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MANITOBA PUBLIC UTILITIES BOARD

RE:

MANITOBA PUBLIC INSURANCE
DRIVER SAFETY RATING

Before Board Panel:

Graham Lane - Board Chairman
Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
April 15, 2009

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APPEARANCES

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1 --- Upon commencing at 9:04 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. I think where we left off yesterday, I believe
5 Ms. Bowman had completed a round of questions, and so I
6 think we're back to Mr. Williams, unless Mr. McCulloch
7 has something else for us.

8 Do you, Mr. McCulloch?

9 MR. KEVIN MCCULLOCH: No, Mr. Chairman, I
10 don't.

11 THE CHAIRPERSON: Very good, sir, okay.
12 Mr. Williams...?

13 MS. MYFANWY BOWMAN: Actually, Mr. Chair,
14 I do have one (1) more question, having had a chance to
15 consult briefly with my clients last night.

16

17 MPI PANEL, RESUMED:

18 MARILYN MCLAREN, Resumed

19 DONALD PALMER, Resumed

20

21 CONTINUED RE-CROSS-EXAMINATION BY MS. MYFANWY BOWMAN:

22 MS. MYFANWY BOWMAN: They would like the
23 Agency -- the Agency -- I'm sorry -- the Corporation to
24 disclose the reports from the focus groups related to the
25 prototype materials.

1 Is that something the Corporation's
2 willing to do?

3

4 (BRIEF PAUSE)

5

6 MS. MARILYN MCLAREN: We will take that
7 as an Undertaking. I'm not entirely sure right now that
8 we received formal reports about the focus groups. We
9 always have our communications staff attend them. They
10 make their own notes. They're really sort of intended to
11 inform, like -- back up a little bit.

12 We've sometimes had problems -- they're --
13 they're the qualitative research. We've had problems
14 sometimes, many years ago, with different companies but
15 wanting to say, Well, six (6) people said this and four
16 (4) people said that and almost putting a quantitative
17 spin on something that really was just qualitative.

18 I'm not sure that we have formal reports
19 from the focus groups any more, but if we have them, I
20 wouldn't see any problem with sharing them.

21 MS. MYFANWY BOWMAN: If there isn't a
22 report or reports, would there be some kind of memorandum
23 or -- or notes or something, just -- my clients are --
24 are interested in -- in just some more detailed sort of
25 sense of what the feedback was and so on.

1 And, certainly, removing identifying
2 information would not concern my clients at all.

3 MS. MARILYN MCLAREN: And focus groups
4 about the forms or -- that -- okay, okay, we will look
5 into that for sure.

6 MS. MYFANWY BOWMAN: Thank you.

7

8 --- UNDERTAKING NO. 10: MPI to supply reports from
9 focus groups related to the
10 prototype materials

11

12 THE CHAIRPERSON: Thank you, Ms. Bowman.
13 Mr. Williams...?

14 MR. BYRON WILLIAMS: Yes, thank you, Mr.
15 Chairman, and -- and just a -- a couple of relatively
16 quick issues.

17

18 RE-CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

19 MR. BYRON WILLIAMS: Mr. Palmer, we've
20 discussed this offline, but I don't know if you have a
21 copy of CAC/MSOS Exhibit Number 4 nearby or not.

22 Do you, sir?

23 MR. DONALD PALMER: I do, yes.

24 MR. BYRON WILLIAMS: And just by way of
25 background, it -- it's essentially looking at two (2)

1 kind of specific examples of certain drivers and how they
2 would perform under the current program versus the -- the
3 proposed Driver Safety Program as it's proposed to roll
4 out over a number of years.

5 Is that -- that right, sir?

6 MR. DONALD PALMER: That's correct.

7 MR. BYRON WILLIAMS: And as I understand
8 the Driver Safety Rating side of the equation, it catches
9 the -- the transition rules, or not -- the transition as
10 reflected in -- as -- as the program is gradually
11 implemented in its full glory.

12 Is that right, sir?

13 MR. DONALD PALMER: That's correct.

14 MR. BYRON WILLIAMS: I just wonder for
15 these two (2) specific examples if you would be prepared
16 to restate these tables under the assumption that the
17 Driver Safety Rating Program was in effect as if fully --
18 as fully envisioned in SM-1 Attachment 'A' as of March
19 2013.

20 Would you be prepared to do that, sir?

21 MR. DONALD PALMER: I can do that very
22 quickly for you, Mr. Williams. On the first page of --
23 of the Exhibit Number 4 there's two (2) changes that
24 would be at the -- in Year 2 where the driver premium is
25 set at one hundred dollars (\$100).

1 Once DSR is in full glory, your words,
2 that would be two hundred dollars (\$200) rather than one
3 hundred dollars (\$100). So an increase of a hundred
4 dollars (\$100).

5 In Year 3 that driver premium that's shown
6 as four hundred dollars (\$400) at the ultimate version
7 that additional driver premium would be five hundred
8 dollars (\$500). The other entries would be the same. So
9 the -- the total of fifty-eight ninety (5890) would
10 become six thousand and ninety dollars (\$6,090) or two
11 hundred dollars (\$200) more.

12 On the second page of that exhibit, with
13 the driver and vehicle premiums that are -- that are
14 shown on there, there in fact is -- is no change.

15 And just -- and I think we talked about
16 this before, there -- there is one (1) correction under
17 the current system that last entry in Year 7 should be
18 nine hundred dollars (\$900) not eight forty (840). We
19 talked about that previously.

20 MR. BYRON WILLIAMS: Thank you for that,
21 Mr. Palmer. You'll also recall our discussion from
22 yesterday morning, we had some discussion of how the
23 Corporation had developed a -- a number of models to
24 consider up -- up to twenty (20) in terms of various way
25 -- various ways to implement Driver Safety Rating.

1 Is that right, sir?

2 MR. DONALD PALMER: Yes, I recall that.

3 MR. BYRON WILLIAMS: And you'll also
4 recall that -- as I understood your evidence from
5 yesterday, while the -- the current applied for proposal
6 of Manitoba Public Insurance was in your view the -- the
7 best fit, there were a number of other proposals which
8 were also reasonably good fits?

9 Is that right, sir?

10 MR. DONALD PALMER: That's correct.

11 MR. BYRON WILLIAMS: And I'm wondering if
12 the Corporation would be prepared and I want to indicate
13 that I'm not looking for a description of the elements of
14 the -- the other models.

15 But -- but a -- if the Corporation would
16 be prepared to provide data whether graphically or
17 numerically which provides a comparison of the goodness
18 of fit of the top three (3) models?

19 Would you be prepared to do that?

20 MR. DONALD PALMER: I don't -- the -- the
21 top three (3) models might be difficult to get. We can
22 get you three (3) very good models.

23 Because we ran so many to compile them all
24 and do a goodness of fit comparison of them all, that
25 would take a considerable amount of time.

1 We can pick out three (3) that we think
2 are pretty good and -- and then compare those. Again,
3 that would likely take a couple of days.

4 MR. BYRON WILLIAMS: You'll undertake to
5 do so, sir?

6 MR. DONALD PALMER: We can do that.

7 MR. BYRON WILLIAMS: Thank you, Mr.
8 Chairman. I have no further questions.

9

10 --- UNDERTAKING NO. 11: MPI to provide data whether
11 graphically or numerically
12 which provides a comparison
13 of the goodness of fit of
14 three (3) models

15

16 MR. CHAIRPERSON: Thank you, Mr.
17 Williams, we are rolling along.

18 Mr. Kruk, does CAA have any questions?

19 MR. JERRY KRUK: Thank you, Mr. Chairman,
20 yes, I do.

21

22 CROSS-EXAMINATION BY MR. JERRY KRUK:

23 MR. JERRY KRUK: First of all let me begin
24 by saying Ms. Wankling, unfortunately, for business
25 purposes can't be here today so she nominated me.

1 In terms of going through our questioning
2 I would like to go and ask Mr. McCulloch a question that
3 I got confused about and it's to do with the present
4 regulation and its present status.

5 Now, as I walked out of here I guess was
6 it yesterday or the day before it was indicated that --
7 that it's in place and it's going in November the 1st
8 come hell or high water -- my words.

9 Is that correct or am I interpreting
10 something?

11 MR. KEVIN MCCULLOCH: Again, Mr.
12 Chairman, since I provided information in response to
13 Board counsel yesterday perhaps I can clarify the
14 situation for Mr. Kruk.

15 When -- when the regulation was submitted
16 to Cabinet in January of 2009 there was a provision
17 Section 12 I believe from the "Reg" which is -- is
18 included in the material -- provision in Section 12 that
19 said the regulation would take effect on the proclamation
20 of Sections 47 to 48 -- sorry, 47 to 58 of Bill C-36.

21 Bill C-36 was a bill introduced in the
22 Legislature to include a number of amendments to the
23 Highway Traffic Act, the MPIC Act, and the Drivers and
24 Vehicles Act covering DSR and other elements of programs
25 that were being introduced so that's the way the

1 regulation read when Cabinet passed it. It would --
2 would have been up to Cabinet at any time prior to the
3 implementation of the program to proclaim those sections
4 and the regulation would come into effect.

5 A few weeks later Cabinet decided to
6 proclaim those specific sections of Bill -- or Chapter 36
7 to be effective November 1, 2009, so where it sits now is
8 that there's nothing further to be done by government to
9 bring that regulation into play, that -- assuming that
10 nothing changes between now and November 1, 2009, it will
11 automatically come into place on November 1, 2009.

12 And that, of course, does not include the
13 -- the premiums or the rates that are being asked for in
14 this application; those will be in a separate regulation
15 or a -- an amendment to the Automobile Insurance Coverage
16 and Rates Regulation which is a regulation under the MPIC
17 Act so that that -- whatever comes out of this Hearing as
18 far as rates is concerned will be put forward to the
19 government in a separate regulation.

20 MR. JERRY KRUK: Thank you for that;
21 however, let me -- let me just pick up on something.
22 Does that then mean that all of the specifics on merits,
23 demerits and the -- the workings of this particular
24 regulation stand as is and there's no changes to it?

25 MS. MARILYN MCLAREN: I can take that,

1 Mr. Kruk.

2 That would be up to the government. They
3 change regulations, they pass new regulations, they
4 modify regulations fairly frequently.

5 If something happened between now and the
6 startup of the program where they wanted to for whatever
7 public policy reason they would choose, they wanted to
8 change the demerit point assignments, they -- they
9 certainly have the authority and the mechanisms to do
10 that.

11 MR. JERRY KRUK: I appreciate that. Now,
12 they would take advice from MPI because I assume MPI is
13 the one that's put forward all of the documentation for
14 them to look at and for them to implement; is that not
15 correct? I mean -- let me go further.

16 If I were to pick up the phone and get a
17 hold of somebody at the government and say I don't like
18 line 52, it's unlikely that that would get me anywhere;
19 however, all of the documentation is on the basis of
20 advice from the Crown corporation, is that not so?

21 MS. MARILYN MCLAREN: Throughout my
22 experience there have been times when changes to
23 legislation or regulation that affect the operations of
24 the Corporation have changed -- been changed by
25 government without them seeking our advice. Sometimes

1 that happens.

2 Usually, governments tend to give us ample
3 opportunity to provide input. Specifically, with respect
4 to your sort of positioning this discussion around the
5 list of merits and demerits and so on and so forth,
6 that's something that the government, every government
7 for decades has always held very closely.

8 We had conversations earlier in these
9 hearings, for example about seatbelts, the fact that
10 there was recommendations from this Board to government
11 that seatbelts should earn demerits.

12 Recommendations came out of this Board for
13 a number of years. More recently probably in the last
14 five (5) years or so the government decided to add
15 demerits for seatbelts.

16 So they are -- they -- they make decisions
17 as -- as using their best judgment. Sometimes it
18 reflects advice they've received, sometimes it doesn't.

19 I'm not sure what else I can tell you
20 about that without being more specific.

21 MR. JERRY KRUK: I understand that, Ms.
22 McLaren, and I thank you for that. I -- I'm -- I really
23 want to get to where that takes me with respect to
24 fairness in some of the particular examples.

25 And you and I have briefly touched on

1 privately, in private conversation, particularly about
2 single vehicle accidents. I -- I want to go through -- I
3 want to go through a couple of examples and I'd like to
4 get perhaps, Mr. Palmer can help me.

5 If I'm in a single vehicle accident
6 presently under the present Bonus-Malus System and let me
7 -- I guess I should lay the ground rules and say that
8 like 97 percent of the populous I'm on the positive side
9 of having merits.

10 And -- and I'm parked in a -- in a mall or
11 in the parking lot in a mall and I come out and I've got
12 my fender hammered up, okay?

13 How is that present -- how is presently
14 that handled for my particular scenario using -- using
15 that as an example.

16 MS. MARILYN MCLAREN: That would be dealt
17 with as a not-at-fault claim. You would not be held at-
18 fault for that.

19 MR. JERRY KRUK: Okay.

20 MS. MARILYN MCLAREN: And you would have
21 to pay your deductible unless --

22 MR. JERRY KRUK: Right.

23 MS. MARILYN MCLAREN: Deductibles are
24 payable unless there's someone else to pay them for you.
25 In this case there isn't. If after the fact we ever

1 found out who caused that damage and -- and were able to
2 hold them responsible, at some point you might get some
3 or all of your deductible back.

4 But a single vehicle accident like that
5 reported where the decision is that it was inadvertent
6 damage -- or not in -- damage caused by someone else that
7 wouldn't be an at-fault accident.

8 MR. JERRY KRUK: So there would
9 effectively be no penalty to me today.

10 MS. MARILYN MCLAREN: That's right.

11 MR. JERRY KRUK: Let's go forward to this
12 system.

13 MS. MARILYN MCLAREN: No change. No
14 change. Exactly the same.

15 MR. JERRY KRUK: So there's no fault --
16 again, no -- no negative to me.

17 MS. MARILYN MCLAREN: Exactly. That's --
18 in terms of the context of how the Corporation would
19 expect to bring together and implement something that is
20 already a substantive change, it's really purposeful that
21 we change as little as we possibly can.

22 That's why there are very few changes to
23 what earns demerits and how many demerits they earn.
24 There's no changes to the finding of fault.

25 There's no changes to what counts as merit

1 eligible vehicles. We know we can go through any number
2 of things like that. You change as little as you can
3 when you're changing the overall conceptual framework of
4 the program. No change at all in that circumstance.

5 MR. JERRY KRUK: Okay. So -- so in --
6 yesterday in conversation I think with Mr. Oakes, you
7 mentioned something about 1988 or thereabouts the
8 particular -- these particular types of things or -- or
9 accidents or whatever followed the vehicle.

10 Those were the words you used. And that's
11 -- that's subsequently been changed. Now in the -- in
12 the example I've set out, tell me how that's not
13 following the vehicle since you don't know who was
14 driving the vehicle, who parked it.

15 MS. MARILYN MCLAREN: What we did in 1988
16 and I believe what Mr. Palmer talked about ICBC doing
17 today, the at-fault accident follows the insurance policy
18 that's on the vehicle.

19 That's what we're talking about. So
20 that's what we did in 1988 when people started to get
21 their renewals. In 1989 many of them found out they had
22 lost their discount on their vehicle because they had let
23 their son or daughter use it and the son or daughter had
24 caused an at-fault accident.

25 So the owner of the vehicle lost their

1 discount. That's what I mean in terms of the at-fault
2 accident effecting the premium of the vehicle owner
3 without regard to who caused the accident that we are
4 modifying that premium.

5 MR. JERRY KRUK: So both today and going
6 forward under the new system, the only thing at risk from
7 my perspective in this -- in this example would be my
8 deductible?

9 MS. MARILYN MCLAREN: Exactly.

10 MR. JERRY KRUK: And in terms of counting
11 accidents and at-fault and so on, I know this is a little
12 repetitive but as we -- as we go forward with this, none
13 of that particular type of single vehicle accident then
14 would count as it relates to any kind of indicators for
15 future at-fault -- for future risk?

16 MS. MARILYN MCLAREN: Exactly.

17 MR. JERRY KRUK: Thank you for that.
18 Now, I -- I know you've answered this next question in
19 several different ways, but I just want to go back to it.

20
21 You used the words several times,
22 including yesterday, the words "net sum game" and -- and
23 I take that -- I took that to mean, early in the
24 hearings, that somehow or other everything was revenue
25 neutral. Yet, subsequent to that, I think both yourself

1 and Mr. Palmer has indicated, including yesterday, that
2 this whole system is not revenue neutral.

3 Is that correct?

4 MS. MARILYN MCLAREN: The implementation
5 strategy that the Corporation has adopted, based on the
6 financial forecast information available to us, is what
7 lead us to apply for the first set of DSR rates on a non-
8 revenue neutral basis, and that's solely because we saw
9 that failing this Board adopting a higher RSR target,
10 there will be too much money in the RSR if we don't do
11 something to reduce the amount Manitobans have to pay.

12 And in this application, we chose to apply
13 for rates that would give lower rates to those slotted at
14 new merit points 8, 9 and 10.

15 So that's the component that makes this
16 not revenue neutral; is the fact that we've applied for
17 lower rates for eight (8), nine (9) and ten (10) because
18 our forecasts show that somehow, someday, we're going to
19 have to reduce rates and that's how we chose to reduce
20 them.

21 MR. JERRY KRUK: Thank you. I understood
22 that. Going forward, is it the intention of this entire
23 process to be revenue neutral?

24 MS. MARILYN MCLAREN: Definitely. And --
25 and we've talked at length about the fact that the

1 sustainability of this reduction that we're applying for,
2 for eight (8), nine (9) and ten (10), is based on the
3 fully implemented cost saving of \$20 million each and
4 every year through reductions in broker commissions.

5 So that is -- that is where that alliance.
6 That -- that saving will increase according to the growth
7 in premiums written through time as there's a very good
8 alignment between the long-term effect of lowering the
9 rates for eight (8), nine (9) and ten (10) and the
10 savings from broker commissions.

11 So that's what makes it sustainable in the
12 long term.

13 Is this framework going to be revenue
14 neutral? Really, that will have to evolve through time,
15 and that will depend on input from Intervenors and
16 decisions by this Board.

17 Is there likely to be, at some point, some
18 sort of shift between how much is received from vehicle
19 owners, how much is received from drivers? Is there
20 likely to be an ongoing shift between how much do the
21 lowest risk drivers pay and how much do the higher risk
22 drivers pay?

23 Some of those may affect the revenue
24 neutrality of the structure we're putting in place, but
25 the overall Basic Compulsory Insurance Program clearly

1 needs to be break even over the long term net sum game
2 revenue neutral.

3 MR. JERRY KRUK: Thank you. I want to
4 ask Mr. Palmer -- I know My -- My Friend, Mr. Oakes,
5 explained this to me, but I'd like to -- I'd like to get
6 this one explained to me on the record.

7 And that is: How can a person have one
8 (1) merit -- your words -- many, many years of safe
9 driving, and not have collected more merits over the
10 years?

11 MR. DONALD PALMER: I -- I'd have to
12 check the transcript. I'm -- I'm not sure that I would
13 have said that one (1) -- a driver with one (1) merit
14 would have many, many years of safe driving.

15 I could -- could have said, Many years of
16 accident-free -- at-fault accident free driving. But
17 because they engage in -- in other -- or get convictions
18 for speeding or for rolling through a Stop sign,
19 something like that, they were unable to get a merit.

20 So -- so it's possible to have that
21 scenario as you've described. I wouldn't say many, many
22 years of safe driving; I'd say many, many years of at-
23 fault accident free driving.

24

25 (BRIEF PAUSE)

1 MR. DONALD PALMER: There's one (1) other
2 scenario that -- that possibly could -- if someone who
3 was -- a very high-risk driver and over a period of time
4 collected many demerits, maybe had many at-fault claims,
5 and then saw the light so to speak and changed driving
6 behaviour and then worked his way up over a number of
7 years under the DSR system, someone who is at twenty (20)
8 demerits would take five (5) -- five (5) years to get to
9 the zero (0) level, five (5) years of completely safe
10 driving, so that's also a scenario that could happen.

11 MR. JERRY KRUK: But that particular
12 driver wouldn't be starting with a merit and -- and many,
13 many years of safe driving; is that not so?

14 MR. DONALD PALMER: He would work his way
15 eventually to get a merit.

16 MR. JERRY KRUK: No, but the starting
17 point is from a demerit perspective as opposed to a merit
18 and many, many years of safe driving is the way I
19 understood it.

20 MR. DONALD PALMER: That's correct, so
21 someone who was a -- say, a -- a brand new driver who
22 engaged in speeding and -- and had some speeding
23 convictions, didn't have any accidents, they could sort
24 of go up into that two (2) or four (4) demerit level,
25 back down, not have any accidents and after a number of

1 years maybe eventually get one (1) merit and if they
2 didn't have any at-fault accidents, they would get a 25
3 percent discount under the current system.

4 MS. MARILYN MCLAREN: Mr. Kruk, if I may,
5 this may not be what you were alluding to but I think
6 it's worth clarifying for the record.

7 The transition is intended to as best we
8 can replicate someone's position this year or next if we
9 had not introduced a new system. It's not really trying
10 to create new starting points for them; it's really
11 trying to -- to bridge the -- the old with the new.

12 So today, you know, someone very
13 legitimately today in today's system could very well have
14 just completed their sixth year of at-fault accident-free
15 driving and have been -- and now be halfway to their very
16 first merit point.

17 They could be, you know, one (1) year
18 after getting to zero. Maybe they had twenty (20)
19 demerits, twenty-two (22) demerits. According to today's
20 system it would have taken them five (5) -- six (6)
21 years, something very similar to get up to zero.

22 So they would have driven for six (6)
23 years potentially claim-free without any other
24 convictions and it would still take them one (1) more
25 year to get their very first merit point.

1 So the fact that these people who are kind
2 of churning around that zero or one (1) merit level and
3 the people who are now getting slotted into discounts
4 that otherwise wouldn't have, that's a reflection of the
5 fact that they probably do present a lower risk than the
6 rates that we've been charging them so far.

7 And we had that conversation earlier in
8 the proceedings as well. So it's very legitimate someone
9 with today's system could have had six (6) years of claim
10 and conviction-free driving and still be sitting there
11 just barely out of the surcharge level, not have a merit
12 yet, not have a discount, but had six (6) years of claim-
13 free driving.

14 MR. JERRY KRUK: Thank you for that.
15 Now, over the past many Rate Hearings that I've sat here
16 and listened in on I was always of the belief and I heard
17 at these proceedings that -- and -- and particularly
18 related to the motorcyclists over and over and over again
19 that anything over -- any -- when you got to a 15 percent
20 rate increase, that was rate shock.

21 Now, I -- as -- do you want to explain to
22 me what's changed with that because as I understand
23 moving -- moving over to the new system, if somebody in
24 fact has an accident, an at-fault accident, they're going
25 to get a 15 percent change?

1 MR. DONALD PALMER: Rate -- rate shock
2 was always defined as all else being equal, not in a --
3 with different classification variables changing so for
4 instance someone who moved from rural -- rural Manitoba
5 into Winnipeg would likely see more than a 15 percent
6 rate change. That's not rate shock because the
7 classification of -- of that driver changed.

8 Same thing with -- with the change in the
9 classification to DSR. Once DSR is implemented if there
10 is a change in driving behaviour enhances his risk
11 classification that's not rate shock.

12 MR. JERRY KRUK: Thank you for that.
13 Speaking about Rate Hearings, going forward what do you -
14 - what do you perceive that the General Rate Applications
15 will look like?

16 Will they be a two-part thing, one -- one
17 of which is for this and the other one is a General Rate
18 increase or decrease or is this all going to be rolled
19 together or how -- how do you perceive the future rate
20 hearings to look like?

21 MS. MARILYN MCLAREN: Again, Mr. Kruk,
22 much like today and I know most of the time because we
23 don't change driver premiums annually by any stretch of
24 the imagination, the focus tends to be on the vehicle
25 rates and in Section AP-1 of the Application we put a

1 rate file and those are all the vehicle rates.

2 There are other pages in AP-1, have been
3 for years. We apply for the Base driver premium. We
4 apply for the Charge 1 additional demerit point premiums
5 and we apply for the accident surcharges. Every year
6 they're in the Application and -- and the Board approves
7 those -- those items, as well.

8 This will be like that. We will apply for
9 driver premiums on every step on the scale as part of a
10 regular GRA. We'll apply for the vehicle discounts for
11 the various steps on the scale like we are today, will
12 just be additional pages in AP-1 the-- the Application
13 section.

14 So very much like today, we will cover
15 drivers and vehicles in one (1) GRA going forward.

16 MR. JERRY KRUK: So you will as a -- as a
17 general sense come forward with what the Corporation
18 believes ought to apply right across the board in terms
19 of the difference slotting of the safety rating and the -
20 - the parts that are left over whatever that might be is
21 going to be part of the rate hearing -- the General Rate
22 Hearing.

23 Because on the basis of this one, you've
24 basically taken with the assumption that there's going to
25 be additional funds going forward on the basis of your

1 financials taking that and applied that to the DSR.

2 So what I'm hearing you say is that is
3 probably going to be the modus operandi going forward?

4 MS. MARILYN MCLAREN: When it comes time
5 to put together the 2011 GRA we will have to see, do we
6 need less revenue overall, do we need more? Let's assume
7 for the sake of argument that we need less.

8 Again in the year beginning March 1, 2011.
9 We'll have to make some decisions about how we think we
10 should use that reduction.

11 Should it be applied to vehicle premiums,
12 should it be applied to driver premiums, should it be
13 shared in some fashion?

14 We have to make those decisions as we put
15 together the Rate Application. We believe in terms of
16 applying for rates at every step of the DSR scale that's
17 absolutely what we have to do.

18 The Board has to approve rates at every
19 step of the scale. We -- we can't charge a rate that
20 they don't approve on that DSR scale.

21 How we decide going forward to collect
22 more money it, you know, if and when we are in that
23 scenario again to reduce revenue overall. It'll be
24 within that overall context that I talked about and it
25 will form the -- the heart of the GRA.

1 more reflective of the risk they present. But there's --
2 there's no way in any insurance scheme, particularly a
3 public insurance scheme, that you can expect those people
4 to basically self-insure. That -- that -- that's not the
5 intention at all.

6 MR. JERRY KRUK: Thank you. And -- and
7 as part of this, one (1) of the things that we -- we
8 spent -- I know you spent a lot of time explaining to
9 people about attitudes and the intent to change
10 attitudinally (sic), where -- where you would hope
11 drivers would go, and we're certainly in favour of that.

12 I -- I guess the question that flows out
13 of that in my mind is that if I take a look at people
14 with five (5) merits and it's 50.62 percent of all the
15 drivers and so on down the line to the zero -- the 96, 97
16 percent -- each and every one of those has a -- is -- is
17 a total number of the drivers in a -- in a respective
18 percentage of the drivers.

19 Now, I would assume -- and I'm asking you
20 this -- that, if we're going to change attitudes, that
21 those numbers would go up, would they not, in order for
22 this to be proved a -- a success?

23 MS. MARILYN MCLAREN: That -- that --
24 definitely, yeah. If people really do change their
25 driving behaviour, those numbers would go up.

1 MR. JERRY KRUK: I guess, given our
2 discussion about the 97 and 3 percent, I'm -- I'm -- I
3 wonder where they're going to come from. Because, at
4 this point in time, you only have the -- the total
5 numbers here.

6 So what -- if, ideally, what you're
7 saying is that they're all going to be the world's best
8 drivers, I'm all in favour of that, but I wonder where
9 you're going to get that from.

10 MS. MARILYN MCLAREN: Well, we really --
11 we're talking about 3 percent here. We have the 3
12 percent to work with, right? There's about twenty-four
13 thousand (24,000) --

14 MR. JERRY KRUK: Yes.

15 MS. MARILYN MCLAREN: -- twenty-four
16 thousand (24,000) people out of eight (8) or nine hundred
17 thousand (900,000) on the demerit side of the scale.

18 We've had conversations that they are
19 disproportionately involved in crashes, and if that --
20 that -- those are the people we're talking about. And
21 that's the only way the top part of the -- the discount
22 side can grow is by those twenty-four thousand (24,000)
23 people by the 3 percent. If that -- I don't know if
24 those completely align, but that's what we have to work
25 with.

1 much to how do you have a program that makes sense and is
2 supportable by the 96 percent, 97 percent who are up
3 there.

4 Who want stability, want predictability,
5 but also want to be rewarded and don't want to be hit
6 hard when they mess up. 'Cause, gosh, it was just an
7 accident. Come on, I didn't have one for ten (10) years.

8 So it's challenging, and you have to
9 figure all of this out as best you can in a way that is
10 directionally actuarially sound and is also very
11 understandable and supportable by the people we're here
12 to serve.

13 MR. JERRY KRUK: Thank you for that. Now
14 let me pick up on a little bit on that.

15 Isn't it more likely, without even looking
16 at actuarial science, that if I've got 97 percent of the
17 drivers that are, at the present time, by definition by
18 our -- our entire system your best drivers, isn't it more
19 likely that -- that many of them are going to go down the
20 scale next year as opposed to the twenty-four thousand
21 (24,000) that you're referring that are going to come up?

22 MS. MARILYN MCLAREN: Because of
23 transition?

24 MR. JERRY KRUK: No, because it's likely
25 some of them are going to be in a collision.

1 MS. MARILYN MCLAREN: Just on a sheer
2 numbers basis, absolutely. There'll be more people who
3 come down than go up because there's more of them there
4 and that's where most of the crashes come from.

5 But simply by virtue of the fact that they
6 will now have, many of them, ten (10) merit points, or
7 seven (7) or eight (8) or nine (9), they're in a better
8 position through this program than they otherwise would
9 have been.

10 They have -- and that's one (1) of the
11 very best things that this new scale will do,
12 particularly as the top end of the scale grows through
13 time. People who are those long-term safe drivers who do
14 mess up, people can have a two (2) pointer speeding
15 conviction when they're up at the top end of the merit
16 scale and have no effect on their premiums at all;
17 otherwise, before they would have lost one (1) of their
18 merit points and, if nothing else, they would have lost a
19 five dollar (\$5) discount on their driver licence.

20 In the new system, they will have a little
21 bit of insulation. They can almost -- almost have no
22 impact once they're up there a few years out as they get
23 closer to fifteen (15) merit points. They can have an
24 at-fault accident and have almost no impact on their
25 premiums. That's not true today.

1 So those shades of grey within the best of
2 the best, we've had conversations about there probably
3 are shades of grey and good, better, best within the best
4 of the best and they will have significant benefit in
5 terms of providing them greater rate stability and
6 discount protection through this program going forward.

7 MR. DONALD PALMER: If I may add to that,
8 in terms of the shades if grey I'd ask you to take a look
9 at SM-5, page 16.

10

11 (BRIEF PAUSE)

12

13 MR. JERRY KRUK: I have it.

14 MR. DONALD PALMER: That -- that chart
15 shows the number of drivers at each DSR level going
16 through time according to the retrospective model. So
17 what this shows is that, at transition, again if this had
18 been implemented in 2001, that the 40 percent, just over
19 40 percent would have ten (10) DSR merits. So that's the
20 best of the best; that's as high -- it's as good as you
21 can get.

22 Going through time, the -- at fifteen (15)
23 DSR in the fifth year of operation, there's 26.7 percent
24 that are considered best of the best. So it -- it
25 expands the scale, gives them an opportunity, the -- the

1 very best drivers, if our plans work out, that they will
2 get a 30 percent discount, the very best of the best.

3 If they have an at-fault accident and lose
4 five (5) merits they would go down to a 25 percent
5 discount which is where they are today. So as Ms.
6 McLaren explained, it -- it sort of expands that good
7 driver into good, better, best; that expands that scale
8 to reward the very best of the best.

9 MR. JERRY KRUK: Thank you. If I turn
10 then to Attachment A of -- and that's SM-1 that shows the
11 scale and the percentages, explain to me then in terms of
12 this discussion how an at-fault accident for a person at
13 present at five (5) merits, I assume he's going to be at
14 ten (10); is that correct?

15 MR. DONALD PALMER: Not quite. It
16 depends on how many at-fault claims-free years he has.
17 So assuming that he has five (5) merits and five (5) at-
18 fault claims-free years he would be at ten (10), yes.

19 MR. JERRY KRUK: Okay. And so I'm -- I'm
20 in that category and I have an at-fault accident. Tell
21 me what happens to me.

22 MR. DONALD PALMER: At that point in
23 time, assuming that's in 2009 the -- or '10/'11, the
24 first year in -- somewhere in there, he would go from ten
25 (10) merits to five (5) merits. So the next year his

1 discount would fall from 25 percent to 15 percent.

2 MR. JERRY KRUK: So, in effect, I would
3 pay the extra 10 percent for that accident?

4 MR. DONALD PALMER: That's correct.

5 MR. JERRY KRUK: I guess the difficulty
6 I'm having is rationalizing that with the discussion
7 we've had about it somehow or rather not costing me or --
8 or not -- not being -- or this system being better for me
9 as one (1) of the better drivers on the present system.

10 MR. DONALD PALMER: In today's world you
11 would pay a two hundred dollar (\$200) surcharge for that
12 if you were six (6) or more claims -- claims-free years.

13 If you were five (5) years claims-free and
14 had the accident, you would lose the entire 25 percent.

15 MR. JERRY KRUK: Thank you for that. And
16 you've -- you've brought up another issue with me because
17 I -- I guess the -- you know, it's -- in general, anytime
18 I get into discussions like this with anyone the old
19 story about follow the money generally is where I want to
20 go with this.

21 So if I -- if I'm in the situation where
22 it makes sense to me to, in effect, pay the claim, and I
23 know we've had brief discussion on this, but pay it off
24 so that MPI doesn't pay for it, do any of the attachments
25 follow me on my drivers licence?

1 In other words, if there's no claim to MPI
2 from an accident, does my record stay where it is or does
3 it somehow or other get impacted anyway?

4 MR. DONALD PALMER: No it's -- it's as if
5 the claim didn't happen. So in that -- in the case that
6 you've described for -- if you were at ten (10) merits,
7 had a claim that you could buy back, then the following
8 year that would still be considered an at-fault claims-
9 free year; you would move to eleven (11) merits.

10 MR. JERRY KRUK: So anyone that is in the
11 position of having two (2) vehicles, instead of getting
12 double-whammied, I -- going forward I can see where
13 somebody would be taking a very close look at whether or
14 not they want to make any of these claims as opposed to
15 the dollars and cents kind of discussion that they'd have
16 with themselves as to whether I'm better off buying it
17 out, so to speak, and -- and not having a claim.

18 Would you agree with that?

19 MS. MARILYN MCLAREN: Again, Mr. Kruk, no
20 more so than would be true today. There's very, very few
21 claims buybacks in terms of the total number of claims
22 the Corporation does handle.

23 People with two (2) vehicles today and
24 have an at-fault accident and lose their 25 percent
25 discount on both vehicles, need -- need to think about

1 whether they want to file that claim today. All of
2 that's true.

3 The examples that we've included in the
4 Application, the examples that I believe both the PUB and
5 CAC/MSOS asked to be included through the IR process,
6 generally speaking, people with good driving records who
7 have an at-fault accident after this program is
8 implemented will pay a little bit less for that at-fault
9 accident than they do today.

10 MR. JERRY KRUK: However, going forward I
11 would suggest to you that -- that the movement up and
12 down the scales are going to be significantly different
13 under the new system than they are under the present
14 merit system because as you've -- as was indicated to me,
15 I get to pay a two hundred dollar (\$200) charge and
16 nothing happens in that particular scenario; or I buy out
17 as -- as you and I are discussing now depending on the
18 economics of the particular scenario.

19

20 (BRIEF PAUSE)

21

22 MS. MARILYN MCLAREN: In just a minute
23 Mr. Palmer will give you an example that basically shows
24 how losing the 15 percent discount and then the next year
25 losing -- or paying -- receiving a 15 percent instead of

1 a twenty-five (25) and then receiving a twenty (20)
2 instead of a twenty-five (25) really ends up, for the
3 average premium, ends up less costly than the two hundred
4 dollars (\$200).

5 And the demerit points, the -- you know
6 the conviction-related component of this scale is really
7 not changed at all and the -- adding the demerit points
8 for the accidents and having one (1) scale instead of two
9 (2) different scales, changing the accidents from a one
10 (1) time surcharge with a three (3) year moving window
11 will be different. But to the extent that we are able to
12 have some -- and -- and demonstrate here some pretty
13 sophisticated modelling in terms of the impact on people
14 and how that aligns, there's -- there's not an argument
15 can be made that somehow the better drivers are going to
16 be at a disadvantage. The evidence that we've put on the
17 table really shows the contrary. But I'll let Mr. Palmer
18 walk you through his example.

19 MR. DONALD PALMER: Just for illustrative
20 purposes, and I'm making the assumption of a non-
21 discounted vehicle premium of a thousand dollars
22 (\$1,000), so someone who currently is assigned ten (10)
23 merits would pay seven hundred and fifty dollars (\$750)
24 for their vehicle premium in the first year. If they
25 then had an accident and moved to five (5) merits for the

1 2011/'12 year, they have a 15 percent discount rather
2 than twenty-five (25). They would, in fact -- that
3 premium, again all else being equal, would go to eight
4 hundred and fifty dollars (\$850) so that's a hundred
5 dollars (\$100).

6 In the second year, if they're claims and
7 conviction free, they move to 20 percent which is eight
8 hundred dollar (\$800) and in the third year they're back
9 to twenty-five (25). So, in fact, that at-fault accident
10 claim would -- at-fault claim would cost them a hundred
11 and fifty dollars (\$150) over the three (3) year period
12 rather than two hundred dollars (\$200) today.

13 Now -- up front, that's spread over two
14 (2) years. Now, of course, depending on the type of
15 vehicle, those numbers would -- would go up somewhat or
16 down if it was a lower-based premium but that's -- that's
17 how it would work.

18 MR. JERRY KRUK: Or if you're a two (2)
19 vehicle owner it might be to your advantage to buy the
20 whole thing down, again depending on the economics?

21 MR. DONALD PALMER: And in the example
22 that I have discussed that's -- for two (2) vehicles
23 would be three hundred dollars (\$300); not a lot of
24 claims nowadays are less than three hundred dollars
25 (\$300).

1 MR. JERRY KRUK: I appreciate that.
2 However, we're talking here of a multi-year thing so it's
3 not a three hundred dollar (\$300) thing, it's -- it's a
4 multi-year thing that's more than three hundred dollars
5 (\$300); is it not?

6 MR. DONALD PALMER: No, that -- that
7 description was over a three (3) year period.

8 MR. JERRY KRUK: Thank you for correcting
9 me. The discussion we had on one (1) of the days where
10 if you had a -- a medical scenario, a medical suspension
11 in a merit situation, and you -- you remain static on the
12 scale, I suppose because you're not driving, while those
13 in a demerit situation move up one (1) level after one
14 (1) year, so for drivers with one (1) year of clean --
15 clean driving, no at-faults, no traffic violations, those
16 in a merit situation move up one (1) level while those in
17 a demerit situation move up multiple levels?

18 Now how is that fair and how -- how does
19 that equally reward good and safe drivers? Isn't that
20 punitive to Manitoba's best drivers?

21 MR. DONALD PALMER: No, in -- in your --
22 your case where someone moves up on the merit side,
23 increasing the vehicle discount possibly or -- or
24 insulating them against -- protecting them against loss
25 of discount as you move up the scale if you're -- you're

1 at the top, so you are rewarded for a vehicle discount.

2 For the people on the demerit side of the
3 scale, they are moving up but they are still not getting
4 any vehicle discount. So they're not rewarded more.
5 There's encouragement for them to move up the scale and
6 eventually get a vehicle discount, but it's not an extra
7 bonus. It's an encouragement for them to get to the
8 vehicle discount level.

9 MR. JERRY KRUK: But the encouragement is
10 in -- in fact, putting less of an onus, if you will, on
11 them as opposed to the other person, is it not, in terms
12 of -- in terms of their -- their costing to the system?

13 MR. DONALD PALMER: No, because they're
14 still not getting any vehicle discount. They're still
15 surcharged.

16 MR. JERRY KRUK: But not to the same
17 degree?

18 MR. DONALD PALMER: If you're equating
19 demerits or merit points, there -- there are different
20 merit rules, absolutely. But they're still being charged
21 much more, so there's no more encouragement for them.
22 The safe driving rewards are still accruing to the best
23 drivers.

24 MR. JERRY KRUK: At a slower pace than
25 for the demerit person.

1 MR. DONALD PALMER: No. They're getting
2 a maximum vehicle discount as opposed to no vehicle
3 discount.

4 MR. JERRY KRUK: You're talking about
5 discounts; I'm talking about moving up and down the
6 scale.

7 MR. DONALD PALMER: And we're both right.

8
9 MR. JERRY KRUK: Thank you for that. If
10 I'm a driver that presently has a 25 percent premium
11 vehicle discount and I want to purchase Extension
12 insurance from MPI, do I get the same discount on the
13 Extension side?

14 MS. MARILYN MCLAREN: I'm pretty sure
15 there's information on the public record that would say
16 the answer to that is yes.

17 MR. JERRY KRUK: Okay, if I lose my Basic
18 discount, do I lose my Extension discount?

19 MS. MARILYN MCLAREN: As we talked about
20 earlier in the proceedings, the only rule with respect to
21 Extension discount rules is: What do you qualify on --
22 for on the Basic side? So, if you don't qualify for a
23 discount on Basic, that would be our answer for the
24 Extension, as well.

25 MR. JERRY KRUK: Now I notice that, in

1 terms of the public communication, if my Extension policy
2 is underwritten by MPI, it's referenced on certainly some
3 of the documentation that I will get in the mail.

4 Is that correct?

5 MS. MARILYN MCLAREN: We'd have one (1)
6 renewal form for registration and Basic and Extension
7 insurance, yeah, and driver licence insurance and driver
8 licence fees, as well. It's all on one (1) form.

9 MR. JERRY KRUK: Okay, we had -- we had
10 some discussion in this forum, to a very brief degree,
11 about who pays for that and to what degree we pay for
12 that by way of the split on -- on the costs. I know Ms.
13 Bowman alluded to the question.

14 Do you want to just refresh my memory on
15 how that went?

16 MS. MARILYN MCLAREN: No, I'm sorry, I
17 can't. I don't remember that. I can tell you that we
18 have existing cost allocation policies that share the
19 cost of mailing renewal notices between Basic and
20 Extension, according to their share of premiums written.

21 MR. JERRY KRUK: Thank you. Now, if --
22 if I happen to buy my Extension insurance from a private
23 party, I assume, correct me if I'm wrong, that that
24 wouldn't be shown on the documentation that you're going
25 to forward?

1 MS. MARILYN MCLAREN: It would not be
2 shown.

3 MR. JERRY KRUK: So, clearly -- clearly
4 the advantage for purchasing Extension insurance is in
5 your court by way of the need from you to communicate
6 with me and, therefore, to communicate with -- on the
7 Extension component, is it not?

8 MS. MARILYN MCLAREN: I'm sorry, I'm not
9 sure I follow that completely. But I can tell you that
10 the more premium written to the Extension line of
11 business, the more Basic ratepayers save in terms of mail
12 costs.

13 MR. JERRY KRUK: That's not exactly what
14 I was asking, and I -- and I thank you for saving me two
15 (2) cents out of a fifty-two (52) cent stamp.

16 I was more going to the -- to the point of
17 if you are going to mail all of the Basic drivers, who
18 are all of the purchasers of your Extension insurance, a
19 document which says for the next five (5) years I don't
20 have to visit my -- my person, it's -- would you agree
21 it's more likely as opposed to less likely that I would
22 buy MPI Extension insurance, as opposed to the
23 competitor?

24 MS. MARILYN MCLAREN: In my experience
25 that's not how it works, no. I think those decisions

1 about what kind -- what kind of Extension do you want to
2 buy and who do you want to buy it from takes place for
3 the most part on the first registration and insuring of
4 that vehicle.

5 So the fact that the renewal notices come
6 together I don't think has much impact on that. I think
7 where that comes down is the interaction between the
8 broker and the customer when that vehicle comes forward
9 to be registered and insured for the first time by -- by
10 that person.

11 And I think when we talked earlier the,
12 you know, the analogy is with other forms of insurance.
13 If somebody wants to market to me with respect to my
14 homeowner's they don't -- they don't do it in -- in
15 alignment with a renewal date. It's a separate process.

16 MR. JERRY KRUK: On that point we'll have
17 to disagree because I guess your marketing aspects as
18 opposed to those that we've seen on our side don't jive
19 with what you said.

20 What we found and I -- I won't get into it
21 but bottom line is if you can do everything on one form,
22 as you've noted, you're better off. And so
23 straightforward direct communication are what gets you
24 the results. So I'll leave it at that.

25 My -- my final question relates to

1 understanding that where you're placed on the DSR scale
2 is not negotiable. I -- I appreciate and I understand
3 that.

4 So the only discussion after that would
5 seem to be a discussion on whether or not you're deemed
6 to be in an at-fault situation and a collision for -- for
7 purposes of this example.

8 Now is there a -- a different, better,
9 whatever word you want to put to it, less onerous
10 arbitration system that MPI intends to put into place for
11 drivers to argue their at-fault assessments?

12 MS. MARILYN MCLAREN: No change at all to
13 the entire claims handling process driven by a move to
14 DSR. No changes to the legislation in this province with
15 respect to what constitutes an at-fault accident.

16 No changes to the fault chart, no changes
17 to our claims adjusters, claims handling procedures. We
18 will continue to offer an internal process. People also
19 will continue to have access to small claims court. None
20 of that will change.

21 MR. JERRY KRUK: I thank you for that.
22 Mr. Chairman, that's all my questions.

23 THE CHAIRPERSON: Thank you, Mr. Kruk.
24 Looking at where we are right now what I'm thinking of is
25 we should provide Ms. Everard or Mr. Saranchuk an

1 opportunity to provide any followup questions that may
2 have developed.

3 Subsequent to that, I think probably we'll
4 take our break and the Board has some questions of its
5 own but we could do that after that process.

6 Ms. Everard ...?

7 MS. CANDACE EVERARD: Mr. Chairman, I
8 don't have any additional questions but Mr. Saranchuk has
9 some. Thank you.

10 THE CHAIRPERSON: Mr. Saranchuk ...?

11 MR. WALTER SARANCHUK: Thank you, sir.

12

13 RE-CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

14 MR. WALTER SARANCHUK: Ms. McLaren or Mr.
15 Palmer, did MPI undertake any research or consideration
16 of employing the introduction of DSR to consider a
17 different ratio of driver premiums to total driver and
18 vehicle premiums?

19 MS. MARILYN MCLAREN: No, not as part --
20 not as part of transition or implementation, no, we have
21 not done that.

22 MR. WALTER SARANCHUK: What would you say
23 to the suggestion that this would be a suitable time to
24 undertake those considerations, for example, giving
25 consideration to having driver premiums at least meet

1 PIPP costs plus an administrative load?

2 MS. MARILYN MCLAREN: I would argue
3 against such a position quite vehemently. As we've
4 discussed a number of times in the last several days,
5 it's very important to change only what is necessary to
6 change to introduce a program like this.

7 There is nothing within the program, the
8 DSR program itself or the transition strategy to the DSR
9 that would prevent any sort of changes to the balance
10 between vehicle premiums and driver premiums on a going
11 forward basis. The Corporation's position clearly is if
12 such changes like that are to evolve through time, this
13 is not the time to start.

14 MR. WALTER SARANCHUK: Given that answer,
15 I take it though that it might well be something that the
16 -- that the Corporation would consider in the future?

17 MS. MARILYN MCLAREN: Clearly there are
18 opportunities to rethink and revisit past practices. I
19 think it's challenging to move significant revenue onto
20 the driver licence in a way that is fair and -- and
21 reasonable and appropriate. That doesn't mean it's not
22 worth further research or even, if the outcome was
23 better, documentation as to the rationale why not.
24 Certainly those are all things that can be considered in
25 due course.

1 MR. WALTER SARANCHUK: Thank you for
2 that. In the focus groups that you panelled or you used
3 to determine public acceptability, did MPI pose the
4 potential for a higher ratio of driver premiums to the
5 total of driver and vehicle premiums?

6 MS. MARILYN MCLAREN: Just a point for
7 the record, we -- we didn't use focus groups to determine
8 public acceptability.

9 MR. WALTER SARANCHUK: Well, talk about
10 surveys then.

11 MS. MARILYN MCLAREN: Yeah, we --
12 quantitative surveys, things like that, no, that was not
13 part of our initial decisions in terms of how to pursue
14 this. This really is about the program and -- and the --
15 the change to the overall framework for discounting lower
16 risk drivers and surcharging higher risk drivers. It was
17 not about issues beyond that.

18 MR. WALTER SARANCHUK: So it wasn't a
19 situation where MPI had then proceeded with a
20 preconceived notion of having the driver's premiums at a
21 certain ratio, a low one, and then proceeding with a
22 survey without -- in other words, approaching it with a
23 closed mind?

24 MS. MARILYN MCLAREN: Could you repeat
25 the question?

1 MR. WALTER SARANCHUK: Yes. I take it
2 then that it wasn't a situation where MPI initially had
3 come to a decision on the ratio of driver's premiums, a
4 low one, to the total of driver and vehicle premiums, and
5 then proceeded with the surveys basically to see whether
6 there was any basis to change the approach?

7 In other words, was there a pre-conceived
8 decision made and then only if you were convinced
9 otherwise would you -- that you -- only if you were
10 convinced otherwise you were intent on proceeding with
11 it?

12 MS. MARILYN MCLAREN: No, no, we did not
13 have preconceived notions but, having said that, we did
14 have the intention to have a -- a transition strategy
15 that was as least disruptive as possible. So they're
16 really separate discussions and we -- and we kept them
17 separate.

18 This DSR rate application should not be
19 construed by anyone as some formal statement on the part
20 of the Corporation as what it believes should be the
21 long-term relationship between vehicle premium and driver
22 premium.

23 MR. WALTER SARANCHUK: Thank you. Now,
24 the Corporation has indicated that it really does not
25 know the number of transfers that take place between

1 residents of a household with respect to vehicles owned
2 by residents of that household.

3 Given the interest that's been expressed
4 by this Board over the years on that topic and given what
5 you've heard over the last few days, would the
6 Corporation not be well advised to undertake that kind of
7 a research to test its conviction that the problem of
8 transfers is fully compensated by the reliance on driver
9 experience?

10 MS. MARILYN MCLAREN: I think that's one
11 (1) of the things that we will be able to improve our
12 ability going forward. I'm sure many people in this room
13 understand that there are computer systems out there used
14 by many organizations that have an ongoing real-time
15 interface, so to speak, with Canada Post address data to
16 make sure that they're only receiving data that truly is
17 recognized as -- as existing and -- and not just simply
18 spelled incorrectly and things like that. We'll move
19 towards things like that. If we have better standardized
20 address data, that will help us achieve that sort of
21 thing.

22 I'm sure there's other things that we can
23 do. We continue to improve our ability to really
24 understand what's going on within our customers' use of
25 their vehicles and the ownership of the vehicles. That

1 would be an example of things that would likely improve
2 too.

3 MR. WALTER SARANCHUK: Thank you. Just
4 to underscore the concern of the Board relative to this
5 issue, I would ask that Mr. Gaudreau distribute a
6 document which is entitled "A Vehicle Premium Impact
7 Scenario". And, essentially, it's an illustrative
8 example comparing the two (2) driving households under
9 the proposed DSR System.

10 And I would ask that that be marked as PUB
11 Exhibit Number 11, please.

12

13 --- EXHIBIT NO. PUB-11: Document entitled "A Vehicle
14 Premium Impact Scenario"

15

16 CONTINUED BY MR. WALTER SARANCHUK:

17 MR. WALTER SARANCHUK: Now, just looking
18 at this document, it -- it's meant to reflect the
19 situation where Driver A, having no spouse, is the
20 registered owner of both an automobile and a motorcycle,
21 and Driver B, having a spouse, nonetheless, still is the
22 one (1) owner of the automobile and motorcycle.

23 So in a situation like this where, in both
24 cases, initially Driver A and Driver B, in respect of the
25 both vehicles that they own, enjoy a 25 percent discount.

1 If, under DSR -- and so the total premium,
2 by the way, is shown as twenty-two hundred and fifty
3 dollars (\$2,250) under the DSR system initially.

4 If, again, now proceeding with the next
5 year, there is an at-fault accident and a minor
6 conviction resulting in a loss of seven (7) merits under
7 the DSR system, Driver A ends up losing his vehicle
8 premium discount at 25 percent in respect of both
9 vehicles so that he now pays three thousand dollars
10 (\$3,000) compared to twenty-two hundred and fifty dollars
11 (\$2,250) as a total premium.

12 Driver B transfers the ownership of both
13 vehicles to his spouse and continues then to enjoy the 25
14 percent discount in respect of both vehicles. So that
15 the difference, essentially, is shown at seven hundred
16 and fifty dollars (\$750).

17 In general terms, do you agree that this
18 is illustrative of that kind of scenario?

19 MR. DONALD PALMER: With the exception of
20 the change in driver premium, I would agree with this,
21 yes.

22 MR. WALTER SARANCHUK: Yes, and would you
23 agree as well, Mr. Palmer, that in the case of Driver B
24 with the spouse, if both are on the road, that is driving
25 at the same time, they pose a higher risk to MPI than

1 Driver A who can only drive one (1) vehicle at a time?

2 MR. DONALD PALMER: At that precise
3 moment, I would agree with you. And again, I'm not sure
4 that that necessarily has -- is reflective of the usage
5 of those vehicles.

6 MR. WALTER SARANCHUK: Well, I guess if
7 we take a common situation where both the Driver B, for
8 example, and his spouse take a vehicle to work, they
9 obviously present a greater risk than Driver A would be -
10 - would -- would pose, because, clearly, he can only
11 drive one (1) vehicle at a time.

12 MR. DONALD PALMER: I would agree with
13 that. There would likely be a difference in the
14 classification of those vehicles, too. If there was one
15 (1) that was always left at the -- at home, that would
16 likely be registered as "pleasure use."

17 If there was two (2) vehicles being driven
18 to work, they would be classified as "all purpose" so
19 there would be a difference there.

20 MR. WALTER SARANCHUK: Yes, this scenario
21 doesn't reflect that, correct.

22 MR. DONALD PALMER: That's correct.

23 MR. WALTER SARANCHUK: And is it possible
24 for MPI to at least compare the ownership of vehicles at
25 the end of one (1) insurance year with the ownership of

1 those vehicles continuing at the end of the next
2 insurance year to see how many vehicles have changed
3 hands?

4 MR. DONALD PALMER: It's possible to see
5 how many vehicles have changed hands. It's difficult to
6 see who they've changed hands to, if that's such a
7 phrase, because we don't know if those vehicles have been
8 sold to another independent third person, whether they've
9 been transferred to a -- a spouse, or whether they're no
10 longer insured.

11 MR. WALTER SARANCHUK: Could the
12 Enterprise Data Warehouse system capture that kind of
13 information?

14

15 (BRIEF PAUSE)

16

17 MR. DONALD PALMER: Eventually that will
18 likely be something that we will -- will be able to do
19 under the new Enterprise Data Warehouse. Currently, it's
20 -- it's fairly onerous.

21 MR. WALTER SARANCHUK: Thank you. Could
22 the Corporation establish an approach to develop a range
23 of likely transfers of vehicles within one household?

24 For example, could not a listing of
25 drivers with at least one (1) vehicle registered be run

1 against a list a year later to see what percentage of
2 those same drivers are on -- are still on the system but
3 have no registered vehicle?

4 MS. MARILYN MCLAREN: It's been quite a
5 while, Mr. Saranchuk, that we've thought in terms of
6 running listings, sort of trying to contrast and compare.

7 I think what we're trying to get at here,
8 if I understand you correctly, is people who would be
9 eligible would have been eligible for the best discount
10 and then had an at-fault accident and then did some sort
11 of analysis as to what they did with their vehicles.

12 There's things that we can do along those
13 lines. Some of them take days and days. Some of them
14 are simply not possible, those that we've talked about
15 earlier.

16 But, you know, through time we will find
17 ways to come at this in a some sort of a representative
18 fashion.

19 MR. WALTER SARANCHUK: So I take it it's
20 not beyond the realm of possibility but that right now
21 it's a program issue with your system?

22 MR. DONALD PALMER: That's correct.

23 MR. WALTER SARANCHUK: Would it be
24 possible to test for vehicles involved in an at-fault
25 accident to see what percentage of those vehicles have a

1 different owner for the next insurance year?

2 MS. MARILYN MCLAREN: That's similar to
3 what I was talking to you about. I think you'd only want
4 to do those with respect to the vehicles whose owners
5 going into that accident did qualify for the best
6 discount.

7 MR. WALTER SARANCHUK: Yes. Now just I
8 want to question in this particular area because I have a
9 couple or a few in respect of the last quarterly report.

10 While for years the Board and MPI have
11 categorized MPI's rate model as one that is actuarially
12 driven and statistically stable or credible, is that
13 definition not an oversimplification given the reliance
14 on two (2) major factors here, namely the Highway Traffic
15 Act infractions and at-fault accidents?

16 MS. MARILYN MCLAREN: I would put it a
17 little bit differently. I would say that we have all
18 discussed and Board orders have reflected that the rates
19 are statistically sound, actuarially sound and
20 statistically driven.

21 We believe that to be true. That is
22 always within the context of the one (1) of four (4)
23 classification variables, that being the drive record, is
24 not done with the same actuarial calculations and
25 principles. It's never been done that way since the

1 beginning of time.

2 And I would say that the actuarial
3 soundness of the Corporation's rate -- rating approaches
4 has and -- and will improve with the DSR because of the
5 directional improvements to actuarial soundness that are
6 part of this application.

7 MR. WALTER SARANCHUK: But, of course, as
8 we've heard there are really no actuarial indicators as
9 such that have supported or are driving the DSR system?

10 MR. DONALD PALMER: If you're talking in
11 terms of pure premium by DSR level, that's -- that's not
12 the determining factor of -- of the rate. We have
13 produced some evidence within the rate application that
14 does attempt to show what those costs are but we haven't
15 rated on that basis.

16 MR. WALTER SARANCHUK: Yes. Now moving
17 on to some questions that I have relative to the last
18 quarterly report, can you confirm, Mr. Palmer or Ms.
19 McLaren, that at the last GRA the forecast net loss by
20 MPI was at \$2.5 million which included forecasted
21 investment income of some \$86.9 million, and I'm thinking
22 in terms of what was filed as TI-15; I don't imagine that
23 you have that in front of you, but it is part of the
24 filing in that it's at page 2 of 2 and TI-1.

25 MR. DONALD PALMER: By surprise, Mr.

1 Saranchuk, I do have it at my fingertips and net income
2 for rating purposes was a loss of \$2.5 million, yes.

3 MR. WALTER SARANCHUK: Thank you, sir.
4 And the forecast reflected in this DR -- DSR application
5 represents an update for the nine (9) months ended
6 December 31st, 2008; is that correct? That's the one (1)
7 on page 1 of 2 on TI-1.

8 MR. DONALD PALMER: The -- again, the --
9 the full year with the actuals to November 30th, 2008,
10 and then the last quarter on a forecast basis, yes.

11 MR. WALTER SARANCHUK: Thank you, sir.
12 And the Corporation was forecasting an investment income
13 for 2008/2009 of some \$49.7 million for Basic operations;
14 is that correct?

15 MR. DONALD PALMER: That's correct.

16 MR. WALTER SARANCHUK: And in that
17 forecast update the Corporation has reflected a net loss
18 for rating purposes of \$5.3 million?

19 MR. DONALD PALMER: That's correct.

20 MR. WALTER SARANCHUK: With reference to
21 the quarterly financial report, particularly this one
22 that was just filed as MPI Exhibit Number 10, being the
23 results for the fourth quarter, can you confirm that this
24 represents the results for the Corporation as a whole,
25 sir?

1 MR. DONALD PALMER: Yes, and I -- and I
2 would like to read into the record the -- part of the
3 preamble of that statement saying,

4 "The interim financial statements are
5 subject to change following review by
6 management, external actuaries, and
7 auditors."

8 So these are not audited statements; there
9 still are some changes that could be made before we get
10 to our annual report. But, yes, it's done on a corporate
11 basis.

12 MR. WALTER SARANCHUK: Now, just looking
13 at page 2, the Statement of Operations, last year there
14 was an indication of -- I'm sorry, there is an indication
15 that last year there is to be or was to be an
16 underwriting loss of some \$28 million which was offset by
17 \$125.5 million in investment income for the year for the
18 Corporation as a whole with the result that the net
19 income was \$97.4 million; is that correct, sir?

20 MR. DONALD PALMER: That's correct.

21 MR. WALTER SARANCHUK: Now, those are
22 actual --

23 MR. DONALD PALMER: That's --

24 MR. WALTER SARANCHUK: -- those are
25 actual results?

1 MR. DONALD PALMER: Actual is for the
2 year ended February 29th, 2008, yes.

3 MR. WALTER SARANCHUK: Thank you. Now,
4 can you confirm that \$108.7 million or 86.6 percent was
5 allocated to Basic for the year 2007/2008, subject to
6 check?

7 MR. DONALD PALMER: Sorry, could I have
8 that again?

9 MR. WALTER SARANCHUK: The figure
10 percentage was 86.6 percent?

11 MR. DONALD PALMER: Sounds about right,
12 yes.

13 MR. WALTER SARANCHUK: Now, this
14 contrasts with the current year where -- I'm talking
15 about the bottom line -- where you're forecasting a
16 modest underwriting income of some \$2.5 million for the
17 year and \$4.6 million in investment income for the
18 Corporation as a whole, providing a net income of \$7.2
19 million; is that correct?

20 MR. DONALD PALMER: That's correct.

21 MR. WALTER SARANCHUK: Assuming a similar
22 allocation as the previous year that would indicate, as I
23 understand it, that Basic investment income would be
24 approximately \$4 million?

25 MR. DONALD PALMER: When --

1 MR. WALTER SARANCHUK: Appreciate you
2 haven't broken it up yet, but generally?

3 MR. DONALD PALMER: When we're talking in
4 terms of those kind of investment losses that -- that are
5 part of this, there may be some fluctuations, but for
6 sake of argument, I -- I could agree with that.

7 MR. WALTER SARANCHUK: Thank you, sir.
8 To what do you attribute the significant drop in
9 investment income in the fourth quarter?

10 MR. DONALD PALMER: There's three (3)
11 major impact -- well, in fact, four (4).

12 MR. WALTER SARANCHUK: And of course --
13 excuse me for the interruption. Just for clarification,
14 we're talking about a drop from \$49.6 million to four
15 (4).

16 MR. DONALD PALMER: We do have a -- a
17 hedge on currency that the Canadian dollar did drop over
18 there, so there is a -- a foreign exchange loss.

19 We had some realized capital losses that
20 were -- that were realized in that fourth quarter as our
21 investment managers did trading to mitigate further
22 losses. So that's -- that was realized loss. And we
23 also had impairment write-downs significant at year end
24 that would contribute to that, as well.

25 The interest rates, the -- the bond rates

1 went down over that period of time, so the new money
2 would have been invested at lower rates.

3 So those are probably the four (4) major
4 factors.

5 MR. WALTER SARANCHUK: Thank you, sir.
6 Do you have a breakdown of the returns realized on the
7 portfolio by component?

8

9 (BRIEF PAUSE)

10

11 MR. WALTER SARANCHUK: This could be done
12 by way of undertaking and a breakdown of the loss if you
13 can.

14 MR. DONALD PALMER: Since these are
15 unaudited statements, I would not want to do that.
16 Especially, the -- the write-downs in particular are
17 subject to -- to the audit. So these are the information
18 that we have available, again on an unaudited basis, and
19 I would hesitate to provide a further breakdown than
20 that.

21 MR. WALTER SARANCHUK: I take -- I
22 understand your position at this time. Could that
23 information be provided as a filing along with the GRA in
24 June?

25 MR. DONALD PALMER: Yes, that break-down

1 could be available then.

2 MR. WALTER SARANCHUK: Thank you, sir.

3

4 (BRIEF PAUSE)

5

6 MR. WALTER SARANCHUK: We understand,
7 sir, or the Board understands that last year you
8 indicated that there had been a re-designation of long-
9 term bonds to -- held for trading.

10 Can you give the Board an indication as to
11 the impact of -- of that re-designation?

12

13 (BRIEF PAUSE)

14

15 MR. WALTER SARANCHUK: Just for example,
16 to what extent was the, or were the bonds re-designated,
17 and to what extent is that result reflected in the
18 unaudited last quarterly report?

19 MR. DONALD PALMER: Remember that the
20 reason that we had them re-designated was to match the --
21 the shift in interest rates on liabilities. So, because
22 we have -- seems to me over an entire year there's about
23 a 40 percent turnover of bonds.

24 So there would have been a -- an
25 offsetting on liabilities as the interest rates have

1 changed would cause your liabilities to go one way and
2 the offset on the asset would completely offset that.

3 So -- so it did what we expected it to do.
4 So really, no impact would -- or less impact than it
5 otherwise would have been if we hadn't re-designated
6 those bonds.

7 MS. MARILYN MCLAREN: Just a small point
8 of clarification. I believe the accounting rules prevent
9 us from re-designating existing bonds. We have to
10 designate new purchases.

11 MR. WALTER SARANCHUK: Thank you, Ms.
12 McLaren.

13

14 (BRIEF PAUSE)

15

16 MR. WALTER SARANCHUK: Mr. Palmer, can
17 you advise as to the extent to which the loss experience
18 relative to investment income has been factored into the
19 forecast and outlook period presented in this
20 Application?

21 And in particular I'm looking at
22 Attachment 'A' to the response by the Corporation to
23 Interrogatory Number 13 of the Public -- by the Public
24 Utilities Board.

25

1 (BRIEF PAUSE)

2

3 MR. DONALD PALMER: We hadn't changed our
4 assumptions on a going forward basis. There are less
5 investments to work with because we have had some market
6 losses. So we hadn't changed the -- the assumption, the
7 investment assumption.

8

9 (BRIEF PAUSE)

10

11 MR. WALTER SARANCHUK: So essentially
12 this DSR Application in respect of investment income at
13 least is based on year-old information and has not been
14 updated, so to speak, to reflect the last quarter
15 results?

16 MR. DONALD PALMER: That's true for --
17 for all aspects of the forecast. So, yes, investment
18 income has not been updated to reflect the lower
19 prevailing bond rates. But also the claims forecasts
20 have not been updated to reflect the lower experience
21 that has emerged over the past year.

22 MR. WALTER SARANCHUK: Yes, sir. And, of
23 course, you have indicated to the Board that you would
24 not be looking for a rate increase at the next General
25 Rate Application to be filed in two (2) months' time.

1 Does this experience with the last year
2 and particularly the last quarter change your view on
3 that score?

4 MR. DONALD PALMER: No. As I have
5 indicated earlier, we will likely have a lower investment
6 income forecast, absolutely. We will also likely have a
7 lower claims forecast. So those two (2) will essentially
8 offset and so we're not looking at much of a difference
9 in the bottom line.

10 MR. WALTER SARANCHUK: And just looking
11 at the fourth quarter report again and in particular page
12 3, sir, you now indicate, or the Corporation does, a net
13 loss before transfer from the Immobilizer Incentive Fund
14 of \$7.3 million and, after the transfer, a net income of
15 \$8.5 million in Basic for rate setting purposes; is that
16 correct?

17 So in other words, \$8.5 million net income
18 to Basic.

19 MR. DONALD PALMER: That's correct.

20 MR. WALTER SARANCHUK: To what do you
21 attribute the positive result given only \$4 million in
22 investment income? Again, is this the claims experience?

23 MR. DONALD PALMER: It's the claims
24 experience and the reflection in the lower reserve
25 requirement from the actuarial review.

1 MR. WALTER SARANCHUK: Yes, and on
2 comparing the attachment at TI-1, page 1 to page 2, as I
3 understand it, up to the third quarter you were
4 forecasting a positive claims variance of \$26 million
5 from the forecast provided at the last General Rate
6 Application.

7 Can you give us an idea what the claims
8 variance is now?

9 MR. DONALD PALMER: More than that.

10 MR. WALTER SARANCHUK: And that's
11 reflecting the IBNR?

12 MR. DONALD PALMER: Yes, both. And,
13 again, I think I've outlined this with Mr. Williams.
14 That reflects the better experience on Comprehensive,
15 mainly theft. It does include a decrease in current year
16 PIPP claims. We did -- saw a good year from a serious
17 claims perspective, so that's lesser. And also the IBNR
18 review brought down the debt claims incurred as well.

19 MR. WALTER SARANCHUK: And just for the
20 record, very briefly could you explain what the acronym
21 "IBNR" represents?

22 MR. DONALD PALMER: It's "Incurred But
23 Not Reported" so it's the review of the claims liability
24 to the Corporation.

25 MR. WALTER SARANCHUK: Thank you, sir.

1 So in terms of the claims variance, given this last bit
2 of information that you've provided, was this a result of
3 the adjustments to claim reserve provisions alone, or was
4 there also a reduction in the number of accidents?

5 MR. DONALD PALMER: Both. The --
6 certainly, there were less PIPP claims reported last
7 year, and the -- the main difference, a decrease in the
8 Severe Personal Injury Protection Plan claims; that was
9 down, as well.

10 MR. WALTER SARANCHUK: Thank you, sir.
11 One (1) final question and I appreciate that it's
12 hypothetical but I think it's quite relevant in the
13 circumstances.

14 If these claims costs had not been
15 reduced, if you haven't had this favourable experience
16 that you're now describing, would it be fair to state
17 that there would have been a draw down on the RSR?

18 MR. DONALD PALMER: Absolutely.

19 MR. WALTER SARANCHUK: Thank you, sir.
20 Those are all my questions. Perhaps we can take the
21 break for the morning before you proceed with yours, Mr.
22 Chairman?

23 THE CHAIRPERSON: What I was thinking of,
24 Mr. Saranchuk, is that after the Board has a few
25 questions, we would provide Mr. McCulloch an opportunity

1 to re-direct to the panel, but we'd ask our questions
2 first.

3 MR. KEVIN MCCULLOCH: Right, and in that
4 regard, Mr. Chairman, I did want to make a comment before
5 we take the morning break.

6 Early on in the proceedings, Ms. McLaren
7 gave an indication that if the implementation date of
8 November 1, 2009 were to change or if there was a
9 possibility that it would be changed, she would give that
10 information to the Board.

11 No one's asked her that question. It's
12 not technically re-direct because it's not on an issue
13 that was raised in -- in cross-examination, but I can
14 indicate to the Board that at the commencement of the --
15 the Hearing after the morning break, Ms. McLaren is ready
16 to put some information on the record with respect to the
17 implementation date.

18 THE CHAIRPERSON: That is quite helpful.
19 Just before we have the break, there was one question
20 that came into my mind as a result of something Ms.
21 McLaren said in response to one (1) of Mr. Kruk's
22 questions.

23 We understand that the non-revenue-neutral
24 DSR transition proposal is based on the premise that as
25 MPI's forecast has -- have RSR levels above the Board's

1 guidelines, that in the absence of reduced revenue by way
2 of the transition either a general rate decrease or
3 rebate would be required.

4 Is that MPI's assumption?

5 MS. MARILYN MCLAREN: Yes.

6 THE CHAIRPERSON: Has MPI considered that
7 in recent years the Board Orders have always listed a
8 number of factors the Board takes into account when
9 taking a look at possible rebates or rate decreases?

10 For example, in some of the orders the
11 Board has made a listing of various things it looks at
12 including, for example, unrealized security losses on a
13 market to market basis.

14 In short, has MPI considered the
15 possibility that given that we grant an audited fourth
16 quarter results would show a significant negative AOCI,
17 Accumulated Other Comprehensive Income, that in that
18 circumstances if it continued, you know, through the
19 hearing, et cetera, that it's possible that a factor like
20 that may have caused the Board at that time in
21 considering it not to have a favourable view of a rate
22 decrease or a rebate? Would that knowledge of it, had it
23 been knowledge and a fact, affect MPI's view of a non-
24 revenue-neutral transition?

25 MS. MARILYN MCLAREN: Yes, Mr. Chairman,

1 it certainly could have and -- and consideration was
2 given to that. I think greater weight was given, though,
3 to the fact that, generally speaking, the loss in the
4 value of the overall investment portfolio is a little
5 less than 5 percent.

6 As we've discussed at these proceedings
7 before, we, I believe, both continue to hold the view
8 that the Corporation does have an infinite horizon.

9 We did not consider that the recent sort
10 of recessionary and -- and losses in the -- for the most
11 part which has been almost exclusively, you know, hit
12 heaviest in the -- in the equity markets, was something
13 that would likely have driven that sort of action on the
14 part of this Board in the short term.

15 THE CHAIRPERSON: Also on that note and
16 to be fair, I think you also indicated at one (1) point
17 that you had another reason I believe you raised for your
18 non-revenue transition and it related to public
19 acceptability; is that not fair that you said that, too?

20 MS. MARILYN MCLAREN: You know, I -- I
21 want to be clear about that. I think -- I think this
22 program is really terrific. We're really proud of it.
23 We're really pleased with it. We think it will be
24 publicly accepted. We think our customers will be very
25 pleased with it, as well.

1 We believed we had an opportunity to, in
2 the vernacular, give it a little bit of a kick start to
3 really just draw a little bit more attention to it. It
4 was an opportunity that we really did not want to miss in
5 the context of the overall financial strength of the
6 Corporation.

7 Will -- would a decision on the part of
8 this Board to approve rates that had no immediate savings
9 for people at eight (8), nine (9), and ten (10) impact
10 the long-term acceptability of DSR? No, I don't believe
11 that. Will it make it a bit more of a challenge to
12 really grab their attention and make it a -- a quicker
13 success? To a certain extent.

14 THE CHAIRPERSON: Thank you very much.
15 On that note, we'll just have our break and come back and
16 then we'll ask our questions. Thank you.

17

18 --- Upon recessing at 10:46 a.m.

19 --- Upon resuming at 11:04 a.m.

20

21 THE CHAIRPERSON: Mr. McCulloch, do you
22 want to start with the undertakings and then Ms. McLaren
23 can make her comments?

24 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman.
25 The -- there are two (2) undertakings that Mr. Palmer

1 will be giving an oral response to, those being, on our
2 list, Undertakings Number 5 and Number 6. The document
3 that Mr. Gaudreau has been just circulating is, by my
4 count, Undertaking Number 10 and because that will be in
5 written form we'll be asking that that be marked as an
6 MPI exhibit.

7 But perhaps we could have Mr. Palmer give
8 his two (2) undertakings first.

9 THE CHAIRPERSON: Mr. Gaudreau, do we
10 have a number for the exhibit? It'll be MPI-11.

11

12 --- EXHIBIT NO. MPI-11: Response to Undertaking 10

13

14 THE CHAIRPERSON: Mr. Palmer...?

15 MR. DONALD PALMER: Yes, Undertaking 5
16 was to determine the split between Extension and Basic
17 for the flat fees, commission broker -- broker fees and
18 they're allocated on the basis of premium between
19 Extension and Basic.

20 The Number 6 was to -- for MPI to provide
21 information relating to the 2010/'11 reduced number of
22 Charge 2 surcharges. And under the old system, the
23 Corporation would expect to have about fifty thousand
24 (50,000) Charge 2 transactions and a \$13 million -- \$13
25 million in Charge 2 premiums in 2010/'11.

1 If DSR is implemented in November 1st,
2 2009, then the Corporation expects to have about thirty-
3 three (33) -- thirty-three thousand three hundred
4 (33,300) Charge 2 transactions and about 8.7 million in
5 Charge 2 premiums in 2010/'11.

6 And that's -- these figures are
7 approximately eight-twelfths (8/12s) of the figures
8 without DSR.

9 THE CHAIRPERSON: Thank you, Mr. Palmer.
10 Ms. McLaren...?

11 MS. MARILYN MCLAREN: Thank you, Mr.
12 Chairman. We've -- we've known quite -- for quite some
13 time that it would be likely that the implementation of
14 DSR one part licence and streamlined renewals would be
15 delayed sometime after November 1, but we've -- we've
16 done the work at this point and really completed the
17 analysis and are now in a position to say that we will be
18 ready to implement the program.

19 The earliest we can be ready to implement
20 the program will be the 1st of February 2010. So that
21 represents basically a three (3) month delay. We have
22 lost November, December, January.

23 So rather than a sixteen (16) month
24 Application for DSR rates this would be a thirteen (13)
25 month Application for DSR rates.

1 The reasons for the delay, there's a
2 couple of things that have emerged and -- and taken
3 attention within the Corporation, but for the most part
4 it really was delays associated with the enhanced ID card
5 processing and -- and implementation of that program that
6 was most of the reason for the delay.

7 I want to take the opportunity and --
8 while I acknowledge that Board counsel did not ask any of
9 these questions but counsel for CAC/MSOS did, and I do
10 want to address this, as well, with respect to, is there
11 anything magic about the date. Clearly there's not. We
12 now have a date.

13 But -- but I didn't pursue the
14 conversation with Mr. Williams far enough and I want to
15 take the opportunity to be very clear with the Board and
16 with all participants to the process that -- and it's not
17 come to the time yet when you would normally ask the
18 question, when do you need an order?

19 We need an order for these DSR rates by
20 about the middle of May. That's what Mr. McCulloch would
21 have told you in the next few minutes, I suspect. That
22 hasn't changed, with the delay in our ability to
23 implement, has not changed the need for those rates. And
24 we need the rates for that period simply because, as the
25 Senior Management of the Corporation, we will not put the

1 Corporation and our staff in a position of pushing,
2 pushing the level of uncertainty about a program like
3 this.

4 There's a reason that we went to the
5 government and asked them to approve that regulation as
6 early as we did. The reason that we have asked for
7 approval of these rates as early as we are is to lock it
8 down and have the security of knowing what it is we'll be
9 doing.

10 So on that basis we will need to ask for
11 rates by the middle of May, rates for the program as --
12 as it's structured the rates that are proposed, you know,
13 you will see fit to do with those rates according to your
14 best judgment.

15 But I'm concerned that there was sort of
16 an unstated belief, perhaps, in my exchange with Mr.
17 Williams that said, well, you know, if the Board decided
18 that it wanted to push it out to March, we really didn't
19 pursue that.

20 So if, you know, the Board rather than the
21 1st of February decided that the 1st of March was
22 something that it would want to recommend, I still need
23 rates approved in May. And they really need to be rates
24 for the thirteen (13) month period that I'm -- that I'm
25 talking about here.

1 There's no way we can go with any less
2 time. What this means by the fact that we are pushing
3 the date out by three (3) months means that, at this
4 point in time, we have a whole bunch more work left to do
5 than we thought we would at this point.

6 That doesn't buy us more time to have more
7 uncertainty about what the rates will actually be,
8 particularly, when we talk about the extent of the
9 communications, the modelling opportunities we want to
10 put on the website for people to play around with the
11 system and so on. We need to know exactly what the
12 program will be charging people as early as possible to
13 reduce any potential risk.

14 This is not something that we want to have
15 any shortened training, abbreviated communications, or
16 lack of -- of full and complete planning and strategy to
17 make sure this program is the absolute best for the
18 people in Manitoba. So we need the rates and we're
19 looking at a February 1st, 2010, date as -- as the
20 earliest we can implement and that's the date we're
21 working with is the 1st of February.

22 THE CHAIRPERSON: Thank you for the
23 information. I imagine, too, another reason for wanting
24 it at that point in time is the filing of the GRA, as
25 well?

1 MS. MARILYN MCLAREN: Absolutely. We
2 need to know what we're dealing with, with this component
3 of it, simply because we cannot contemplate sort of those
4 changing as part of the GRA. They need to be what they
5 are so we understand what we putting into the GRA and we
6 understand what we will be implementing with the new
7 program.

8 THE CHAIRPERSON: Okay, thank you. So,
9 well, the Board has a few questions and then after that
10 we'll provide Mr. McCulloch an opportunity for re-direct.

11 The first one relates to something that
12 was said by MPI, I believe yesterday originally, and I
13 believe Mr. Kruk touched on this, too. MPI indicated
14 that when the current Bonus-Malus program was put into
15 place in 1988 the accidents followed the vehicles if in
16 the same family and residence, but that it didn't work
17 and the system was changed to the current one in either
18 1989 or 1990.

19 Just briefly, I think you've given the
20 answer in part but I'd like to have it in summary in the
21 sense, why didn't it work and what process led to the
22 change?

23 MS. MARILYN MCLAREN: People found it to
24 be unacceptable. The people who owned the vehicle --
25 and, you know, it's not most of the time. Most of the

1 time people who own the vehicles cause the crashes and it
2 tends to make sense.

3 But in situations where people had
4 authorized the use of their vehicle by someone else and
5 someone else had caused an accident, it didn't matter
6 where that person was, it could have been a friend, could
7 have been someone in the same household, whatever, our
8 customers found that unacceptable that they would lose
9 their discount because another duly licenced, authorized
10 user caused a crash.

11 I think that is a reflection of the fact
12 that since 1971 the system has been that at-fault
13 accidents are surcharged; that's been part of the system
14 right from the very beginning. That's what makes sense
15 to people and they believe that the same rules should
16 apply on the vehicle discount system.

17 THE CHAIRPERSON: Presumably, that would
18 be a significant change and again, without going back and
19 checking the records and everything, did that change
20 figure into the process of the Board rating hearing in
21 that year? Take it as an undertaking if you want.

22 MS. MARILYN MCLAREN: I don't -- I don't
23 believe so, no. I think, if I'm right, it was 1989 the
24 first time this Board reviewed Basic insurance rates. It
25 was done, I think, on a retrospective basis,

1 retroactively at that point.

2 And I think the -- the changes to the
3 program emerged in that first or second year would have
4 been sort of presented as -- because again, it would have
5 happened within the regulations. It would have been part
6 of the classification system that -- that the government
7 decided to change.

8 THE CHAIRPERSON: Okay, thank you.
9 Please confirm that MPI considers the DSR to be a very
10 important proposal and that, two, if implemented would
11 represent a cornerstone of its rating system, one that is
12 hoped would contributed to driving down accident
13 frequency.

14 MS. MARILYN MCLAREN: Confirmed.

15 THE CHAIRPERSON: For MPI, does public
16 acceptability trump a rating model that would be
17 considered to have a greater impact in bringing down
18 accidents and matching risk and premiums?

19 MS. MARILYN MCLAREN: I'm sorry, could
20 you repeat that?

21 THE CHAIRPERSON: Basically, what's the
22 higher priority, public acceptability or driving down
23 accidents? I realize they're both important.

24 MS. MARILYN MCLAREN: I think I would
25 argue that the extent to which it would be publically

1 acceptable would affect the extent to which it would
2 drive down accidents. I -- I know they're both important
3 but I don't know that they're mutually exclusive and
4 standalone either.

5 In the broadest sense of the word, this
6 Program will cease to exist if the public does not
7 support it. So that always has to be one (1) of the very
8 most important considerations.

9 THE CHAIRPERSON: Thank you. I believe
10 you answered this one too, but I just want to understand
11 because you referred to psychological factors that would
12 drive people to do this and that.

13 Did MPI consult with a psychologist with
14 respect to the DSR proposal to gain an expert opinion on
15 the potential for DSR to incent improved driver
16 behaviour?

17 MS. MARILYN MCLAREN: No, we did not.

18 THE CHAIRPERSON: Moving on to something
19 else, does MPI accept the premise that if traffic
20 enforcement had remained at pre-2000 levels in Winnipeg
21 and Manitoba, there would likely be less aggregate merits
22 and more aggregate demerits at the present time within
23 the driver population?

24 MS. MARILYN MCLAREN: That's a tough one.
25 That's certainly a possibility. We also know, though,

1 that one (1) of the best ways to change behaviour is to
2 increase the perceived risk of being caught.

3 So, I think if there was enhanced
4 enforcement, it may very well have a significant effect
5 on driving behaviour so that there are less infractions,
6 caught or uncaught.

7 THE CHAIRPERSON: I have been reflecting
8 on Table 7 of the Driver Safety Rating System, September
9 18, 2007. This was part of the survey of driver
10 behaviours and risk profiles, where it says, to me at
11 least, in the last two (2) months did the respondent
12 admit to speeding in the city or town, and it would
13 appear that the "never" answer is only 38 percent, which
14 means that 62 percent do.

15 With respect to on the highways, it would
16 appear that 64 percent confess to speeding on a highway
17 and then speeding as being, of course, one (1) of the
18 leading contributors of accidents. So that's what I was
19 reflecting on in that point.

20 Does MPI know why the police have reduced
21 the Highway Traffic Act enforcement? Is it because of
22 budgets, other priorities or, in the City of Winnipeg, a
23 reliance on red light cameras and photo radar?

24 MS. MARILYN MCLAREN: I think we've
25 talked before about the fact that the decrease in traffic

1 convictions is a national phenomenon. We're pretty
2 pleased with the extent to which the RCMP in rural
3 Manitoba have turned that around over the last couple of
4 years. We're hopeful that may happen in the City, as
5 well, but it really is a national trend.

6 And at the Canadian Council of Motor
7 Transport Administrators and, sort of, national policing
8 groups where these kinds of things is discussed, I think
9 the -- the primary rationale that is generally offered is
10 other priorities.

11 THE CHAIRPERSON: Because the thought
12 comes to mind in looking at the data that you start to
13 wonder if a lot of these HTA tickets came as a result of
14 a review of accident reports rather than a roadway
15 surveillance.

16 MS. MARILYN MCLAREN: No, I -- no, they -
17 - those are not actually classed as demerits. Those are
18 classed as safety points and they act like two (2)
19 demerits. And I have to tell you the number of people
20 that file a report with the police that the police
21 actually take the time to sit and document and then hand
22 in to the Driver Licencing Authority are -- are few and
23 far between.

24 THE CHAIRPERSON: So it sort of fits into
25 the other area, too --

1 MS. MARILYN MCLAREN: It does.

2 THE CHAIRPERSON: -- other factors. Do
3 the police consult with MPI with respect to changes in
4 their traffic law enforcement? We know that you're
5 partners with them in the anti-theft suppression effort
6 which has undoubtedly been a success to date. Do they
7 share their plans when it has such a significant impact
8 on your results?

9 MS. MARILYN MCLAREN: There -- there is
10 some conversation between the two (2) organizations and I
11 think an opportunity that would be welcomed by both
12 organizations to work more collaboratively on some of the
13 public education aspects. The police are very, always,
14 very careful about, as they should be, the decisions
15 around deployment of their own resources.

16 There are areas, though, that we can work
17 more effectively. In a twelve (12) month period it's not
18 uncommon for both, historically in the past, for both
19 organizations to come up with a multi-media campaign
20 against speeding but to do it independently.

21 We do want to work more closely with the
22 police and -- and the citizens' groups with respect to
23 the community speed reader boards. We find that a very
24 effective tool to really increase residential -- decrease
25 residential neighbourhood speeding; not necessarily

1 anymore convictions coming out of something like that,
2 but a -- but a presence and -- and awareness that -- that
3 can be very effective.

4 So we have some -- clearly there's an
5 interest in working more effectively with each other,
6 cooperating more tactically and strategically on some of
7 these things, but no, that does not come to the point of
8 them talking to us about deployment of their resources.

9 THE CHAIRPERSON: So they're not going to
10 involve you in a discussion if they decide, for example,
11 to reduce 20 percent of their roadway surveillance or
12 increase it by 20 percent; they make their own deployment
13 decisions?

14 MS. MARILYN MCLAREN: Definitely.

15 THE CHAIRPERSON: In past hearings, MPI
16 has reported on a national, I think it was 2010,
17 initiative to reduce accidents, injuries, and fatalities.
18 Can the Corporation provide an update including latest
19 comparative figures for each of the jurisdictions? Is
20 that initiative still underway?

21 MS. MARILYN MCLAREN: I can't -- the Road
22 Safety 2010 or the 2010 -- yeah. We'll probably be able
23 to include something like that with the GRA in a couple
24 of months. You know, it's very mixed results; some
25 jurisdictions are doing well in certain areas and not

1 others. That's true of Manitoba, as well. We're really
2 ahead of where we thought we'd be in some categories, but
3 not doing as well in others.

4 THE CHAIRPERSON: Okay, we'll look
5 forward to that. Thank you. MPI's analysis filed in the
6 hearing suggests, for our reading anyway, that male
7 drivers and drivers twenty-four (24) or under are more
8 likely to have an at-fault accident and infractions than
9 other drivers.

10 Does MPI's communications with drivers in
11 the administration of DVL responsibilities pay attention
12 to this information and focus on the preponderance of the
13 claims experience that appears to lie with males and
14 younger drivers?

15 MS. MARILYN MCLAREN: Definitely, and we
16 -- we make other decisions in terms of where do we want
17 to be with our road safety message. It's things like
18 that that lead us to believe that -- that, you know,
19 providing financial support in exchange for road safety
20 messaging opportunities at the Blue Bomber games is a
21 good idea.

22 We're very careful about sort of trying to
23 align our messages with our target audience. Clearly,
24 the under thirty (30) males are one (1) of the target
25 audiences.

1 With respect to some of those activities,
2 audience still tends to be male but also tends to be
3 older when it comes to be the targets for drinking and
4 driving messages.

5 THE CHAIRPERSON: Just as an aside, being
6 a long-time season ticket holder and not being a great
7 beer drinker, but I often wonder, you sponsor a game I
8 think during the season or whatever. I wonder if they
9 cooperate by reducing the number of beers that they hand
10 out to some of the attendees.

11 MS. MARILYN MCLAREN: I'm not sure I
12 would wonder about that.

13 THE CHAIRPERSON: Nor do I. You've
14 discussed this some with the CAC/MSOS Intervenor,
15 intervention, but I wonder if you could provide anymore
16 depth with respect to how you intend to interface with
17 high-demerit drivers to incent or bring about improved
18 experience. And in the absence of success in such
19 measures I think you've already indicated that you would
20 look at amending an implemented DSR to further the
21 incentives whether they be carrot or stick.

22 MS. MARILYN MCLAREN: One of the things
23 that we believe we can leverage, work more effectively
24 with is the Driver Improvement and Control Program.

25 People who are in those, you know, serious

1 numbers of demerits tend pretty much -- in every case
2 tend to be pretty actively engaged with Driver
3 Improvement and Control.

4 By legislation, people cannot have their
5 driver licence suspended for administrative reasons,
6 which usually means too many points, without a show cause
7 hearing.

8 You know, we have to have staff available
9 to sit down and meet with these people, explaining some
10 of the financial implications, explaining some of the
11 financial opportunities if they were to change their ways
12 as part of those show cause hearings is something that I
13 think we'll be able to take advantage of.

14 I think we need to choose those
15 opportunities carefully. I think there's a limited
16 amount you can do in this regard just by sending them
17 more letters in the mail. But I think the -- the
18 interaction that is sort of embedded in the legislation
19 that has to take place between those drivers and Driver
20 Improvement Control staff is certainly one (1) of the
21 first places we intend to look.

22 THE CHAIRPERSON: Thank you. The
23 question is straightforward enough but I think you know
24 that the Board has wondered on this issue for sometime
25 and we have heard the Corporation talk about it, but

1 please confirm that MPI has made no effort to obtain data
2 on red light camera and photo radar experience so as to
3 understand trends, et cetera.

4 MS. MARILYN MCLAREN: Confirmed.

5 THE CHAIRPERSON: Why would MPI not want
6 to research the links between such infractions and at
7 least the accident experience of vehicles for which the
8 owners were ticketed for such infractions at, say,
9 multiple occasions?

10 MS. MARILYN MCLAREN: The fact that we
11 haven't done it doesn't mean that we may see some value
12 in it. As you know, there -- we have been very, very
13 aggressive with respect to our change agenda and -- and
14 the programs and initiatives that the Corporation has
15 underway.

16 This was not something that seems to be an
17 effective use of resources up until this point in time or
18 probably for the next while, as well, given the fact that
19 it is a very political issue in this province as it is in
20 other jurisdictions.

21 It has influenced, you know, governments
22 losing power, coming to power, governments changing their
23 minds. It's a very volatile political issue.

24 We did not see opportunities to really
25 make much of an effect on that. And, you know, that

1 again may -- may be something we look at in the future.

2 THE CHAIRPERSON: It goes to the, if you
3 want to call it, the so-called virtuous circle. I mean,
4 if you bring down -- if you bring down the accidents you
5 bring down the premiums.

6 And the question I guess is, could not
7 such information, researching such information and the
8 potential use and a further amendment to the DSR improve
9 the predictive nature of the DSR and allow for even a
10 closer match of risk and premium?

11 Isn't there that possibility?

12 MS. MARILYN MCLAREN: I expect there is
13 such a possibility but I would refer back to what we
14 talked about in terms of really trying to minimize any
15 changes other than ones you really need to make in -- in
16 such a large change and such a large implementation as
17 what we are undertaking with this initiative.

18 THE CHAIRPERSON: Just switching to a
19 different topic, and Board counsel got into this a little
20 bit but we have a couple of questions that are related
21 somewhat to it.

22 The unaudited fourth quarter results and
23 the balance sheet indicate cash in short-term deposits at
24 a level close to 15 percent of the overall investments.
25 And we've dug out the paper that was filed with the June

1 2008 Aon report which had the current MPI portfolio mix
2 and the adopted target portfolio mix.

3 And on that, cash in short term is listed
4 current 5 percent, adopted target zero (0). Is not this
5 15 percent holdings in cash significantly higher than the
6 range provided for in the investment policy?

7 MR. DONALD PALMER: Yes, it is. And
8 there's a couple of situational reasons for that. One
9 (1) is the purchase of cityplace. We, within the next
10 two (2) weeks, will need \$80 million of that cash to
11 complete the transaction; so that's reflected in this.

12 We're also looking at some of -- the entry
13 into some of the other asset classes that we discussed.
14 And right now, quite frankly, cash isn't a bad place to
15 be.

16 So, I -- I would say that the -- that is a
17 temporary situation. It's not something that we're
18 looking at amending our investment policy statement to
19 include a 15 percent cash.

20 THE CHAIRPERSON: We will get it under
21 the GRA so it's -- I imagine you will be filing it, but
22 where did the cash come from? It must have, presumably,
23 come from the sale of securities or just the build up of
24 cashflow during the year, I imagine, too.

25 MR. DONALD PALMER: Both of those.

1 THE CHAIRPERSON: I think you --

2 MR. DONALD PALMER: We -- and, again, we
3 have about a 40 percent turnover in bonds; we have
4 discussed that. So -- so, on an ongoing basis, we didn't
5 liquidate specifically to generate more cash.

6 THE CHAIRPERSON: You would have
7 maturities, and if you did not reinvest, they would
8 return cash.

9 You also indicated, Mr. Palmer, earlier in
10 the hearings that the situation had improved somewhat
11 after February 28th.

12 I think you have already answered this
13 when you are talking about cityplace. The question I was
14 going to ask, and I guess I might as well just to have it
15 for the record, to what extent has the cash balance at
16 February 28th now been reinvested, or is it still there
17 other than the cityplace money?

18 MR. DONALD PALMER: It's still pretty
19 much there, yes.

20 THE CHAIRPERSON: The question is: Is
21 MPI, in its strategy, is it attempting market timing,
22 i.e. the effort to improve investment returns by judging
23 when the top or the bottom is as opposed to living with
24 an acid mix?

25 MR. DONALD PALMER: In general, no. As

1 we embark upon new asset classes, there is some timing
2 but -- but it really is not the determining factor in --
3 in when we embark upon new asset classes.

4 And, certainly, entering into more real
5 estate -- real estate especially, we have up to a 10
6 percent allocation in the investment policy statement.
7 That really takes some time to -- it's not -- not only
8 getting into it, but deciding how you're going to go into
9 it.

10 We will have one (1) holding that will be
11 a -- a direct investment in that the portions of
12 cityplace that -- that are not held for our own office
13 space, the additional parking lots and -- and mall will
14 be held as an investment. But that's \$30 million of the
15 two hundred (200) or so million dollars that we would
16 have allocated.

17 To -- to decide whether you go into a
18 segregated fund and the ability to get into a segregated
19 fund takes some time, or to go into a pooled fund, again,
20 you have to select managers and -- and --

21 THE CHAIRPERSON: We understood there
22 would be -- there is -- it takes time to make these
23 changes.

24 I guess the simple question you already
25 answered that your acid mix guidelines have not changed

1 from the one (1) that was reviewed at the last GRA?

2 MR. DONALD PALMER: No, it has not.

3 THE CHAIRPERSON: We understand that you
4 did not use outside expertise in developing the DSR.

5 Is that the correct understanding, other
6 than the communications people that you referred to?

7 MR. DONALD PALMER: That would be
8 accurate. We had help in some of the aspects of it,
9 communication strategy was -- was one (1) of those but
10 the development itself in terms of the running of all the
11 models and -- and coming up with the -- the underpinnings
12 was all done in-house.

13 THE CHAIRPERSON: Just general to help us
14 with the understanding of the development process in such
15 a significant endeavour, what was the nature of the
16 skills from within the Corporation that were brought
17 together to develop the DSR, because presumably all of
18 the work wasn't actuarial?

19 MR. DONALD PALMER: We did establish a
20 working group that was made up of the actuarial folks,
21 for sure, but also some people from the insurance office,
22 the business side.

23 We had Driver Improvement and Control
24 people, people who are really in tune with the
25 registration and -- and driver improvement aspects.

1 Communication people were in there. Claims people were
2 in there in terms of the effect of the -- the ongoing
3 effect of -- of driver safety rating and -- and the
4 ability to inform their clientele because, obviously,
5 it's part of the adjusting process to -- to explain
6 current or future impacts of -- of making a claim.

7 MS. MARILYN MCLAREN: The product --
8 product development business analysis type folks and
9 frontline customer service staff as well.

10 THE CHAIRPERSON: Did one (1) of the
11 senior executives in charge of the overall venture?

12 MR. DONALD PALMER: We --

13 MS. MARILYN MCLAREN: Let me just talk
14 about -- the way we work on things of this nature within
15 Manitoba Public Insurance is that the Business Innovation
16 Division takes the lead in terms of product change,
17 product development and so on. And as part of that there
18 is a working group established of -- of generally senior
19 managers.

20 But the executive, the management
21 committee, serves as the steering committee of any
22 project of this nature. So when I can talk to you in
23 probably more detail than you wanted about claims
24 buybacks and what led to the determination about what
25 brought us to where we are today, it's because the

1 project team reported and discussed issues like that to
2 that level of detail with the working group who then
3 brought it to the entire executive and we discussed it,
4 as well.

5 So we don't do things this substantive
6 with just one (1) or two (2) related executives involved.
7 The entire executive is the steering committee for
8 anything of this magnitude.

9 THE CHAIRPERSON: Yes, pleased to hear
10 that. It's interesting you'd raise buybacks because that
11 was actually my next question.

12 When MPI accepts an insured's buyback of a
13 previous claim payout and then presumably provides an
14 extract that shows no accidents on the insured's record,
15 is that not a practice that sort of disfavours the next
16 jurisdiction and insurer because that jurisdiction
17 insurer wouldn't be aware then of actual accident
18 experience and presumably is being misled?

19 MS. MARILYN MCLAREN: It does but I'm not
20 sure that they wouldn't do some more kinds of things,
21 particularly -- you know, I think other -- it's always
22 better if you can do it at the front end. Give people as
23 much information as you possibly can and depending on how
24 much they know about their short-term or longer-term
25 future direction, they'll make a decision.

1 I think if -- it really comes down to
2 people having been -- if I had known then what I know
3 now, I would not have filed this claim.

4 So certainly, there is -- from a pure
5 underwriting perspective it's not consistent with what
6 insurers would expect to see.

7 THE CHAIRPERSON: Do you have any limits
8 with respect to a buyback? For example, if the accident
9 involved a fatality or serious injury could a claim of
10 that nature be theoretically bought back?

11 MS. MARILYN MCLAREN: In theory, but you
12 can't buy back convictions, right? So in -- in those
13 kinds of egregious type circumstances there would likely
14 have been some sort of conviction on the record, as well.

15 THE CHAIRPERSON: Now, presumably, if
16 you're doing this and you've got new drivers coming to
17 Manitoba that were dealing with other insurance
18 companies, do other insurance companies allow buybacks,
19 as well, so the transcripts they're bringing to you could
20 be in a sense altered?

21 MS. MARILYN MCLAREN: They could be,
22 sure.

23 THE CHAIRPERSON: Is this the type of
24 thing that you would have discussions with other insurers
25 at a national level?

1 MS. MARILYN MCLAREN: Certainly with the
2 other public insurers. I -- I -- nothing springs to my
3 mind that where I've had that discussion but it doesn't
4 mean that we can't and others may have.

5 THE CHAIRPERSON: So there's no national
6 protocol or protocol involving general insurance
7 companies with respect to their practices with buybacks?

8 MS. MARILYN MCLAREN: Not to my
9 knowledge. I think there are very few national protocols
10 of a nature like that, Mr. Chairman.

11 THE CHAIRPERSON: MPI would agree that,
12 given its basic monopoly and the fact that it now
13 administers DVL, it is in a tremendous position to
14 develop an optimal DSR situation that private insurers
15 having only segments of a market would be unable to
16 emulate?

17 MS. MARILYN MCLAREN: Absolutely. And as
18 a standalone public insurer we -- we would not be where
19 we are today. This -- this is possible because of the
20 amalgamation and because of the insight and I think
21 effective program development skills that people within
22 the Corporation have.

23 THE CHAIRPERSON: This in a way is a GRA
24 question but the reason I'm asking you now is I sort of
25 see it related to this buyback issue.

1 Remind us, when was the last time the
2 Basic deductible changed? It was quite some time ago,
3 was it not?

4 MS. MARILYN MCLAREN: Absolutely, yes, it
5 was -- I would say maybe the late '90's. '97 springs to
6 mind but I'm not 100 percent sure.

7 THE CHAIRPERSON: Well, we'll turn to
8 that in the GRA. Have there been any subsequent events
9 following the February year end which are expected to
10 affect future net income levels sufficiently to affect
11 the DSR Application in itself?

12 I'll give you an example. In the media it
13 was reported that the government had indicated an
14 intention to bring forward a bill that would improve the
15 situation for victims of accidents that suffered
16 catastrophic injuries.

17 To our knowledge, we're not aware of any
18 details of that but you're not aware of any subsequent
19 event that would affect the DSR by altering the forecast
20 materially?

21 MS. MARILYN MCLAREN: Agreed, we are not
22 aware of any.

23 THE CHAIRPERSON: A few general
24 questions. Are MPI Board of Directors' minutes available
25 for public review?

1 MS. MARILYN MCLAREN: Yes.

2 THE CHAIRPERSON: Are Crown corporation
3 counsel reviews of MPI that are shared with MPI available
4 for public review?

5 MS. MARILYN MCLAREN: No, I believe those
6 are not.

7 THE CHAIRPERSON: Are recommendations and
8 support for recommendations made by MPI and management
9 MPI's Board of Directors available for public review?

10 MS. MARILYN MCLAREN: No, they're not.

11 THE CHAIRPERSON: You'll be happy to
12 know, one (1) last question. Would you agree that a
13 monopoly is a special obligation to ensure fairness to
14 all categories of ratepayers even if that category is
15 small?

16 MS. MARILYN MCLAREN: Sure, absolutely.

17 THE CHAIRPERSON: Thank you very much.

18 Mr. McCulloch, any re-direct?

19 MR. KEVIN MCCULLOCH: No, Mr. Chairman.

20 THE CHAIRPERSON: Okay. Ms. Everard, do
21 you want to remind us of the process that will ensue
22 following our adjournment today?

23 MS. CANDACE EVERARD: Sure, Mr. Chairman.

24 Well, naturally since the evidentiary portion of the
25 hearing is complete, we won't be sitting tomorrow. The

1 idea will be that we'll reconvene Tuesday the 21st at
2 9:00 for closing remarks by myself and the Intervenors.
3 Hopefully those will all be completed on the Tuesday.
4 And then my suggestion would be we come back on Thursday
5 the 23rd for Mr. McCulloch's closing remarks.

6 THE CHAIRPERSON: Is that satisfactory
7 for all parties?

8 MR. BYRON WILLIAMS: Certainly from our
9 perspective it is.

10 THE CHAIRPERSON: Mr. Oakes...?

11 MR. RAYMOND OAKES: Yes, Mr. Chairman.

12 THE CHAIRPERSON: Mr. Kruk...?

13 MR. JERRY KRUK: I agree, Mr. Chairman.

14 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman.

15 THE CHAIRPERSON: Very good. Then we
16 stand adjourned. Thank you.

17

18 (MPI PANEL STANDS DOWN)

19

20 --- Upon adjourning at 11:44 a.m.

21

22 Certified correct,

23

24 _____

25 Cheryl Lavigne