

8 its rates and was -- was over by double for eight (8)

9 years in a row.

10 Whether the Intervenors would be

11 saying, Don't worry, it's a rising costs market, we

12 don't need to worry about that. Well, the -- the

13 clear answer to that -- it didn't need a question. It

14 was an answer. It was rhetorical, because of course,

15 if you -- if you come in eight (8) years in a row

16 overshooting by double, people are going to ask

17 questions, and for good reason.

18 And in my submission, this is no

19 different. The only different (sic) is that the

20 result is different, in my submission, and that is not

21 a principled basis upon which to make decisions.

22 And the Board should be applying the

23 same approach, whether the result is lower rates or

24 higher rates in the circumstances, because in the long

25 term you are doing, in my submission, ratepayers a

1 service by ensuring the long-sterm -- long-term
2 stability of the product.
3 In -- and my submission is that, if you
4 look at this, it is plainly obvious to see that
5 there's an issue with the forecasting. And Dr.
6 Simpson, to his credit, recognized that there was
7 exhibiting statistical bias.
8 And it doesn't surprise me that the CAC
9 didn't ask their statistical expert to do a
10 statistical analysis, because in my submission, it's -
11 - it's plainly obvious what the result would be.
12 Now, over on paragraph 134, I deal with
13 Dr. Cleary's evidence that the SIRF is at odds with
14 current market conditions. And -- and this is -- this
15 is important, because Dr. Cleary, as -- as My Friend
16 Mr. Williams was -- was careful, and rightly so, to
17 acknowledge his financial expertise of Dr. Cleary.
18 And -- and he is unquestionably a
19 significant expert in his field. And Dr. Clearly gave
20 evidence that the SIRF doesn't jive with what he's
21 seeing going on in the world, and -- and that evidence
22 is captured in this section. And really, it's a point
23 that the CAC has -- has missed in its focus on the
24 statistical analysis, because statistics can be
25 informative, but they only take you so far.

1 You need to know what the conditions
2 are in the future to make sure that those forecasts --
3 or that the -- the statistical outputs make sense to
4 apply in those conditions. And that is what Dr.
5 Cleary provided and what no one else in this
6 proceeding has provided.
7 Dr. Cleary's evidence on the Naive
8 forecast is in paragraph 138. And the data on this
9 point is -- is unequivocal, and it's -- it's -- it --
10 it shows that the Naive forecast were -- over this
11 eight (8) year period, were they to have picked the
12 Naive forecast, they would have done better than the
13 SIRF.
14 And you will recall on Wednesday just
15 how much time My Friend Mr. Williams spent on the
16 Naive forecast. They had five (5) slides to make the
17 argument that relying on the Naive forecast would be a
18 mistake.
19 And in my submission, that is telling,
20 because what -- what it tells me is that My Friend Mr.
21 Williams is looking at the same data and he's seeing
22 the same thing that I'm seeing, which is that when you
23 look, as plain as day, the Naive forecast is
24 performing better than the SIRF. And so the question
25 should not be whether we use the SIRF. It should be

1 whether we use the Naive.

2 Now, no one, as he pointed out, is

3 actually saying we should be using the Naive because,

4 as Dr. Cleary pointed out, there is an expectation

5 that interest rates are going to rise at some point.

6 And it's just a question of when it starts and a

7 question of how fast it is.

8 So no one is actually advocating that -

9 - that the Naive be used, but -- but I simply say that

10 to emphasize the point that -- that we need to keep in

11 mind that the frame of reference isn't necessarily

12 that the SIRF should be the starting point and that we

13 move from the SIRF, that it could just as easily be

14 starting from the Naive, and working our way up from

15 that.

16 Now, the other point -- and -- and of

17 course the fact that the Naive is outperforming comes

18 back to Dr. Cleary's point that when you -- when you

19 weight your current starting point, you reduce your

20 chances of being wrong. And that's what he's doing by

21 giving it weight in the 50/50 forecast.

22 The -- the next point is starting at

23 paragraph 143, and this is a section that deals with

24 what the market is doing. And it deals with evidence

25 that was in MPI's rebuttal evidence but that was

1 conspicuously absent, in my submission, from the
2 discussion at the actual hearing.
3 The evidence is that the market is not
4 -- and the market, which no doubt includes bank
5 traders, is not buying the SIRF. They are putting
6 their money, when it comes to buying forward contracts
7 -- or to -- to entering into -- to forward price-based
8 deals, they are putting their money on something that
9 looks like the red line in front of you.
10 The green line is the 50/50. The blue
11 line is the SIRF. And the forward price curve is the
12 red. And what does that tell you? Well, it tells you
13 that investors, when they actually have to put their
14 money on the line, are not taking -- are not looking
15 at the SIRF and thinking that's a reasonable forecast.
16
17 (BRIEF PAUSE)
18
19 MR. MATT GHIKAS: Now, Section 5.4
20 deals with the point "using best estimates has
21 favourable implications," and that could just as
22 easily of course be -- I like to be positive, but
23 phrasing that in the negative using the SIRF exposes
24 the Company to significant risk.
25 And you see on the next slide, slide

1 33, the risk on this slide if -- with the blue line
2 being the SIRF and the black line being the 50/50 and
3 the flat line being the Naive, the risk -- the
4 downside risk of using the SIRF is represented by that
5 whole portion underneath that blue line. And that, as
6 you'll recall, be -- beneath the blue line and the
7 Naive.
8 Now, of course, this is assuming that
9 the Naive -- that we're -- that we're as low as we can
10 go, and who knows. But the point is that we're close
11 to the bottom of what we can be. And so the risk is
12 represented by the difference between the blue and --
13 and red lines.
14 And as I indicated before, that's about
15 $33 million per year for the next two (2) years. And
16 the risk associated with the 50/50, and there is still
17 risk, is represented by the -- the gap between the
18 black and the red.
19 I won't touch on -- there is a section
20 in here about, you know, why MPI proposed an IRFRF and
21 the collaborative approach, and -- and that proposal
22 was unique but we were facing a unique problem. And
23 that was that the -- the Board's Order was to use the
24 SIRF but when you look at the Board's Order, and it's
25 quoted in paragraph 153, it's clear that the Board was

1 anticipating that the SIRF would be a best estimate
2 when it ordered that.
3 And the evidence is that it's not.
4 Facts have changed. The -- the track record has
5 continued. Capital market conditions are not
6 supportive, as Dr. Cleary said, of that type of
7 estimate. And so you have this situation where
8 following the wording of the letter is actually
9 yielding a perverse result.
10 The Board isn't ordering that, in my
11 submission, with the intention of setting deficient
12 rates. It's -- it's ordering it with the anticipating
13 that it's order -- that it's ordering sufficient or
14 adequate rates. And so the IRFRF was a unique
15 solution to -- to the problem, and -- and MPI
16 undertook good faith efforts within the time provided
17 to -- to have a meaningful consultation on that.
18 And -- and the ultimate point is that
19 whatever you call it, it's -- the -- the real issue is
20 -- it's not a risk factor necessarily, whatever, it's
21 -- it's using a best estimate and that's something
22 that we should all be able to agree on given the track
23 record, that we should be using a best estimate.
24 That's really what this comes down to. And in my
25 submission, the practical result is -- is exactly the

1 same.

2 The next point starts at paragraph 166.

3 And it is -- it's just making the point -- you know,

4 there were a number of questions about, Well, do we

5 drop this forecast from the SIRF, do we this forecast,

6 or do we do an olympic style forecast, do we add long-

7 term forecasts, do we -- you know, this -- this type

8 of thing.

9 And -- and the key point here is that

10 the evidence is that it's -- it's not -- it's not

11 going to fix the fundamental issue. And that

12 fundamental issue is fixed by giving some weight to

13 where we are today.

14 And -- and going with the SIRF is

15 placing a very big bet on something that hasn't paid

16 out for eight (8) years in a row. And -- and in my

17 submission, this is not something we should be going

18 all in on.

19 Now, the -- the SIRF, what I found

20 interesting statistically wise, or in my simply mind,

21 was that the SIRF is -- is predicting a 1:29 year

22 event. So we can expect that amount of movement once

23 every twenty-nine (29) years.

24 And the olympic style forecast, which

25 was one (1) that was, you know, we were -- MPI was

1 ordered to present, is up in the range of one hundred
2 (100) and something, one (1) in one hundred (100) and
3 I -- the -- the number is 1:29 -- one (1) -- one (1)
4 in -- I forget the actual number, what is it, one
5 hundred and nineteen (119), 1:119 year event if we use
6 the olympic.
7 And when you phrase it in those terms,
8 and lets put that in the context of DCAT, for example,
9 a 1:40 scenario for stress testing the capitalization
10 and the solvency of the -- of the capitalization.
11 That, in my submission, is really telling.
12 You're -- you're, in routine
13 ratemaking, placing a 1:29 year bet that your rates
14 are going to be adequate when you're using a 1:40, not
15 a whole lot more, to stress the solvency of the
16 Corporation. In my submission, that is -- is very
17 telling and should carry a lot of weight.
18 Starting at 173, there's a discussion
19 dealing specifically with Dr. Simpson's evidence on
20 the interest rate forecast. And you will see in
21 paragraph 173 that we highlight five (5) points and
22 I'm quickly going to take you through those, but --
23 but before I do that, I do want to comment on My
24 Friend Mr. Williams' comment on the impoverished, that
25 was the word he used, the impoverished analysis of Dr.

1 Cleary.

2 And he said that without a shred of

3 irony. But it should be obvious on the face of it

4 that he is urging the Board to accept the SIRF based

5 on no analysis at all. Because Dr. Simpson said that

6 he didn't consider himself to do better than the SIRF

7 and he provided none of the statistical analysis that

8 he said was required.

9 And Dr. Cleary, for that matter, did.

10 And he provided publications that showed that the

11 SIRFs optimism is something that pre-dates 20 -- 2008.

12 Now, 5.8.1 deals with the definition of

13 best estimate and the Archer analogy. And what --

14 really, if you -- you look at the quotes in 175 to

15 start there what you'll see there is a str -- you

16 know, emphasis to the midpoint of the range of

17 statistical outcomes and consistently unbiased --

18 consistent unbiased as what a best estimate means.

19 And Dr. Simpson, of course, admitted

20 that the SIRF was exhibiting upward bias over the

21 period from 2008, but that -- you know, the point

22 about the midpoint and the unbiased, and then when we

23 go over to 178 we have the archer -- the archer

24 picture that Mr. -- Dr. Simpson put forward. And of

25 course, he was talking about the RSR range. But when

1 I put it to him, I wasn't talking about the RSR range.
2 I was pointing out that we are every
3 bit as much archers when it comes to forecasting
4 uncertain or risky outcomes, meaning the interest rate
5 forecast. And he's saying, When you're faced -- when
6 your forecasters are faced with uncertain and risky
7 outcomes, aim for the midpoint of the target, not the
8 bottom or the top.
9 And in my submission, this should be
10 screaming out for using a 50/50 weighting rather than
11 aiming for the top or aiming for the Naive at the
12 bottom, because this, of course, is an uncertain
13 issue.
14 And everybody agrees interest rate
15 forecasting is uncertain, and this is a risky outcome,
16 a $65 million bet. And -- and in my submission, that
17 analogy is equally applicable to a best estimate of
18 interest rate forecasts.
19 There's a point in five point eight
20 point two (5.8.2) starting at paragraph 180. I'll
21 just make a couple more points, and then we'll stop,
22 we'll -- for a break, if you'd like, yeah.
23 There's a point in five point eight
24 point two (5.8.2) on the double counting point. And -
25 - and in my submission, the evidence is clear: There

1 is no double counting.

2 There's no double counting between the

3 RSR and -- and using a best-estimate interest rate

4 forecast, because the -- the DCAT was rerun to account

5 for the 50/50 forecasts, and you'll recall it went

6 down from 181 to 159 million. And that, of course, is

7 because there is no -- there is no double counting.

8 And Dr. Simpson did admit that he was

9 unclear on the mechanisms of how the DCAT worked in

10 that regard, which is notable.

11 We can pause there, and I'll jump back

12 in after a break, if you'd like, Mr. Chairman. I'm

13 happy to keep going if you'd prefer.

14 I can tell you where we're going.

15 We're making -- we're making good progress, but, you

16 know, I -- we -- we do have a ways to go, and I do

17 have some stuff I'd like to take you to. So I -- I do

18 think we're going to be, you know, another hour and a

19 half or something like that.

20 THE CHAIRPERSON: Yeah, okay. We'll -

21 - we'll break for fifteen (15) minutes now, then.

22 MR. MATT GHIKAS: Okay.

23 THE CHAIRPERSON: Thank you.

24 MR. MATT GHIKAS: Thank you.

25

1 --- Upon recessing at 10:17 a.m.

2 --- Upon resuming at 10:37 a.m.

3

4 THE CHAIRPERSON: Mr. Ghikas...?

5 MR. MATT GHIKAS: Thank you, Mr.

6 Chairman. When we broke, we were on paragraph 183,

7 and that is the heading 'RSR is Not a Substitute for

8 Good Forecasting.' And this -- this is -- this is an

9 interesting point, because it's one where Dr. Simpson

10 was on his own, and even Ms. Sherry contradicted him.

11 So the -- the thesis -- the thesis that

12 Dr. Simpson was putting forward in his -- his note was

13 that, because we have an RSR, we shouldn't have an

14 IRFRF. And so what he's really saying is we have the

15 -- the money there, so we should use the SIRF.

16 And what -- what the quote in 184 is

17 saying is -- and of course, this makes sense. Ms.

18 Sherry's an actuary, and she's concerned with best

19 estimates. And what she's saying and what MPI submits

20 is the correct approach is that she used best

21 estimates first, and the RSR is to pick up the

22 variances around best estimates.

23 The fact that you have money in the

24 bank doesn't mean that you should not worry about best

25 estimates. And the -- the point that's highlighted in

1 the very end of that quote -- series of quotes there
2 is Ms. Sherry saying, I think we've all agreed to
3 that.
4 And -- and it's -- that's noteworthy,
5 because she thinks it's so self-evident that -- that
6 everybody has agreed to it. But in fact, that isn't -
7 - not what -- what Dr. Simpson was saying. And, in my
8 submission -- in my submission, Dr. Simpson's approach
9 is -- is the wrong one and shouldn't be accepted.
10 Five eight four (584)I won't dwell on,
11 but it does deal with this inconsistency that I talked
12 about earlier with the inflation. Dr. Simpson
13 emphasized that, you know, we had to go back further
14 to a period of inflation because interest rates
15 respond and are related to interest rates (sic) and --
16 and simply pointing out that, you know, the
17 collaborative approach on the DCAT yielded a result
18 that excluded, you know, inflation-type situations on
19 the basis that there really wasn't any material
20 inflation risk.
21 And, you know, that -- that's part of
22 the reason why -- why Mr. Johnston is -- you know --
23 you know, he's satisfied with the one (1) in forty
24 (40), but it's certainly not, you know, what he would
25 do when -- when left to his own devices. And -- and

1 that comes through in his -- in his evidence that's
2 quoted throughout this -- this submission.
3 One (1) of the points that I make in
4 one ninety (190) is that there was in fact evidence
5 about the accuracy of the SIRF that went back further.
6 And it was in Dr. Cleary's report because he talked
7 about peer reviewed articles where that had been
8 assessed. And I'll come -- I'll touch on that
9 literature just in a moment a little bit more.
10 Five eighty-five, Dr. Simpson was
11 putting forward the proposition that, because the
12 IRFRF was unique, we shouldn't -- we shouldn't do it.
13 And, in -- in my submission, that's a point on which
14 Dr. Simpson slipped from a role of expert into
15 advocacy, and so I won't dwell on that.
16 But the 5.9 which starts in 194 I -- I
17 do want to touch on. And I'm not going to go into
18 this in detail. But My Friend on Wednesday, part of
19 his -- and if we go to slide -- I think it's -- oh,
20 sorry, it's not a slide. But you'll see his slide
21 pasted in at 194 on the challenges of the evidence of
22 -- of Dr. Cleary.
23 And he was putting forward the
24 proposition that Dr. Cleary didn't understand the
25 articles that he was reading and that his -- the

1 articles he relied on were later contradicted.

2 And, in my submission, and what's laid

3 out here in detail is why CAC is fundamentally

4 misunderstanding both the evidence of Dr. Cleary, and

5 perhaps that was because it was only quoted in part,

6 leaving out relevant portions, but also

7 misunderstanding the results of the studies that

8 postdated the financial crisis that he was put -- that

9 were put to Dr. Cleary.

10 And what we've done is -- and what's up

11 in front of you is we've summarized in 195 the points

12 as to why those studies that he was talking about are

13 actually looking at different things and that actually

14 do support Dr. Cleary's -- the later studies do

15 support Dr. Cleary's and -- or dif -- deal with

16 different things.

17 And this diagram that's up in front of

18 you here is one that we've created just as a simple

19 illustration to show that these Spiwoks articles that

20 My Friend referred to are testing different things.

21 The -- the first one, if you look at in -- on the

22 diagram there in simple terms, the one that Dr. Cleary

23 cited was testing forecast accuracy, so how did the

24 forecast compare to the actual.

25 The one that My Friend was putting

1 forward, Spiwoks 2011, was comparing how did the
2 actual compare to the Naive. And -- and what --
3 that's the status quo bias that he's talking about.
4 So he's misunderstanding -- CAC is misunderstanding
5 what the status quo bias is in this.
6 So, in my submission, if -- that's all
7 there, and I'm not going to go through it, but -- but
8 it does show you that Dr. Cleary's evidence was -- was
9 appropriate and informed and -- and can be relied on
10 with comfort.
11 Five te -- paragraph 200, this is
12 dealing with My Friend's -- Mr. Williams's proposal
13 about a workshop on the interest rate forecasting.
14 And this -- this -- you know, this is a unique
15 proposal, and it's one that is prejudicial to MPI if
16 the push is to delay this determination on whether to
17 use the SIRF.
18 And, you know, we've made our case in
19 my submission to the Board. There is an ample
20 evidentiary record, and the Board should make its
21 decisions based on the record before it. And, of
22 course, if you step back and you think about it,
23 regulators who regulate multiple entities deal with
24 this type of issue all the time. And -- and there's a
25 circularity in not deciding something because

1 something else may come up later that deals with a
2 similar issue for another entity.
3 The -- the dis -- regulators should be
4 making a decision based on the evidentiary record
5 before it, and indeed if you -- if you look at the
6 quote that's in 201 of what the Board has done in the
7 past, the Board is indicating that despite what had
8 been done in other proceedings for Centra Gas and
9 Hydro on this interest rate issue, the Board is not
10 adopting the SIRF because of the evidentiary record
11 before it.
12 So it's doing exactly what I'm
13 suggesting there, is that the -- the evidence before
14 the Board should be what the Board decides on, and --
15 and it's -- it's fair to -- to MPI to -- to do so.
16 And -- and there should be a reasonable expectation
17 that we can get certainty on those things in order to
18 move forward.
19 Now, section 6, the Rate Stabilization
20 Reserve.
21
22 (BRIEF PAUSE)
23
24 MR. MATT GHIKAS: In 202 there is a
25 reference that I want to underscore, and that is

1 something that appeared in SGI's documentation when it
2 was talking about its Rate Stabilization Reserve. And
3 it referred to capital reserves as an insurer's
4 commitment to pay its claims liabilities.
5 So this is a Crown Corporation saying,
6 We hold these out because we are expressing our
7 commitment to stand by our -- to stand by our promise
8 as an insurer to pay your claims when they occur. And
9 that struck a cord because, you know, it really -- it
10 really does speak to the issue that, you know, My
11 Friend kept coming back to is: This is a Crown
12 Corporation. It can't go insolvent. It's not
13 competing.
14 And, you know, what that begs is, you
15 know, okay, so you have a monopoly. Does that mean
16 you don't run the Corporation properly? Well, no, of
17 course not. MPI has sold a policy of insurance, and
18 the money should be there when someone calls to
19 collect.
20 And so the payment shouldn't be
21 contingent on a government subsidy. It shouldn't be
22 contingent on a transfer from optional. That goes
23 against everything that was in the Kopstein report.
24 And in my respectful submission, it -- it simply
25 doesn't reflect good principals of governance.

1 Now, the -- the points -- the key
2 points on the RSR are up on the screen in front of
3 you. And that -- the first one (1) deals with the
4 definition of the RSR, and -- and this didn't figure
5 prominently but it -- it really is nailing down how
6 the RSR is to be used. Is -- you know, something that
7 needs to be done, and it's -- it's been -- there's
8 been uncertainty around it, and -- and the Board
9 should finalize that. It's -- the definition is
10 appropriate and it reflects how it's been used, and it
11 should be adopted.
12 The second one I'll spend a little more
13 time on, and that is:
14 "The RSR lower threshold should
15 reflect the DCAT approach determined
16 through collaboration."
17 So that's the one-in-forty approach.
18 And the RSR upper threshold of 100 percent MCT will
19 provide sufficient flexibility to absorb losses
20 without RSR rebuilding fees.
21 So I will switch directly to paragraph
22 208, and this deals with the second point on the
23 screen in front of you. So as I've alluded to
24 previously, this issue arises because the 1:40
25 scenario, of course, to date has been a lower

1 threshold. And what we're -- what we heard from Dr.
2 Simpson and Ms. Sherry is a desire to turn the lower
3 threshold into a target.
4 And implicitly what that is doing is
5 it's lowering the RSR. And -- and not only to turn it
6 into a target, but to put the tolerance band as low as
7 1:10. And as I've suggested, that means operating
8 Basic with the reasonable expectation, with rate
9 increases, of going insolvent once every ten (10)
10 years.
11 And that is a significant push. In my
12 submission, a push in the wrong direction. Now, in
13 two-o-eight (208) what I say is, you know, it's
14 necessary to bring closure to -- to this issue and
15 that the -- the approach should be reaffirmed,
16 recognizing that it's already relatively low. The
17 lower RSR threshold at a 1:40, having removed a number
18 of the data points that provide, you know, historic
19 data of more adverse circumstances.
20 That is why you heard from Dr. -- from
21 Mr. Johnston, you know, that he -- he has signed this
22 as being reasonable, but he does have some
23 reservations about it. And it still leaves plausible
24 adverse scenarios unaccounted for.
25 So in two eleven (211) I reference Mr.

1 Johnston's evidence that, you know, it's as low as he
2 would be willing to endorse. And in -- and in the
3 quote there he's talking about having removed some
4 historical periods that are very relevant from the
5 modelling.
6 And two twelve (212) makes the point
7 that, you know, if -- if 1:40 sounds like a distant
8 possibility, one only has to look at the last two (2)
9 years where we experienced just that. And, you know,
10 that's 140 million in transfers in the last two (2)
11 years, referenced in two twelve (212) there.
12 So MPI has accepted the lower framework
13 at 1:40, so why am I raising this? Well, obviously,
14 first is the point that the experts put forward by CAC
15 appear to be pushing it downwards, or seeking to push
16 it downwards. So that's one (1) of the reasons.
17 The other -- the other reason is, you
18 know, it plays into the width of the band and it plays
19 into the upper band, because, you know, if you -- if -
20 - if you're looking at the upper band and you're
21 recognizing that the gap between the bands is -- is
22 starting at a -- at a low -- you know, as low as Mr.
23 Johnston will start off, it casts the upper level, the
24 upper MCT level and the width of the band in a
25 different light.

1 Because, you know, really, the -- the
2 distance between the lower and the upper may seem
3 large, but -- but as I'm going to come to, it's not --
4 100 percent MCT is -- is not out of the realm of what
5 everybody else is doing in the country. Everybody
6 else in the country thinks that having 100 percent MCT
7 is appropriate.
8 And -- and so I'll come to that, but I
9 think it really -- the lower RSR, the 1:40, putting
10 that in sort of real terms is important to recognize
11 that we're -- you know, we -- the bottom could be
12 higher and -- and the distance between that and 100
13 percent could be smaller and it would still be a
14 reasonable approach.
15 So paragraph 216, this deals with Mr. -
16 - Dr. Simpson and Ms. Sherry's point and I referenced
17 the 1:10 scenario in 2016. What I -- what I would
18 note is that in two (2) -- twenty (20) -- in paragraph
19 216, the quote, we actually stopped the quote too soon
20 by accident when we put it in. So the -- the point
21 that -- that we're making in that paragraph that Ms.
22 Sherry wouldn't actually be able to sign off on the
23 DCAT is actually immediately following the quoted
24 portion.
25 So the -- the quote continues. The

1 full quote that should have been there was page 2,071,
2 line 4 all the way to page 2,075, line 3. And -- and
3 so the -- the three (3) points, essentially, that are
4 encapsulated in that entire sequence are that she
5 wouldn't do a one (1) in ten (10), OSFI wouldn't allow
6 a one (1) in ten (10), and accepted actuarial practice
7 wouldn't allow one (1) in ten (10).
8 And the reason she's recommending it is
9 because she doesn't think that Mr. Johnston has to
10 worry about that, because he's not OSFI regulated and
11 that he's signing off -- that he -- he's not being
12 told he has to sign off on a DCAT. Well, that's not a
13 lot of comfort to a professional actuary who's being
14 expected to sign off on a DCAT and put it forward to a
15 regulator, in my submission.
16 And -- and I note that My Friend Ms.
17 McCandless followed up later with some questions on
18 this point, that it -- that this is a DCAT exercise
19 that's being undertaken, and hence it's being picked
20 up by the accepted actuarial practice standards. And
21 -- and her cross on that was starting at page 2,090.
22 And it's not referenced, and it's not in the document,
23 but it's at page 2,090.
24 So let's turn to the upper target, and
25 that starts at par -- paragraph 220. And MCI --

1 sorry, MPI's position is -- is that the upper target -
2 - proving an upper target that -- in a manner that
3 affords some predictability is key, and that 100
4 percent MCT is appropriate.
5 So MPI is respectfully looking to the
6 Board to make a determination that's not on a nominal
7 basis or a temporary basis, but rather just a
8 determination as to -- as to what the appropriate
9 upper limit is.
10 So in two twenty-one (221), we -- we
11 start off making the point that these -- certainly in
12 the RSR parameters and having the bandwidth between
13 the two (2) parameters are -- are fundamental in -- in
14 allowing greater flexibility in setting investment
15 policies as well as ensuring rate stability.
16 I'm going to come back to this later
17 when we talk about investments, but -- but really, the
18 ability to absorb losses intuitively, as you would
19 think, matters when you're setting your investment
20 policy. And so having certainty, let's get our ducks
21 in a row, is really what I'm saying here. Get the
22 orders in place, get the certainty, and then we can
23 talk about investments.
24 In two twenty-four (224), there's a
25 reference to some Aon evidence. And -- and the - the

1 passage that's been pasted in there from Aon's report
2 is -- is notable in the sense that they're making that
3 point is that the -- the ALM study that they're doing
4 is being influenced by the RSR bands.
5 And -- and so they're making the point
6 that, you know, the larger the -- the width, the more
7 stability there is when they go forward.
8 The MCT test. And one (1) of the
9 rationales that was offered by My Friends, which I've
10 already alluded to as well, the -- the MCT test is an
11 insolvency test. and of course, I pointed out earlier
12 that, well, so is the DCAT.
13 And really, the MCT test is being put
14 forward for two (2) reasons by MPI, and the first one
15 is -- is it's important. It's -- paragraph 227, I
16 say:
17 "The MCT provides MPI and the PUB
18 and policyholders with a risk-based
19 test for determining when capital
20 can be rebated."
21 And it's -- everyone is using this
22 test. That's the evidence. Everyone is using this
23 test.
24 There is validity in the idea that
25 Manitobans should be able to look across the board and

1 see that their insurer is holding far less capital
2 than anyone else and is still keeping rates low and
3 stable. And you can do that by looking at MCT. You
4 can see that the low RSR target is, I believe, 28
5 percent MCT.
6 And you look at the other Crowns and
7 you see a hundred percent MCT as the lower level and,
8 in ICBC's case, 160 percent set by the regulator for
9 rebates. And -- and there's value in being able to
10 look across the board and see that, see that
11 Manitobans see they're getting value.
12 Second of all, MCT is a good risk-based
13 test. That's why everyone uses it. And -- and, in my
14 submission, there really is no reason why we would not
15 use a reasonable test that provides a comparative
16 basis across -- across all of the insurers in the
17 country, public or private.
18 Now dealing with the number, a hundred
19 percent MCT. I've already alluded to the -- the
20 Crowns and where they -- where they sit. But in two
21 twe -- 233, you know, you look at the private
22 insurers; they're at two twenty-five (225) on average.
23 And OSFI intervenes in an insurer's business when it
24 falls below a hundred and fifty (150).
25 So the discount for being a Crown

1 corporation and not being subject to competitive
2 pressures is already there in the hundred percent
3 that's being put forward. And when you look -- Mr.
4 Johnston pointed out that -- in 233 I quote this,
5 where towards the end of that paragraph Mr. Johnston
6 emphasized that the -- the core portion of the test is
7 really looking at the risks of different types of
8 assets and liabilities. And those risks exist whether
9 you're a monopoly or private insurer.
10 And the reason why I put the OSFI --
11 that excerpt of the OSFI guidelines to Ms. Sherry is
12 because there's a summary of what goes into that test.
13 And you look at that. And it's -- it's a long list.
14 And there are -- it bears out what Mr. Johnston is
15 saying. Is that there are competitive issues, but
16 they're one (1) or two (2) of a long list with the
17 other ones applicable equally to -- to MPI as they
18 would be to a private insurer, so.
19 In 234, at the beginning of that quote,
20 there you see the capital -- the SGI reference that I
21 referred to. So they're talking about capital
22 adequacy speaks to the auto fund's ability to honour
23 its financial obligations.
24 And -- and if we pause for a moment
25 here. So SGI is targeting a hundred percent. Well,

1 what is -- what does a hundred percent MCT mean?
2 Well, MCT is a ratio. It's a ratio of capital
3 available to capital required. And what a hundred
4 percent MCT means is that you have enough capital to
5 meet the capital needs that you have. That's what a
6 hundred MCT means as determined by that test.
7 And so when you have a hundred percent
8 you can honour your obligations, right? And, by
9 comparison, MC -- the MCT of Manitoba Public Insurance
10 is 28 percent MCT and a hundred percent is capital
11 available equals capital required.
12 Two thirty-six deals with an important
13 point that I alluded to previously. And you saw on
14 the slides that CAC put forward and you heard in
15 questions this number 1:5000, 1:5000 chance at a
16 hundred percent MCT.
17 And, in my submission, the important
18 point here is that 1:5000 is not the right number to
19 be looking at. And, first of all, let's put that in -
20 - let's put that in perspective. That number is
21 looking at the amount of capital starting at the
22 amount of capital that's represented by a hundred
23 percent MCT and dropping to zero, right?
24 And you'll recall I said that the top -
25 - the -- the purpose of the upper one is to avoid a

1 scenario where you're rebating followed by a capital
2 build -- sorry, followed by an RSR rebuilding, right?
3 So you're -- really what you should be looking at is
4 what it takes to get from the upper limit to the lower
5 limit without management action, not down to zero.
6 And this 1:5000 number, to put that in
7 perspective, that -- so that's looking at MCT from a
8 hundred down to zero, and it's looking at with
9 management action, the euphemism, right. Well, in the
10 undertaking that we reference there, what's the
11 management action we're talking about?
12 We're talking about a three (3) year
13 compounded 12.46 percent rate increase. That's three
14 (3) times the rate increase that any Manitoban has
15 seen for a long time. And in two thirty-nine (239) we
16 spell out -- quote the undertaking. And in the latter
17 part -- and the undertaking, of course, provided the -
18 - the response to the PUB request about the 1:5000,
19 but then it went onto say, "You're looking at the
20 wrong thing."
21 And in the latter paragraph, the second
22 paragraph of that quote in two thirty-nine (239) we
23 say that a four (4) year scenario that depletes total
24 equity down to the lower limit, that's about 159
25 million bucks, a 1:49 year scenario. And you'll

1 recall the amount of losses that MPI has experienced
2 in the last two (2) years, and you can see why MPI is
3 concerned, in my submission, about going lower than
4 100 percent MCT.
5 One notable thing in two forty (240),
6 Ms. McCandless -- My Friend, Ms. McCandless, put that
7 undertaking to Dr. Simpson and Ms. Sherry, and they
8 agreed that what MPI was saying was correct. They
9 agreed that's the way you should be looking at it from
10 upper limit to lower limit, not from upper limit to
11 zero with management action. So...
12
13 (BRIEF PAUSE)
14
15 MR. MATT GHIKAS: Six point four
16 (6.4), that's at paragraph 242, this is dealing with
17 an inconsistency that I alluded to earlier. And it's
18 really designed to point out that CAC's experts are --
19 are at cross-purposes.
20 Dr. Simpson is pushing, and Ms. Sherry
21 is pushing, for narrower capital and -- and a narrower
22 range, and Mr. Viola is pushing for an investment
23 strategy that intuitively requires you to accept
24 larger risk in the short term, larger volatility in
25 the short term, and those -- there is a tension

1 between those that are -- that is difficult to
2 reconcile.
3
4 (BRIEF PAUSE)
5
6 MR. MATT GHIKAS: So on slide 37,
7 which is before you here, I -- I re-emphasize the
8 points where I started on this. And that is that
9 knowing how much capital you have is fundamental to
10 running a business. And that's particularly the case
11 when your business is dealing with ensuring against
12 risk and dealing with an inherently volatile
13 marketplace -- or not marketplace, inherently volatile
14 conditions. And the issues around the RSR have a long
15 history, and -- and that resolving that uncertainty is
16 essential in MPI's submission.
17 That takes me to investment strategy.
18 And before I touch on the slide in front of you
19 dealing with key points, I just wanted to -- to make
20 the -- the observation that -- that the focus of the
21 discussion on investments was on the constraints that
22 MPI had imposed and not on the analysis that Aon did,
23 and I think that's worth underscoring that -- that
24 Aon's analysis, that people really didn't -- weren't
25 critical of Aon's analysis, and -- and certainly Ms.

1 Spiropoulos demonstrated herself to be a -- a very --
2 a person with a degree -- a -- a good degree of
3 expertise in the area.
4 And -- and so the focus is really on
5 MPI's parameters that they placed on the ALM study.
6 And MPI's point -- broad point that it wants the Board
7 to take away from in talking about the investment
8 strategy is that, and it's started in two forty-seven
9 (247) in the middle, that the optimal portfolio, and
10 no one agree -- no one disagrees that you should be
11 optimizing your portfolio. The point is that the
12 optimal portfolio must be defined with respect to the
13 objectives and the circumstances of MPI and not in the
14 abstract.
15 And MPI's portfolio has been optimized
16 for a line of business that remains subject to
17 significantly -- significant uncertainty in terms of
18 rate adequacy, particularly the SIRF, and the
19 parameters of the RSR. And -- and here again is -- I
20 fell victim to the proverb of eating one's cake, and
21 that appears in that paragraph as well.
22 So the points that are made in this
23 section are on the slide. And the first point is that
24 government is responsible, ultimately. It's the
25 Minister who is responsible for the investment

1 portfolio. And that the Minister has a fleet of
2 competent advisors in place already, and -- and he is
3 managing the portfolio on a consistent basis.
4 The third point is that, as I alluded
5 to, the investment strategy reflects the current
6 circumstances and -- and we've characterized these as
7 two (2) realities, the first one being that you need
8 to limit your exposure to interest rate risk on the
9 claims liability side.
10 And the second one being the ongoing
11 uncertainty on the RSR and rate adequacy makes it
12 difficult to justify assuming more investment risk at
13 this point. And the final point is that these
14 realities have to be kept in mind when comparing to
15 other portfolio returns. It's not meaningful to do
16 that in the abstract without -- without understanding
17 MPI's objectives and realities, which are reflected
18 above.
19 So very briefly on the government is
20 responsible for the investment portfolio, of course,
21 the implication of that is that neither MPI nor the
22 PUB, frankly, can unilaterally direct an investment
23 strategy. I won't dwell on that, but there is, you
24 know, the -- some legal principles there that -- that
25 deal with -- or the -- the provisions of the statute

1 that deal with the Minister's responsibility in that
2 regard.
3 The -- the second point, again, is one
4 I can pass over, which is that there -- there are
5 competent advisors to the Minister of Finance. And I
6 say this, and this is in paragraph 253, Mr. Viola is
7 an expert, there is no doubt. And that would have
8 been plainly obvious to anyone sitting in the room.
9 And MPI takes no issue with that
10 whatsoever. The point is that in giving the evidence,
11 Mr. Viola ultimately, on investment recommendations,
12 for example, ultimately deferred to the fiduciaries,
13 as he put it, responsible for the -- the investment
14 portfolio.
15 And the reason for that is, as he
16 indicated, you can't pick out investments in isolation
17 from the whole portfolio. So he's identifying issues
18 like the Canadian bonds, we'll turn to these, but
19 Canadian bon -- sorry, Canadian equities,
20 international equities, and real return bonds and the
21 like.
22 But ultimately, you can't -- you can't
23 recommend any of those investments in -- in isolation
24 and he recognized that. And -- and so what -- the
25 point that we make in two fifty-three (253) is really,

1 the evidence remained at a theoretical level that
2 really can't be given practical relevance, given the
3 constraints and the realities of MPI's business. And
4 we'll -- we'll talk about those.
5 Over on paragraph 256, this is dealing
6 with the point that the investment strategy reflects
7 the current circumstances and -- and the two (2)
8 realities that I addressed.
9 And if you go over to two fifty-seven
10 (257), that's the first reality, which is the matching
11 -- the matching principle. And it -- it's -- the
12 point -- the point -- the simple point that I wanted
13 to make there is that, you know, when you're -- the
14 claims liabilities are exposed to interest rate
15 movement.
16 And -- and 75 -- 70 percent of the
17 portfolio is dedicated to that task, and that
18 percentage of the portfolio changes depending on the
19 magnitude of the claims liability. So it's driving
20 that 70 percent.
21 And the reason bonds are used for that
22 is because there's a mathematical relationship with
23 interest rates when it comes to bonds. And so there's
24 just a direct movement that -- that goes with them,
25 and that's why bonds are used.

1 Now, there are different types of
2 bonds, and I can talk about that in a moment, but
3 bonds -- what you're trying to do is hedge the
4 interest-rate risk. You use -- you use investment
5 vehicles that move in -- in a direct relationship with
6 interest rates.
7 The other point is in two fifty-eight
8 (258), and it's just useful to remind ourselves that
9 in matching these claims liabilities, that's not
10 something that -- well, that's something that -- that
11 MPI was encouraged to do as well by the Board.
12 I mean, this is not something that --
13 that is -- is something that MPI is doing -- MPI would
14 be doing this anyway as good governance, but it is
15 something that the Board also recognized was
16 appropriate.
17 In two sixty (260), we relate --
18 referenced the fact that MPI had followed Aon's
19 recommendations when it came to the type of matching
20 done.
21 And in -- on the topic of the
22 uncertainty of the RSR and -- and rate adequacy
23 influencing the study, that point is made clear in two
24 sixty-four (264) in the quote from Ms. Spiropoulos
25 where she talks about the risk tolerance being low in

1 that they have the mandate for break-even instead of
2 targeting a profit.
3 And there's an extensive process to
4 change the targeted levels of reserve, and MPI does
5 not have direct control over the premium rate. And --
6 and so they recommended a portfolio at the lower end
7 of the risk spectrum, so you see those
8 interrelationships.
9 Now, in terms of the response to Mr.
10 Viola, we -- we talk about that on paragraph 268.
11 Let's start there. And there's -- there is -- the key
12 points are set out on the slide in front of you, and
13 the first one that I really want to deal with is the
14 point which starts at paragraph 269, that rate
15 stability is a virtue, not a problem.
16 And I can -- I can step back and I can
17 intellectually understand everything that -- that Mr.
18 Viola is saying, but it -- it reflects an approach
19 that is influenced by the -- the world that he comes
20 from, which is a pension world, and not a world of a
21 rate-regulated entity where there are people who don't
22 want instability in their rela -- rates and volatility
23 in their rates, and where there's been a long-term
24 expectation that there will be rate stability and that
25 there will be predictability in rates.

1 And so nowhere is that dichotomy more
2 clear than his characterization of the problem and the
3 symptoms on that slide. And My Friend Mr. Williams
4 pulled that up. But the problem that he characterized
5 was the short-term focus on rate stability.
6 And -- and the recommendations that he
7 is talking about in terms of -- you know, he's raising
8 these issues of real return bonds and Canadian
9 equities and the like. Those are all symptoms of a
10 point of view about the relative merits of rate
11 stability.
12 And it's worth going back and thinking
13 about the current -- the -- the results of where we've
14 been over the last number of years and reflecting on
15 the fact that we've had rate stability. And we've
16 also had relatively low rates when we -- when we look
17 at everybody else in the country and how they're
18 doing.
19 So -- so this is not a problem that
20 needs to be fixed, in my view, that we are accounting
21 for rate stability because rate stability matters.
22 Now, in -- the Canadian and
23 international equities starts at two seventy-five
24 (275). And this is -- there's two (2) points here.
25 First of all, again was the -- that Mr. Viola

1 ultimately deferred to the people managing the
2 portfolio to determine whether or not this was a good
3 idea.
4 The second point which is in two
5 seventy-six (276), in the last paragraph, from Aon
6 here is being quoted, and it -- it's showing that Aon
7 did an analysis of moving various amounts of Canadian
8 equities to international equities. And the analysis
9 indicated that it increased risk and did not improve
10 reward.
11 So I hear what Mr. Viola is saying,
12 but, you know, we -- if one accepts that rate
13 stability is -- is a valid objective and -- and one
14 accepts Aon's analysis, which -- which should be
15 accepted, that this -- this issue is one of -- is one
16 of more theory than -- than practical application.
17 Real return bonds. Real return bonds
18 are, as Mr. Viola described and is set out in
19 paragraph 278, our shaky goalie missing real return
20 bonds. It's -- his issue of the shakiness that we're
21 dealing with is the poor liability protection against
22 unexpected inflation.
23 And in two eighty (280), you know, by
24 Mr. Viola's own admission, it's a costly form of
25 insurance against inflation. And I underscore that

1 because the current inflation rate is -- is low. And
2 in paragraph 281 we set out the implications of what
3 incorporating these are.
4 Now, the yield -- the -- the yields on
5 these real return bonds are lower than the average of
6 the portfolio. And so what that does -- it has a
7 number of effects. Not only does it affect -- not
8 only does it reduce your portfolio return, it also
9 impacts your claims discount rate.
10 And when you reduce your discount rate,
11 what that does it drive your rates up. And the
12 adoption of our real return bonds would require an
13 increase in premium rates that goes above what has
14 been proposed. That is the upshot of the
15 recommendation if it were to be -- if it were to be
16 implemented.
17 The other point is the point that we're
18 thinking -- that we should be thinking about is that:
19 If this is really a concern, that we're not hedging
20 inflation rates, well, then we should be going back
21 and looking at the DCAT because the DCAT is not
22 treating inflation risk as a real risk to the
23 solvency, and so you can't have it both ways.
24
25 (BRIEF PAUSE)

1 MR. MATT GHIKAS: So in 7.5, this is
2 paragraph 286, we see that -- that MPI has these asset
3 liability management studies done on a periodic basis,
4 and one (1) has been scheduled. But, in the meantime,
5 it's -- the portfolio is being managed.
6 To listen to My Friend, Mr. Williams,
7 one would think that the portfolio is a rudderless
8 craft moving forward between four (4) year intervals,
9 and obviously that is not the case.
10 And we say that conducting another ALM
11 right now is premature, and the reason it is premature
12 is, of course, that the parameters are uns -- un --
13 the parameters that influence it are not solidified
14 yet, and we're hoping that -- and we're looking to the
15 Board to -- to bring some of that certainty. And once
16 those things are locked down, once we have our house
17 in order, then we can go and look at these issues
18 again and see whether the current approach is the
19 right approach. But we need to go forward in the
20 order that makes sense.
21 In two eight-seven (287) it raised --
22 Ms. Spiropoulos's evidence raised an interesting
23 point, and that is that these components of the ALM
24 Study are -- there's three (3) main components, and
25 two (2) of them are relatively stable.

1 And the one (1) that is not stable, as
2 she says, is the -- the factors that change ALM
3 outputs are the constraints imposed to reflect
4 objectives and risk tolerance. And that underscores
5 the point that I'm making, that we need to nail down
6 how much money we've got before we decide how to
7 invest it.
8 So the next section is -- is
9 benchmarking, and I -- I really will move past that.
10 There is a slide that sets out the key points that - -
11 that -- the oper -- the -- the metrics dealing with IT
12 I'll deal with separately in the context of IT, but I
13 think we can move past that section.
14 IT, I'm going to spend a bit of time on
15 and, just to give you a heads up, the rest of it will
16 move quite a bit faster. The key points on IT. This
17 is -- this is an area where, of course, I alluded to
18 CAC spending forty (40) pages of its closing asking
19 for evidence that MPI walks the walk.
20 And they appear to accept, I believe,
21 that the framework is a good one if it's applied. And
22 so -- but to hear My Friend's submission is really --
23 one would come away with the impression that Gartner
24 had never done its analysis. There was one (1) slide
25 on Gartner's analysis when it came to IT out of that

1 forty (40), and it contained two (2) -- two (2)
2 legitimate comments from Mr. Geffen but they were not
3 reflective of the overall results. And I'll take you
4 to the overall results which show a very, very
5 different picture.
6 And this -- this I should add is -- is
7 an important consideration when one considers CAC's
8 submission that the Board should give MPI's rate
9 increase -- should set it on accepted actuarial
10 practice, and then give a haircut to send a signal to
11 MPI. I alluded to that previously. But this evidence
12 demonstrates that that would be not only unprincipled
13 but also unwarranted.
14 So in 9. -- nine point one point two
15 (9.1.2), the -- we talk about IT cost containment, and
16 I won't dwell on that because they say at -- obviously
17 cost containment efforts are getting picked up in
18 Gartner's work.
19 The focus -- on three twelve (312), the
20 focus to maintaining IT assets. I'll elaborate on
21 that in a minute but it -- what it -- what that --
22 what that section outlines is -- is that MPI is
23 focused on -- it has -- it has been -- it had a
24 deficit. It's now re -- recovered from the deficit by
25 spending money. You have to spend money to get that

1 deficit addressed. And now we're moving into a period
2 where there's sustainable spending. And I'll take you
3 to where Gartner's -- Gartner's work shows that.
4 But this section is really providing
5 that context of, What are we doing with the money?
6 You can't look at the increased IT budget in the
7 abstract. You have to look at it in the context of
8 what we're trying to do. And what we're trying to do
9 is to ensure that MP is -- MPI is on a sustainable
10 footing going forward.
11 Nine point two (9.2) starting at
12 paragraph 318, there's a lot of evidence on the record
13 about the governance processes, and it's -- it's
14 summarized there starting at paragraph 319. And Mr.
15 Geffen commented favourably on these processes, on
16 aspects of these processes.
17 And what I really want to do is turn to
18 the walking the walk, which is -- if we turn to
19 paragraph 330 in the next slide. So this is what
20 Gartner evaluated. And the -- their -- their
21 assessment approach is summarized in -- starting at
22 paragraph 331 and it goes on.
23 Where I want to start about walking the
24 walk is the next slide, which is the overall results,
25 okay. Now, this -- this slide did not figure in My

1 Friend's submissions on Wednesday. The one (1) before
2 you here is what is referred to, and you see that on
3 the bottom of the slide, the overall scorecard -- CIO
4 scorecard score, that's the overall score, so this
5 tells the full story.
6 Now, Mr. Geffen walked us through what
7 this redline means, but I'm going to walk you though
8 it again, because it think it's important. It tells
9 the whole story. So first of all you see our target
10 position over there on the right and you see on the X-
11 axis, the vertical one, that IT spent as a percent of
12 revenue. So that's sort of the -- the -- you know,
13 the spending, and it's a -- it's a type of efficiency
14 metric as it were.
15 And on the bottom you see maturity. So
16 the higher maturity is over to the right. And
17 conversely, as Mr. Geffen pointed out, on the X-axis
18 no spending is at the top, so it's -- it's a bit
19 counterintuitive on the -- on the X-axis.
20 But the story is this, and it's the
21 redline. And you see the first initial upward slope.
22 So that's MPI's spending dropping off. And you see at
23 the bot -- at the MPI 2011/2012 dot there, the second
24 dot in the progress, that looks great on paper,
25 because you're spending less on IT.

1 But as Mr. Geffen pointed out, that's
2 the peak of the deficit. And then MPI spends more
3 money, and so the line is going down in the catch up
4 phase. And now what you're seeing is it drops back,
5 or it goes up, I guess, towards -- the level is
6 moderating as it's going back to the 5 percent mark.
7 And you'll notice that on the
8 horizontal plane it's -- it's equivalent to the target
9 position right now. And so what you're seeing there
10 is that you're entering into a period of more
11 predictability as we move towards our target. And
12 you're seeing as -- as this story proceeds, a story of
13 increasing maturity over time.
14 And in my submission, the position
15 we're in today is a success story, that we're
16 increasing the level of maturity and we're back to a
17 point where we're spending the right amount of money
18 to invest in the assets that -- to maintain the assets
19 that we've invested to come out of that deficit.
20 The next slide really shows this. So
21 that -- that slide was in MPI terms, let's look at it
22 in terms of where they sit relative to their peers.
23 And this is the maturity score. So what I want to
24 harken back to is the fact that My Friend pulled one
25 (1) score where Mr. Geffen had said the maturity in a

1 particular area, business -- what was it, business
2 processes or something like that, was relative -- was
3 relatively low, right.
4 Well, in 340 we point out that that was
5 one (1) of eight (8) maturity scores and that if you
6 look at the other seven (7) and that one (1) in
7 combination, it tells the exact opposite story, right.
8 MPI is steadily improving, as we saw on the redline.
9 And it shows that when you benchmark it against
10 insurance industry it's -- it's on the -- the good
11 side of that, not the bad side.
12 And -- and another significant
13 improvement as we're seeing is -- is in 341 it's
14 referenced and there's -- it's on the next slide as
15 well. It's IT spending as a percentage of operating
16 expense. And you look at this one (1), and of course
17 we heard an awful lot about IT employees and whether
18 they were in-house or out-house.
19 And, you know, the -- looking at --
20 looking at that, and of course, you know, cost is
21 where the rubber meets the road, right? And if you
22 look at this, you're seeing that MPI is outperforming.
23 It improved.
24 The red line at the top of the three
25 (3) there was MPI the previous year, the middle line

1 is the peer group, and MPI is now in the blue line.
2 And -- and so you're seeing that steady improvement
3 and you're seeing that it's outpacing its peers in
4 that regard.
5 Now, Mr. Geffen did say that -- you
6 know, did -- did provide the metrics on the -- on the
7 FTEs, whether they're in-house or -- or out. And --
8 you know, and he did -- he did note that, and that is
9 one (1) of the statistics that -- that was referenced
10 in -- in the scorecard.
11 The important point to take away from
12 this is that there has been some employees that have
13 been moved in, there's plans for more, and that Mr.
14 Geffen did underscore that there are valid reasons to
15 use outside consultants. And those are summarized in
16 -- in paragraph 344.
17 The other -- the only other point I
18 want to deal with in IT is one (1) that comes back to
19 walking the walk, and it comes back to the value
20 management point. And -- and I don't want to dwell on
21 this, but I -- I think it's important to -- to deal
22 with this.
23 In three forty-seven (347), My Friend
24 provided a slide that attributed to Mr. Guimond, We've
25 always done value management, and then proceeded to

1 suggest that that was contradicted by a bunch of
2 evidence. Well, what I set out in three forty-seven
3 (347) is the whole quote. And in fairness to Mr.
4 Guimond, I think that it's appropriate to look at the
5 whole quote.
6 And you will see when you see that
7 whole quote that Mr. Guimond is saying that we have
8 always done value management. Whether it was done by
9 internal audit or whether it was done by other areas
10 of the Corporation, we've always done it. But this is
11 how we do it now.
12 And in my submission, that is
13 consistent with what the other evidence is on the
14 record. The value management approach that has been
15 outlined is a new approach.
16 And what Mr. Guimond was saying was
17 that the concepts and principles behind value
18 management have been applied in the past and they're
19 being applied today, but they're being done in a more
20 formalized framework, and frankly an improved
21 framework, and that's appropriate. But these have
22 always -- these have always been applied. And so in
23 fairness, I think that should be noted.
24 So on IT, in answer to MPI's -- in
25 answer to CAC's question of whether MPI walks the

1 walk, my submission is that you don't need to look any
2 further than Gartner. And had CAC done so, they
3 wouldn't have required forty (40) pages to explain it.
4 PDR. I don't need to dwell on this,
5 but the -- the evidence and the key points that I want
6 the Board to take away from is -- are set out on the
7 screen there, that it's the right foundation for the
8 new normal.
9 And -- and this is something first of
10 all that -- that you'll see the evidence in this
11 section that Mr. Geffen agreed that this is what he's
12 seeing in the industry: the PDR's on track and on
13 budget, that MPI has adopted Gartner's governance
14 recommendations, and that costs and benefits of PDR
15 are defined and achievable, and that specific issues
16 raised have been answered.
17 So very quickly, in 10.1, paragraph
18 358, this is -- this is where -- where -- in three
19 fifty-nine (359) is where Mr. -- Mr. Geffen is
20 indicating that that -- that is what he's seeing in
21 the industry.
22 So if we go to the next -- the next
23 slide, Mr. Geffen -- obviously highly regarded and My
24 Friend, Mr. Williams was kind enough to say as such in
25 his -- in his submissions and -- and emphasize the

1 qualifications of Mr. Geffen -- Mr. Geffen provided a
2 very even-handed review of PDR.
3 And -- and there's no question he
4 identified some issues, but what -- what My Friend
5 didn't do was really tell the whole story, which is
6 that issues had been identified, but that Mr. Geffen
7 was also saying that these issues were in hand.
8 And the evidence that is set out
9 starting in paragra -- or in paragraphs 360 and
10 onwards really tells that whole story. And -- and a
11 good illustration of that is if we go to paragraph
12 364, and the slide that's the next slide -- and sorry,
13 the next one.
14 And you'll see here this is one (1) of
15 the slides from Gartner's presentation, Mr. Geffen's
16 presentation. You'll see the risks down the left-hand
17 side, and the responses, the structures and approaches
18 to address the risks and issues that MPI has taken, on
19 the right. And you'll see those line up well.
20 And in three sixty-six (366), you see
21 the quote from Mr. Geffen in the bolding there, that
22 he thinks there's actually a pretty clear structure in
23 place right now, a well-defined project portfolio.
24 Mr. Geffen also addressed the benefits. And, of
25 course, in -- in three sixty-nine (369), there's a

1 reference to the fact that the benefits have already
2 started to be achieved.
3 The specific issues? They're -- we
4 address those in -- on -- starting on three seventy-
5 three (373). The -- the first one is the hype cycle.
6 And My Friend, Mr. Williams, enjoys the terminology
7 that -- that Gartner uses as much as I do, with the
8 Trough of Disillusionment and inflated expectations.
9 But where we differ is that My Friend
10 put that forward as -- as what appeared to be an
11 indictment of some of the technology that is being
12 incorporated into the PDR process. And that's not
13 what the hype cycle is. The hype cycle measures hype,
14 it doesn't measure value.
15 And the other important point in three
16 seventy-five (375) is what Mr. Geffen said about the
17 hype cycle. That if you're in the Trough of
18 Disillusionment, the appropriate action is to stay the
19 course. Those were his words, "Stay the course." And
20 those are quoted -- his words are quoted in three
21 seventy-five (375).
22 The other -- the other issue, the
23 specific issue that was raised, was -- was Mitchell
24 and the first notice of loss issue. And those are
25 dealt with in -- starting in paragraph 376. And

1 there's a slide on this, as well, where -- where --
2 slide 55, where Gartner's recommendations are -- or
3 Gartner's comments are -- are there.
4 And -- and the -- the thing to
5 emphasize about this is that it's not -- the issues
6 that Mr. Geffen is -- is raising are not with
7 Mitchell. They're -- what he's identifying is that
8 when you have a prog -- a -- a program or a -- a
9 initiative that is -- that is a new initiative, the
10 risk is that it needs to be supported in the long-
11 term. And if it's not -- if it's not marketable by
12 Mitchell to a broader market, then there's less
13 incentive for them to continue to support it.
14 And so he's right to identify those
15 things as risks. He's paid to identify risks. But
16 there are risks in these large IT programs. So the
17 fact that he's identifying risks doesn't mean it's a
18 flaw in the program, it means that it's a risk, and a
19 risk that has to be addressed.
20 And the key takeaway from this is that
21 he is of the view that MPI is doing the right things
22 to address the risks. These things are never risk-
23 free. And, of course, one can't forget that there's
24 also risk in doing nothing.
25 So -- so that's the Mitchell issue.

1 And there's a section on pilot projects. And -- and
2 really, ten point four (10.4) starting at three
3 eighty-three (383) is the summary of that where --
4 where the -- the -- it comes back to this point, that
5 we heard all about the risks on Wednesday.
6 And the point is that MPI is well aware
7 that there are risks, as there would be with any
8 significant project that touches on a core element of
9 the business. But the appropriate approach is to
10 address the risks and incorporate appropriate checks
11 and balances. And in 385 and 386 we're just
12 underscoring that that is understood and being
13 addressed.
14 And I should say that 386 is -- is
15 making an important point, is that MPI is committing
16 to do another report on -- on this. And it is a
17 significant issue and we understand -- MPI understands
18 that -- that the Board is interested in it and -- and
19 MPI is going to be undertaking another PDR review.
20 And obviously, the expectation would be, or the hope
21 would be that that would be Mr. Geffen doing that
22 again.
23 But obviously we -- MPI hasn't nailed
24 that down and we don't know what Mr. Geffen's plans
25 are either, so. But that would be the expectation and

1 -- and certainly the hope of MPI is that we would be
2 doing that and that that would be made available to
3 the Board in due course.
4 Loss prevention. Loss prevention is
5 addressed comprehensively in the -- in the submission,
6 but the key points are up on the screen and it's that
7 there's been consistent and dedicated investment to --
8 to road safety and that MPI has a framework in place
9 for identifying initiatives, setting priorities,
10 optimizing, implementing, and oversight.
11 And on the budgeting issue that there's
12 a bottom up budgeting approach and that -- that's a --
13 that is the right approach for optimizing the
14 portfolio, because beneficial programs get funding.
15 That MPI has road safety portfolio initiatives
16 directed at vulnerable users, including cyclists.
17 That MPI's approach to managing risk of
18 wildlife collisions makes the most efficient and
19 beneficial use of policy holder money and that MPI
20 continues to invest in motorcycle safety, augmenting
21 the fact that a lot of the vehicle based programs
22 obviously apply to motorcycles as well.
23 So I'm going to touch on very briefly
24 the next slide, just to indicate what this is. So
25 this was Mr. Keith's slide just defining what the loss

1 prevention programs include, so there's a summary
2 there.
3 And then on the framework on the next
4 slide, you'll see that there's a discussion of the key
5 points being that the framework is -- is in place and
6 it's incorporating a lot of different elements and
7 it's enabling tracking and benchmarking and there's
8 work underway. You heard about the work underway to -
9 - to improve the ongoing ability to monitor the
10 effectiveness of programs.
11 There's another slide on value
12 management and you heard My Friend on Wednesday hold
13 up the value management business casing that -- that
14 MPI does in the road safety area as a -- as a model.
15 So I won't -- I won't dwell on that.
16 There's a slide on the valuation
17 framework, which was from Mr. Keith's -- Mr. Keith's
18 presentation. And then on the next slide is the slide
19 that I just want to -- to deal with in a little bit --
20 a little bit more detail.
21 The -- the first one (1) was dealing
22 with budget optimization. And the point that MPI
23 wanted to make on that and we -- we heard from My
24 Friend, Mr. Monnin, that -- you know, that budget
25 optimization is key.

1 And the submission of MPI is that the
2 optimized budget isn't a number. It's the output of a
3 good framework. And whatever the output is of a solid
4 framework that's put in place, that is an optimized
5 budget. And the important point is that these
6 frameworks have been put in place now.
7 And as I say in the third bullet, they
8 should -- those frameworks should be given an
9 opportunity to fulfill their mandate. And we should
10 be recognizing, as part of this process, that MPI is
11 part of a broader provincial flame -- framework and
12 that that framework does employ principles of social
13 costing.
14 MPI is an insurance company and its
15 primary objective is to reduce claims costs, but does
16 account for human toll in an appropriate manner. And
17 you will see referenced -- the ref -- referenced in
18 this section the evidence that Mr. Keith is speaking
19 to. The fact that the -- the framework and the
20 mandate for the Provincial policy -- Provincial frame
21 -- committee does include that broader social cost.
22 And, of course, that stands to reason
23 because you're -- you're dealing with it on a
24 jurisdictional level where you have the players there
25 like the hospitals and the -- you know, all of those

1 types of stakeholders at the table.

2 And -- and really the point is that MPI

3 isn't going to be spending money to improve the

4 services at the hospital, even if that's increasing

5 social costs welfare because MPI is an insurance

6 company and should be focused on its role. Where is

7 its value add in the -- in the broader system, and

8 that -- that gets picked up because the framework is

9 now in place. And that framework was designed by IBM,

10 so it's -- you know, it's -- it's a real legitimate

11 framework, and it should be given a chance to do its

12 work.

13 Paragraph 403 deals with My Friend, Mr.

14 Monnin's, submissions on Safe Systems and targeted

15 outcomes and Vision Zero, and the like. And my -- my

16 submission is that a lot of those submissions were --

17 they were just missing the -- the key point. That

18 those -- what the witnesses were -- were saying was

19 that Safe Systems and Vision Zero aren't mutually

20 exclusive.

21 One is -- one (1) is an aspirational

22 objective, and it can be reached by applying the Safe

23 Systems approach. So I think that key point is -- was

24 missed in My Friend's, Mr. Monnin's, submissions.

25

1 (BRIEF PAUSE)

2

3 MR. MATT GHIKAS: One brief point on
4 wildlife. This is on four twenty-six (426). And the
5 only point is that the -- MPI's approach to wildlife
6 is the product of -- of a study. It's the product of
7 a study, and of the cost -- of a cost benefit
8 analysis.
9 And the cost benefit analysis, the
10 output of that is that the -- the activities that MPI
11 is doing, targeted activities, is the best use of
12 money.

13

14 (BRIEF PAUSE)

15

16 MR. MATT GHIKAS: Now, very briefly on
17 other matters. So the first one (1) is the accepted
18 actuarial practice. You know, my submission is that -
19 - is -- is simply that most elements of MPI's rate
20 making does accord with accepted actuarial practice.
21 And the exceptions to that, which are identified
22 clearly in the section on accepted actuarial practice
23 in the Application. They're intentional and they
24 reflect a long-standing mandate to achieve break-even
25 net income.

1 And accepted actuarial practice is
2 obviously -- it's accepted actuarial practice because
3 it's generally accepted as a good practice, but it
4 also recognizes that there are differences, and that
5 there are regulatory differences among jurisdictions,
6 and I put some of that to Ms. Sherry in cross-
7 examination.
8 And -- and that the current methodology
9 has served Manitobans well. And so if we're going to
10 go the route of accepted actuarial practice, we need
11 to understand what the implications of it are. And,
12 of course, if we had adopted accepted actuarial
13 practice this year the rate increase would have been
14 much larger.
15 And the other point, which I think I --
16 I want to make sure does not get lost in the mix, and
17 that is that accepted actuarial practice is not a
18 silver bullet. That it doesn't eliminate the
19 potential for capital depletion, or the possibility
20 for RSR rebuilding fees.
21 Accepted actuarial practice looks at
22 things differently. It looks at it from the
23 perspective of, you know, forecasting the costs
24 forward from policies written this year. So we tried
25 some matching from the policies written this year.

1 But losses still flow onto the balance
2 sheet, and there can be losses from prior years that
3 still flow onto the balance sheet. And so it's still
4 -- we still have to be governing the Corporation in a
5 manner that reflects the fact that there will be
6 losses and that they have to have capital available to
7 absorb that.
8 So there's the potential for RSR
9 rebuilding fees just as much under accepted actuarial
10 practice as there is under the current system.
11 And finally, on motorcycle rates, I
12 won't -- I won't dwell on that, but the -- in -- the -
13 - the middle point is -- is the key one, because My --
14 My Friend Mr. Oakes's submission was really aimed at
15 characterizing MPI as finally having seen the light
16 after doing things wrong for ten (10) years, and -- or
17 six (6) years, or however long it's been since that
18 spike in costs, and finally seeing, you know, the
19 equity and eliminating this outlier.
20 And that's not -- that's not the
21 exercise that MPI did. This exercise is to promote
22 rate stability, and it recognizes that we already know
23 what the riding season data looks like.
24 And so applying a common-sense approach
25 to this, which is a concept that is, you know, picked

1 up by accepted actuarial practice, that if you know
2 that they're going to see a decrease, the odds are
3 they're going to see a big decrease next year if you
4 increase their rates, why would you increase their
5 rates this year?
6 It's a practical solution, and -- and
7 the existing methodology will continue to serve. And
8 of course, I -- I should note that going to a three
9 (3) or four (4) year methodology in the year following
10 that spike would not have been a happy time for Mr.
11 Oakes's clients.
12 And so, you know, you have to be
13 careful what you wish for in these cases. And in my
14 submission, it may work well right now to have a short
15 period of time, but it's not always going to be the
16 case. And that's why we used ten (10) years.
17 So that takes us to the conclusion,
18 perhaps mercifully for everyone. And -- and it is set
19 out on this slide, and that is that this really is an
20 opportunity for the Board to resolve these long-
21 running issues, and that doing so is in the interests
22 not only of MPI, but of policyholders as well.
23 And it will position MPI to look -- to
24 deal with the challenges that are facing the Company,
25 which are self-evident when you look at the -- you

1 know, the surrounding uncertainty in invest capital
2 markets and -- and in the insurance industry
3 generally.
4 And it'll allow MPI to meet those
5 challenges, and it will allow them to do so while
6 preserving rate stability in a way that Manitobans
7 frankly have expected and have experienced for
8 decades. And in my submission, that is a
9 demonstration of these proposals being just and
10 reasonable, and -- and the approval should be approved
11 as sought.
12 And the only final comment I would
13 have, Mr. -- Mr. Chairman, is that -- is the -- the
14 timing, the practical issues of timing of
15 implementation of orders.
16 And -- and I thought I should
17 underscore the -- the -- for rates to be put in place
18 by the beginning of the -- the policy year, the
19 systems changes that have to take place, and the
20 regulation drafting and the like does have to occur.
21 And the timing really is that an order would have to
22 be issued by December 1st.
23 Now, we're sitting this year later than
24 we have in -- in other years. But my -- my proposal
25 or -- or a suggestion for consideration, because MPI

1 fully recognizes that really is a tight timeline for
2 the Board to deal with these issues. But in my
3 experience, tribunals often deal with situations like
4 this if necessary by granting an order with reasons to
5 follow. So the -- the key elements of the decision
6 are reflected in the order, and the reasons can
7 follow.
8 And certainly MPI understands the --
9 the circumstances and would have no issue with that
10 type of approach as well if that -- if that better
11 suited the Board. But we are against a -- a bit of a
12 practical timeline.
13 So those are my submissions, and -- and
14 I -- I do invite any questions, if there are any. But
15 otherwise, I'm -- I'm -- I'm finished. And MPI
16 appreciates the hearing. It was -- I can -- I can say
17 with sincerity that this was a very pleasant
18 environment to be in and I -- I would commend
19 everybody in the room.
20 And I thought I should -- I actually
21 did want to say that Ms. McCandless dealt with a very
22 difficult situation being tossed into the deep end in
23 the middle of that. And I thought that professionally
24 I thought I wanted to single out Ms. McCandless for
25 having done very well in a difficult situation that I

1 can relate to, so I did want to say that.

2 THE CHAIRPERSON: Thank you, Mr.

3 Ghikas. I'm going to ask the panel if they have any

4 questions.

5 Okay, please.

6

7 (BRIEF PAUSE)

8

9 BOARD MEMBER MORIN: I wonder if I

10 could refer you to page 96 of your larger document.

11 And this might be a question for Ms. Reichert.

12 Paragraph 249, 250, and 251 I think you make a point

13 that neither MPI, nor PUB, can direct investment

14 strategy.

15 So my question would be more: What --

16 what is the role and what influence has the Investment

17 Committee from MPI have relative to the work that

18 they're doing with the Treasury Department or the

19 Minister of Finance?

20 MR. MATT GHIKAS: I -- what I -- what

21 I -- I will let Ms. Reichert speak to this, obviously.

22 Ms. Reichert is obviously a witness and not the

23 counsel. But -- but I -- I will say what -- what the

24 point is in that -- in that submission is really -- is

25 really to indicate that, you know, the PUB obviously

1 has a role in setting rates and rates are impacted by
2 investment income.
3 And so, you know, the -- the role of
4 the PUB is there in the sense that -- that when
5 setting rates you're looking at the impacts of -- of
6 investment income certainly, but -- but rather it was
7 a caution against the directions that aim specifically
8 at modifications to the portfolio.
9 So that was the purpose of that. And I
10 will allow Ms. -- Ms. Reichert to speak to that and
11 put her on the spot here, but...
12
13 MPI PANEL 1:
14 HEATHER REICHERT, Previously Sworn
15
16 MS. HEATHER REICHERT: That's not a
17 problem.
18 So, as is stated, it is ultimately the
19 Minister of Finance's responsibility for our
20 investment portfolio. As has been discussed at this
21 hearing on -- this hearing and previous hearings, we
22 do have the Investment Committee working group that is
23 comprised of individuals from the Department of
24 Finance that advise the Minister as well as MPI staff.
25 Myself and the ADM of -- of the

1 treasury branch are co-chairs of that committee. So -
2 - so that committee does all of the heavy lifting,
3 does all of the research, looks at what is happening,
4 looks at what we -- what we need from an investment
5 perspective and makes recommendations to the
6 Investment Committee of our Board.
7 Now, the Investment Committee of our
8 Board really is there, that we have investment experts
9 on that -- on that Board. And they are there to
10 appreciate, challenge, make sure that they are
11 comfortable with what ultimately the Department of
12 Finance staff go to the Minister with and say, This is
13 what we are -- are saying as the Minister of Finance
14 that you need to do, so.
15 And then technically, legally, any of
16 the contracts for our investment managers are between
17 the Department of Finance and those investment
18 managers, and that's from the -- the legalities of it.
19 So it is fair to say that in the most
20 recent past any work that the Investment Committee
21 working group has done and any of the recommendations
22 that the Investment Committee has made to the
23 Department of Finance and the Minister have been
24 accepted.
25 But there has been occasion, not in --

1 in my lifespan at MPI, but there have been occasions
2 where in fact recommendations were not accepted. The
3 -- the more and better work that the Investment
4 Committee working group does, the more that we
5 eliminate the possibility that the Minister is not
6 going to accept the -- the recommendations.
7 But -- but, ultimately, he -- he can
8 decide to do something different than what -- than
9 what we suggest and what the Investment Committee of
10 our Board recommends.
11 BOARD MEMBER MORIN: So just as a
12 followup. So, in fact, over the last number of years,
13 based on, you know, good research that you've done,
14 you have been able to influence government relative to
15 the investment portfolio at MPI?
16 MS. HEATHER REICHERT: Well, yes.
17 Yes, from the standpoint of if we have made
18 recommendations on, for instance, we moved away from
19 doing active investing in the -- in the United States
20 because the fund that we were using was stopping
21 providing dividends. And so we recommended that we
22 take a more passive approach and get into a fund that
23 was for sure going to be paying us income on an annual
24 basis.
25 That was accept by the Department of

1 Finance and ultimately the Minister, and that was the
2 direction that we went.
3 BOARD MEMBER MORIN: Okay. Thank you.
4 THE CHAIRPERSON: A followup on that
5 area. Under the terms of reference, and I don't know
6 if terms of reference is the -- are the right words,
7 for the investment committee, can there be investments
8 in international equities?
9 MS. HEATHER REICHERT: Yes, as -- as
10 the investment policy currently -- currently is stuck,
11 we -- we could have investments in international
12 equities.
13 And it -- it is interesting that you
14 raise that particular one, because that was, as I
15 understand it, many years ago, one (1) of the
16 recommendations that was made by our investment
17 committee, to move into international equities. At
18 that time it was not accepted by the Minister of
19 Finance.
20 THE CHAIRPERSON: Thank you. The
21 second and final question I will have is for Mr.
22 Ghikas. And I -- I believe I'm quoting you correctly
23 here. You're talking about Naive versus SIRF and you
24 say:
25 "The question is whether we should

1 use Naive rather than SIRF, but no
2 one's advocating it because everyone
3 is expecting interest rates will go
4 up."
5 I guess my question, and I asked this
6 once before is: No matter which economist was
7 speaking, everybody looked at the table and said,
8 Well, Naive is closer, because interest rates haven't
9 gone up, but interest rates are going to go up.
10 And I guess I'm just having a small
11 problem with that in the sense of interest rates
12 really haven't moved for a long time, but everybody
13 seems to be certain that over the next year interest
14 rates will move up. And I was just wondering if you
15 could -- if you could comment on that?
16 MR. MATT GHIKAS: Sure. I think -- I
17 think the con -- the context of -- of that reference,
18 assuming -- I think what I was saying is that the real
19 -- one could res -- or one could reasonably ask the
20 question of why the -- why we're treating the SIRF as
21 the starting place to depart from that when we're
22 looking at should it be -- should it be the SIRF,
23 where you could -- you could in fact reasonably as the
24 question, given that the Naive has performed better,
25 why not the Naive rather than, you know, why not the

1 SIRF.

2 And -- and so I think -- I think the

3 evidence is, as you've alluded to is that the experts

4 are saying -- Dr. Cleary, for example, isn't

5 recommending the Naive, because he does think they're

6 going to go up. But -- so if I understood you

7 correctly the discomfort is -- is that -- that why are

8 we so optimistic that they will go up?

9 Is that the thrust of the question?

10 THE CHAIRPERSON: Yeah, it's -- what's

11 the basis for everybody -- we have disagreements on

12 approaches, but agreements on interest rates going up.

13 MR. MATT GHIKAS: Yeah.

14 THE CHAIRPERSON: But we have no

15 evidence over the last year -- eight (8) years of

16 interest rates going up --

17 MR. MATT GHIKAS: That they're

18 actually going to do that.

19 THE CHAIRPERSON: -- but -- but it's -

20 - it's sort of this view of, Well, we think that they

21 will go up, because eventually they have to go up.

22 MR. MATT GHIKAS: Yeah.

23 THE CHAIRPERSON: MPI files the

24 application every year. You know, I -- I'm not --

25 we're not going to write a decision based on what we

1 think, but I -- I just question if last year people
2 thought interest rates were definitely going to go up.
3 And I was just wondering about that.
4 MR. MATT GHIKAS: Well, yeah, and -- I
5 mean, it is -- it is a fair question. I mean, the --
6 you'll see that in the last six (6) months that chart
7 changed, right. I mean, it -- it went down again.
8 After our Naive -- our Naive went -- dropped again,
9 because they went -- they went down further.
10 The -- my understanding is that the
11 forecasting is being done on a -- sort of a MEAN
12 reversion assumption, where these are all -- these are
13 all looking back over the long history of interest
14 rate forec -- of interest rates and they're saying,
15 Okay, well since 1956 or whenever it was, you know,
16 this has been the mean rate.
17 And -- and so they got to come back
18 there eventually, and -- and I'm -- and -- and that's
19 -- you know, I'm taking this from a layman's
20 perspective, as well, but that -- that -- it's that
21 historic mean reversion that's driving those -- those
22 forecasts to actually increase at some point.
23 And, you know, the evidence was, you
24 know -- and I think you were alluding to those, Is are
25 we in a new world now after 2008? And -- and I think

1 the evidence -- you know, you heard from Dr. Simpson,
2 I think, that, you know, at some point, you know,
3 inflation will pick up and interest rates -- you know,
4 as the economy gets going again inflation will pick
5 up, and -- and interest rates will respond to that.
6 And so I think that's -- that's part of
7 it, is that people are hoping and looking to see,
8 well, the economy, is it on an upward trajectory.
9 And, you know, if it is, well, will we see inflation
10 and will we see interest rates responding to that?
11 So I think that's where -- where that's
12 coming from but, I mean, in my submission you're --
13 you're asking a reasonable question because when you
14 look at the -- the history, that's why I phrased it
15 the way I did which is, you know, everybody seems to
16 be asking the question; Why not the SIRF?
17 And when you -- when I look at the
18 data, and obviously my opinion doesn't really matter
19 here but when I look at the data and I look at what,
20 you know, the experts are putting forward I'm -- my
21 question is, Why not the Naive? That's where I'm
22 starting from as a -- as a person looking at that
23 data.
24 And that -- that would be, you know, in
25 my submission the logical question to be asking as the

1 Board. But again MPI is not -- you know, that --
2 there is -- there is a consideration here where that
3 approach would reduce risk substantially but it would
4 also drive a fairly substantial rate increase, and --
5 and MPI is -- is alive to that.
6 So when we have the -- you know, the
7 expert evidence of -- of Dr. Cleary who I submit the
8 Board should have, you know, regard for that -- you
9 know, and he was quite candid that, you know, 50/50,
10 there is judgment in that. It's not -- it's not --
11 people are characterizing it as arbitrary.
12 It's not arbitrary. It's judgment.
13 And he's applying his judgment based on what he knows
14 about the capital markets. It's no more arbitrary
15 than the SIRF. You know, it's a bunch of experts
16 getting in a room and trying to figure out what the --
17 what the analysis is based on what they know about the
18 current conditions.
19 And -- and you have that evidence
20 before you, and in my submission that's a reasonable
21 approach to take. And it's one that we're -- harkens
22 back to the archer analogy where, you know, you aim at
23 the middle. And -- and as a practical matter that
24 seems, from a lay person's perspective, to be an
25 appropriate perspective.

1

2 CLOSING COMMENTS BY THE CHAIRPERSON:

3 THE CHAIRPERSON: Thank you. Okay. I

4 have some closing comments. Thank you for the

5 submission, Mr. Ghikas and MPI.

6 This concludes the 2017 Manitoba Public

7 Insurance Corporation General Rate Application

8 hearing. On behalf of the Board panel, I would like

9 to thank everyone for their cooperation and

10 professionalism throughout this hearing.

11 This includes those who sat in the MPI

12 front row during the hearing, including Mr. Guimond,

13 Ms. Reichert, Mr. Johnston, Mr. Keith, Mr. Triggs, and

14 MPI's counsel for this hearing, Mr. Ghikas.

15 The MPI back row, including Ms.

16 Robinson, Mr. Crozier, Ms. Christoph, Mr. Bunston, and

17 Mr. Sprenger, and we thank today Ms. Martin, Mr.

18 Bunko, and Mr. Wennberg, for also attending.

19 The Intervenors, CAC, CCMG, Bike

20 Winnipeg, and CAA, and their respective counsel and

21 representatives, Mr. Williams assisted by Mr. Wheeler

22 for CAC, Mr. Oakes for CMMG, Mr. Monnin for Bike

23 Winnipeg, as well as Ms. Miller for CAA.

24 All of the witnesses who testified

25 before the Board, the presenters Mr. Houghton and Mr.

1 Grey, as well as Mr. Chartier on behalf of Canadian
2 Fleet Services, who made submissions this year.
3 I'd also like to thank the Secretary of
4 the Board, Mr. Darren Christle, the Assistant
5 Associate Secretary Ms. Jennifer Dubois, and our
6 Hearing Officer Ms. Diana Villegas assisted by Ms.
7 Angela Wilde, our court reporter, Digi-Tran including
8 Mr. Sean Coleman and Ms. Wendy Woodworth, our advisors
9 Mr. Cathcart, Ms. Wedlake, and Mr. Pelly; and our
10 counsel, Ms. Grammond until her appointment to the
11 Court of Queen's Bench, and Ms. McCandless.
12 I heartily concur with Mr. Ghikas's
13 comments about your ability to assume additional
14 responsibilities in these happy circumstances.
15 The Board also appreciates the members
16 of the public who took time to sit in during the
17 course of the hearings.
18 The panel will be meeting in the very
19 near future, in about five (5) minutes, to start
20 deliberations and make our final determinations on the
21 matters before us. We understand your comments in
22 terms of the need for a swift decision, and we will
23 take that into account.
24 This concludes our hearing. Thank you
25 for attending. Thank you.

1 MR. MATT GHIKAS: Mr. Chairman, I have
2 one (1) -- one (1) question.
3 With respect to Ms. Reichert's comments
4 this morning, would you like to, Mr. Chairman, direct
5 that that be part of the evidentiary record?
6 THE CHAIRPERSON: Yes, I would.
7 MR. MATT GHIKAS: Thank you.
8 THE CHAIRPERSON: Yeah. Yes, I would.
9 Thank you. Thank you, all.
10
11 --- Upon adjourning at 12:16 p.m.
12
13
14 Certified Correct,
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16
17
18 _____
19 Sean Coleman, Mr.
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