MPI Exhibit #84

MANITOBA PUBLIC INSURANCE

2021 GENERAL RATE APPLICATION

CLOSING SUBMISSIONS

November 03, 2020

MANITOBA
PUBLIC INSURANCE

Table of Contents

1 Steady Hands on the Wheel Provides Stability in Period of Uncertainty

1. Manitoba Public Insurance (MPI) is applying for an overall average rate reduction of 8.8% in this year's General Rate Application (GRA).

2. Auto insurers throughout Canada are seeking rate increases. In some provinces, insurers seek double digit rate increases. While many factors allow MPI to request this historic rate reduction, a key reason for the solid performance are its efforts to focus on core business and applying industry best practices. It is the intention of MPI to maintain the practices that have fostered this success.

3. The Consumers Association of Canada (CAC), in its opening submission, stated that the reason MPI was able to seek this rate reduction was because of the cumulative effect of years of over-charging ratepayers for Basic insurance. This is misleading and a disservice to Manitobans and this Board, who found those rates to be just and reasonable. In point of fact, the rate indication steadily decreased during the period identified by the CAC (i.e. 2017 – 2019 GRAs), while also ignoring the 0% and – 0.6% rate indications that bookend that period of time (i.e. 2016 and 2021 GRAs, respectively). The overall rate decrease MPI requests this year is based upon break-even Accepted Actuarial Practices (AAP) which indicate a 0.8% rate decrease, a 3% rate decrease from product changes, and a 5% rate decrease resulting from excess capital transfers from the Extension line of business of MPI.

4. Based upon Statistics Canada data[1], auto insurance in Manitoba has, over the last 20 years, experienced the lowest annual increases of any province. The evidence shows that prior to this application, Manitobans benefited from amongst the lowest insurance costs in the country. With the approval of this application, those costs will be even lower. The Coalition of Manitoba Motorcycle Groups (CMMG) objects to the request in this application that the average motorcyclist receive a 4.7% rate increase. In

[1] BMK.2.2 Average Premium Growth Rate, page 11, line 4;

2021/22, that premium will be slightly less than $900. In 2005, the average motorcyclist's premium was also slightly less than $900[2].

5. Manitobans benefit from a strong and stable Basic insurance program.

6. For 2021/22, MPI seeks approximately $95 million less to operate its Basic line of insurance than it did in the year prior. This is in addition to the $110 million MPI rebated to its customers in the spring.

7. MPI provides this rate reduction and the rebate while maintaining breakeven rates and its 100% Minimum Capital Test (MCT) ratio target. This is a dramatic turnaround from the 2018 GRA, in which the initial AAP rate indication was a 7.7% increase and where $176 million was transferred from the Extension line of business in the prior 3 year period in order to maintain satisfactory financial status of Basic.

8. Certain specific actions must continue in order to maintain these successes, namely:

- basing Basic rates upon AAP;
- the use of naïve interest rate projections;
- the projection of interest rates over shorter timeframes;
- an Asset Liability Management (ALM) Study that significantly reduces investment risk as it concerns interest rates and equity markets, while ensuring the maintenance of appropriate assets to cover liabilities;
- a Capital Management Plan (CMP) that is based upon an industry standard, 100% MCT;
- the transfer of excess capital from Extension, the competitive line of business of MPI;
- a single aggregate stop loss reinsurance program;
- Enterprise Risk Management (ERM);
- improvements in claims management; and
- improvements in collision severity forecasting.

[2] Transcript, October 20, 2020, pg. 478, lines 12 to 13;

9. We are in the midst of a global pandemic. We do not know when it will end or what its ultimate impact on Basic will be. Any attempt to predict the impact is pure speculation. This is not the time for knee-jerk reactions. A calm and steady approach is required.

10. MPI proposes addressing the COVID-19 pandemic in the same manner AAP addresses other outliers.

11. That said, the immediate impact of the pandemic is not being ignored. Claims costs will be less than originally forecasted in this current year. MPI is not waiting to the 2020/21 year-end to report pandemic-related cost savings. These savings, as they are known to the date of the revised application, are being forecasted into an increased Rate Stabilization Reserve (RSR), a key factor in the current rate application request.

12. What is not in this application is speculation of whether and when the pandemic will end in the 2021/22 rating year. AAPs do not guess the impacts of outlier events. MPI proposes maintaining the practices that brought it to its current position of financial strength.

13. And MPI is in a strong financial position. This GRA hearing has seen presenters representing specific partners advocating for higher payments from MPI and interest groups seeking greater reductions in their premiums. When considering these submissions, MPI cautions the Board against reacting in haste to these egocentric requests.

14. The rate making process is extremely complicated and, when isolated factors are taken out of context or different assumptions applied, wildly conflicting conclusions can be drawn, if one is not careful.

15. A simple example in this hearing relates to vehicle owners who are at the top of the Driver Safety Rating (DSR) Scale. This Board heard evidence that these individuals (who currently receive a 33% DSR discount), should actually receive a 57% discount. The argument is that these owners subsidize other drivers with poorer driving records.

However, this Board also heard evidence that these same individuals on average register 1.3 vehicles in their name. The argument is that some individuals are "gaming the system" so that family members with lower DSR ratings avoid paying as much as $89 million in premiums.

16. How can the same class of individuals be both unfairly penalized and game the system for tens of millions of dollars at the same? They clearly cannot.

17. MPI requests that the Board exercise caution in responding to Intervener requests for changes based upon a narrow perspective or objective. The Board must take a balanced review when considering different perspectives in determining if the applied for rates are just and reasonable.

18. MPI's Vision Statement is:

> *The trusted auto insurance and driver services provider for every Manitoban.*

19. Implicit in this statement is that MPI will be fair and balanced when it determines rates for Manitobans. The Board, with the assistance of interveners who challenge the assumptions of MPI, provides a check on the work of MPI.

20. This year was the first time (in at least the past decade), in which an Intervener challenged the rates paid by another class of drivers. Specifically, the Taxi Coalition (TC) challenged the rates paid by the Passenger Vehicle for Hire (VFH) class, notwithstanding the Passenger VFH class was not in attendance to provide their perspective. Evidence was provided by the TC on the operation/regulation of Passenger VFH vehicles; for instance, there was a discussion about the theoretical Passenger VFH vehicle operating 24/7. The Board is not in a position to know the practicalities of such a suggestion.

21. The mechanics of how MPI establishes rates have been refined over many years. This methodology contributes to a 20-year history of the most stable rates in Canada, with Manitobans currently enjoying amongst the lowest rates in the country. For this

reason, MPI requests the Board be cautious and deliberate in its consideration of changing these practices.

22. This does not mean that intervener suggestions are without merit. MPI does not believe it is flawless. MPI did not prudently operate certain aspects of its business 4-5 years ago. Although MPI has made significant progress over the past few years, it appreciates that there remains room for improvement.

23. MPI nears the end of the first stage of its most important project since the merger of automobile insurance with Driver & Vehicle Licensing. Project Nova is much more than an Information Technology (IT) project, it represents the largest transformational project undertaken in the history of MPI. It is a fundamental change in the way MPI carries out business. This Board will appreciate the way MPI reports on Project Nova has fundamentally changed from how it previously reported on major projects. The transparency is unprecedented. A small example is the receipt by the Board of monthly Governance Advisor Reports created by an independent third party. The Board further sees, in real time, how MPI addresses any concerns raised in those reports.

24. Although this Board should not lose sight of Project Nova, given that it will be the primary objective of MPI over the next 4 years, it should not lose perspective. The original business case, including contingency (which is currently being re-baselined), envisions spending half as much money, over a 5-year period, as MPI released this year in rebates and rate reductions.

2 Strong Financial Position and Rates Sought

25. The following numbers provide an overview of the current and forecasted financial statements of MPI, as at August 31, 2020:

- Basic total equity of $501 million, with a forecasted MCT ratio of 115%, at the beginning of the 2021/22 rating year

- a capped capital release of $63.1 million, representing negative 5% of the rate sought in this GRA
- forecasted decrease in expenses for both Basic and Extension, for the 2020/21 fiscal year
- forecasted net interest rate impact on claims lower than $8 million (or less than 1% of the total claims reserves) for the 2021/22 rating year, as a result of the recently implemented investment portfolio of MPI

3 Capital Management Plan Is Working

26. Although commenced after the new investment strategy was implemented, the CMP – not unlike the predecessor strategy – is working well in its inaugural year. Mr. Johnston testified that he is pleased with how the CMP worked in the 2021 GRA[3]. Basic ratepayers should be similarly pleased. The forecasted transfer of capital from Extension into Basic has significantly contributed to a 5% reduction in the rate indication in this year, the maximum amount that MPI can release under the CMP. This amounts to $63.2 million to the benefit of Basic customers for rates beginning April 1, 2021. The October update (MPI Exhibit 27), with financial information current to the end of August 2020, shows Basic MCT at 115%, amounting to $501 million by fiscal year-end (March 31, 2021), thereby triggering the release that forms part of the proposed rate reduction of – 8.8%.

27. Moreover, the forecast for the following year (2022 GRA) sees a transfer of $32.7 from the Extension into Basic. Basic MCT, forecasted to drop from 115% to 111% by March 21, 2022, will receive a boost from the Extension transfer (increasing Basic MCT by 8%), triggering yet another release under the CMP.

28. This past fiscal year, during the course of the pandemic, there did not occur a transfer of capital from Extension to Basic as contemplated under the CMP. Rather, excess capital held in the Extension reserve ($52 million) was released directly from Extension as part of a rebate to Basic customers following the Special Rebate Application ($110 million). This emergency measure, carried out to allow for the

[3] Transcript, October 20, 2020, page 567, line 21;

immediate release of capital to Manitobans under extraordinary times, has raised some questions about the future use by MPI of excess funds in the Extension reserve and possible departure from the annual workings of the CMP. Mark Giesbrecht, Vice-President and the Chief Financial Officer of MPI had the following to say on this issue:

> *"MS. KATHLEEN MCCANDLESS: However, in the future, could MPI make a decision to utilize excess monies rather than transfer to Basic as it had done previously?*
>
> *MR. MARK GIESBRECHT: That is a possibility.*
>
> *MS. KATHLEEN MCCANDLESS: So the Corporation does acknowledge that its position is it has the flexibility to not transfer those monies then?*
>
> *MR. MARK GIESBRECHT: Yes.*
>
> *MS. KATHLEEN MCCANDLESS: So another use for the funds could be deemed by a management business case, for example?*
>
> *MR. MARK GIESBRECHT: Possibly.*
>
> *MS. KATHLEEN MCCANDLESS: Or a direction from the Board of Directors?*
>
> *MR. MARK GIESBRECHT: That is correct, yeah. It should be stated, though, that there are no plans. That is not the case. However, if something were to arise where there was a need and it was deemed as the -- appropriate to utilize those funds, that -- that could be possible at the discretion of the MPI Board of Directors."*[4]

29. Of importance in this exchange with PUB counsel, as Mr. Giesbrecht later confirmed with Board Chairperson Gabor, is that:

> *"there could conceivably arise a situation where funds may be needed for some reason; however, it would be similar to the -- the pandemic*

[4] Transcript, October 20, 2020, page 579, line 22;

> *that we're currently in, where it would be an extreme circumstance or some, you know, great need where it would make sense to do so."*[5]

30. Mr. Giesbrecht also testified that any use of Extension monies in this regard would not represent a departure from the CMP, to the extent those funds were used prior to the scheduled transfer at fiscal year-end. If such use was made, under the circumstances described by Mr. Giesbrecht, any remaining funds above the 200% threshold would be automatically transferred under the CMP.

31. Support for this is found in the CMP itself. From the RSR Chapter of the 2020 GRA is this excerpt from the CMP:

> *RSR.6.2 Capital Transfers*
>
> *After applying the Basic rate indication to the forecast, MPI will then determine whether there is excess capital in MPI's Extension line of business that it can transfer to Basic. If, at each fiscal year end, the Extension MCT ratio is:*
>
> - *greater than 200% - MPI will transfer capital from Extension to Basic until the ratio is 200%.*
> - *less than 200% - MPI will not make any capital transfers from Extension.*

32. Further support for this is found in the longstanding conviction of MPI that Basic should be a self-sustaining line of business. While the injection of capital from Extension into the RSR is certainly desirable, it is not something that Basic customers should rely on year after year. Extension, one of the competitive lines of business of MPI, is meant to earn a profit. It was never the intention of the CMP to require *all* profits made throughout the year in excess of 200% MCT to be saved for transfer to the RSR on or about March 31.

[5] Transcript, October 21, 2020, page 693, line 12;

33. The CMP is a cornerstone policy of the MPI Board of Directors (BoD). However, any well written policy should avoid fettering discretion because it is impossible to predict every scenario (it is fair to say that when the CMP was created, March/April 2020 was not foreseen). That said, because it is a cornerstone policy it will only be deviated from in extraordinary circumstances. As such, the MPI BoD needs to retain that discretion to address these extraordinary circumstances.

34. There may, as described by Mr. Giesbrecht, be instances where MPI requires Extension profits to be used for Extension projects (the line of business that earned the profit). The example used at the hearing by Board Chairperson Gabor was Project Nova. Project Nova is a corporate-wide initiative that will benefit the customers of Basic, Extension and Special Risk Extension. So use of excess Extension monies for the Extension component of Project Nova before fiscal year-end, whether it be for external consultants, or the purchase of additional hardware or software products, would be an appropriate use of excess capital so long as MPI has followed the cost allocation methodology as approved by this Board.

35. Mr. Johnston testified, as part of the RSR/CMP/CERP panel, that the CMP is the proper way to allow for the gradual release of capital to Basic customers. The periodic release of capital by way of rebate cheques, as was done following the Special Rebate Application during the lockdown phase of the pandemic, is neither preferred nor sensible. The release of capital in short bursts has the potential of introducing volatility. Instead, allowing the CMP to work as designed, with its capital transfers, eliminates the need for capital maintenance or build provisions.

> *"MR. STEVE SCARFONE: Would it be fair to say that the Capital Management Plan is a pilot project?*
>
> *MR. LUKE JOHNSTON: It's fair. My hope is that obviously -- obviously it's not. We designed this with the intentions of -- of improving rate stability over time. But from the Board Order, I understand that there's a -- we're not quite there yet.*

MR. STEVE SCARFONE: And is it also fair to say that in year one of this two-year trial that there may be some kinks to work out during the two-year trial period?

MR. LUKE JOHNSTON: I -- I agree that there would be. Very interesting year for this to start and I don't think we should hold the extreme volatility of a pandemic as the fault of the Capital Management Plan in any way. It -- we did what we had to do in the extreme parts of the COVID situation, but what you're seeing now, I believe, is a -- Capital Management Plan doing its job and I would continue -- I would believe that will continue to be the case if we maintain this methodology."[6]

36. The CMP continuously manages rate volatility by taking measured steps toward the Basic 100% MCT target on an annual basis while capping surcharges at 5%. Capping rules are standard practice designed to limit volatility. They should not be ignored because it is nice to issue rebate cheques; they are designed for a purpose and should be applied when that purpose arises.

4 Investments - COVID-19 Proves Effectiveness of ALM Study

37. The investment strategy that MPI now has in place is working. We heard evidence from Mr. Bunston that the ALM Study, as it concerns the Basic Claims portfolio, has been fully operational for 14 months. During that time, beginning March 2020, a global pandemic was declared by the World Health Organization, which had a negative impact on the financial markets and has caused significant economic uncertainty.

38. Notwithstanding, the investment decisions made by MPI and its BoD, and endorsed by this Board in Order No. 159/18 following the 2019 GRA, has left the Basic Claims portfolio largely unscathed. Mr. Bunston showed this Board that the portfolio returned 4.4% for the 12 months ending March 31, 2020, compared to returns of – 0.1% and 0.3% for the RSR and EFB portfolios, respectively (Exhibit 30, slide 4). This we heard was the result of the decision made by MPI under the ALM Study to exclude equities from the Basic Claims portfolio, an asset class that sustained significant losses during

[6] Transcript, October 21, 2020, page 704, line 17

the early stages of the pandemic. The Basic Claims portfolio therefore avoided the write-down incurred to the public equity portfolio at March 31, 2020 ($54.4 million).

39. The volatility seen in the equity markets over the past eight months is validation of the decision by MPI to exclude equities from the Basic Claims portfolio. Indeed, Mr. Bunston testified that, in his time with MPI (17 years), the volatility associated with this pandemic is matched only by the 2008 global financial crisis -- more to the point, MPI's public equity portfolio was down 18% between February 20, 2020 and March 23, 2020 and then up 34.5% from March 23, 2020 to August 31, 2020.

40. By way of example, Investments Appendix 10 shows the return of Shadow Portfolio P2 (Basic), which contains an allocation to Public Equities, in contrast to the return of the Basic Claims portfolio with its 100% allocation to fixed income assets. The Shadow Portfolio returned 2.31% while the Basic Claims portfolio returned 6.19% (and returned 7.78% using the more directly comparable passive benchmark return). MPI Exhibits #50 and #51 updated this comparison by way of undertaking for the period August 31, 2019 – August 31, 2020 and showed Shadow Portfolio P2 (Basic) at 7.10% while the Basic Claims portfolio showed actual returns of 6.46%.

41. It is this steady, predictable performance (6.19% and 6.46%) that MPI sought under the new investment strategy. The volatility of the Shadow Portfolio containing growth assets (2.31% and 7.1%) demonstrates the investment risk tolerance that MPI seeks to avoid.

42. The investment income allocated to Basic for fiscal year 2019/20 (12 months ending March 31, 2020) was $59.6 million – see Figure INV-1. However, as shown in the response to Undertaking #7, for the 13-month period ending March 31, 2020, Basic's share of investment income was $107.2 million, with Basic having earned $47.6 million in the first of those 13 months (March 2019). In the October 9, 2020 update, total Basic investment income for 2020/21 is forecast to be $205.7 million and $87.9 million for 2021/22 (in the original GRA filing, investment income for 2020/21 was forecast to be $84.4 million and $89.4 million for 2021/22).

43. Under the ALM Study, all Basic liabilities are now backed by fixed income assets in the Basic Claims portfolio. The reasons for this as confirmed by Mr. Bunston in cross-examination are two-fold: i) the low tolerance of MPI for investment risk; and ii) to hedge against interest rate risk. Mr. Bunston said unique investment strategies are better aligned to the purpose and characteristics of the associated liabilities, with the volatility of the Basic Claims portfolio having been reduced. He also explained how these strategies have worked to avoid the financial losses seen in previous years:

> *"MS. KATHLEEN MCCANDLESS: Just with reference to this table, Mr. Bunston, can you explain how the duration matching undertaken by the Corporation protects against a change in interest rates in 2021?*
>
> *MR. GLENN BUNSTON: Sure. So, duration measures the sensitivity of bond prices to interest rate changes. And our strategy is to match the dollar and duration amount of our fixed income portfolio to the Basic claims liability. We attempt to do that within – as closely as possible. And so, we see here that we've been matched within .2 of a year in every year or less. And so, the result of this is that changes in interest rates impact -- cause changes in values of the assets and liabilities of similar amounts, so they offset each other.*
>
> *MS. KATHLEEN MCCANDLESS: Thank you. So, in your view then, this portfolio – portfolio allocation has achieved the de-risking of the impact of changes in interest rates?*
>
> *MR. GLENN BUNSTON: Yes, relative to the portfolio prior to March of 2019, when we had a co-mingled single portfolio. Yes, interest rate impacts have been reduced."*[7]

44. It is important to restate here that the primary purpose of the Basic Claims portfolio is not greater returns but rather, the elimination of interest rate forecasting risk. The substantial financial losses that occurred 2015 – 2018 due to interest rates are now effectively hedged by the matching described above by Mr. Bunston.

45. Recall from the evidence in the 2019 GRA that one of the benefits of the ALM Study, due to the Basic Claims portfolio being comprised entirely of fixed income assets, was

[7] Transcript, October 20, 2020, page 454, line 19;

the positive impact on the capital required by MPI. At the hearing this year, Mr. Johnston again confirmed this to be the case, drawing comparisons to the RSR of Saskatchewan Government Insurance (SGI), which requires $600 million to achieve 100% MCT given the high allocation to equities in the investment portfolio of SGI.

46. The CMMG suggests that MPI implement a separate investment strategy for the motorcycle class, which of course is not something the MPI BoD had in mind when developing the investment strategy for all Manitoba ratepayers under the Basic Claims portfolio. That strategy, as Mr. Bunston testified, has been fully operational for just 14 months. It would be highly unusual to now change course for a class of vehicles representing approximately 17,500 customers. Moreover, including growth equities in the Basic Claims portfolio to ameliorate the sensitivity of motorcycle premiums to long-term interest rates (as an alternative to a separate portfolio) would mean having to revisit the days of Basic having to hold more capital as protection against the increased risk of the securities.

> *"MR. STEVE SCARFONE: Okay. So you rather deftly anticipated where I was going with that, but I'll just ask a follow-up question. What would the effect of having equities inserted into the Basic claims portfolio have on the capital requirement to Basic in terms of dollars?*
>
> *MR. LUKE JOHNSTON: Of course, it would depend on how -- how -- what percentage, but the -- the minimum capital requirement would – would increase. Obviously we're -- we're at a -- in a very low-risk position. You'll recall it was only a few years ago that MPI was in the 25 to 50 percent MCT range. A major contributor to how we got back to 100 percent was the de-risking of Basic, reducing their equity composition and moving to a very low-risk approach. If we were to ver -- revert to more investments and growth assets, we would have to put up the required capital to get back to 100 percent MCT, and that would take some time."*[8]

47. In addition to increasing the capital requirement of Basic, the introduction of growth assets would also mean taking on more risk for the motorcycle class, a move that

[8] Transcript, October 20, 2020, page 545, line 14;

violates the low tolerance for investment risk held by MPI. It would also introduce volatility for these customers as explained by Mr. Johnston:

> *"MS. CHARLOTTE MEEK: But it would be possible to create a special portfolio specifically for the motorcycle class to reduce the impacts of interest rate risk?*
>
> *MR. LUKE JOHNSTON: I would say no. I'm not really sure what -- what you're asking for. The -- the approach we're using is very much -- we talked about the rate stability piece, but the other reason for the ALM is, of course, that we have literally billions of dollars in long-term PIPP liabilities, and there's no group that that's more specific to than -- than motorcycles. And I don't know if the suggestion here is to back motorcycle claims with a portfolio on the stock market and -- and then use a -- you know, a 7 percent return to -- you know, to price motorcycle rates. The question I would ask is who pays the bill when that goes wrong? Like, are motorcycles going to cover a 30 percent decline in the stock market when that happens? What is the process? So I would -- it would be very strange for us to create a -- an entirely different investment portfolio and capital and rate-making strategy for one (1) small group of policyholders."*[9]

48. It would appear that the bigger issue for the motorcycle class, more so than the impact of interest rates on long-tailed injury claims, is the impact of a change in methodology that now sees the Chief Actuary using separate loss development factors for Serious Losses versus Non-Serious Losses:

> *"MS. CHARLOTTE MEEK: Would you agree, Mr. Johnston, that the rate increase this year is predominantly -- for the motorcycle class is predominantly due to changes in interest rates?*
>
> *MR. LUKE JOHNSTON: The biggest reason for the rate increase is because of the change in methodology for handling serious loss claims. This issue was brought to MPI's attention last hearing. We were asked to separately analyze serious losses versus non-serious losses and figure out if there's a more accurate way to forecast those two (2) pools. The unfortunate impact for motorcycles was a pretty substantial*

[9] Transcript, October 20, 2020, page 501, line 12;

> *increase in their average rate, I believe in the [neighborhood] of about 8 percent. Absent that change, motorcycles would have experienced a much lower rate impact."*[10]

49. Losses involving motorcycles are disproportionately serious injury losses, meaning this new methodology has a negative impact on the rates payable by the motorcycle class.

50. The CMMG points to what they perceive as a disproportionate impact on the motorcycle class. That is, the manner in which rates are reflected when compared to other classes, especially the private passenger class of vehicles. The CMMG argues that, while other Basic customers see significant rate decreases, motorcycles once again see increases. However, as was made clear by Mr. Johnston, the PIPP benefits for all major classes are discounted the same way. MPI treats all Basic customers in a consistent manner. Indeed, motorcycle rates are exactly proportionate to the nature and severity of their claims, but because they are a very PIPP-heavy class, "they are unfortunately impacted by this massive decline in interest rates we're seeing."[11]

51. Mr. Johnston explained further how the ALM investment strategy is working to ensure there is no inequity where it concerns motorcyclists:

> *"MS. CHARLOTTE MEEK: Sure. So, MPI's statement that the ALM strategy, as implemented, would reduce interest rate risk for the Basic portfolio has not had the same impact for the motorcycle class specifically?*
>
> *MR. LUKE JOHNSTON: I -- I don't see why motorcycles wouldn't have benefitted from that risk reduction. We're seeing it not only in the very significant decline in our MCT target, but also through the rebates that we've paid out recently and the effective hedging of what was enormous interest rate impacts in recent years."*[12]

[10] Transcript, October 20, 2020, page 481, line 6;
[11] Transcript, October 20, 2020, page 89, line 5;
[12] Transcript, October 20, 2020, page 487, line 16;

52. The explanation provided to the CMMG concerning the nature of motorcycle claims versus those of private passenger vehicles, and the relationship to the assets backing the liabilities, was succinctly stated by Mr. Johnston as follows:

> *"So, what we're actually talking about here is in -- for other classes where -- that are mostly physical damage, money is in and out the door. There's no real chance for MPI to earn investment income on those dollars. You -- you pay a thousand dollars premium. You have a collision. We pay -- pay out the claim. There's not a lot of investment potential.*
>
> *Motorcycles, because most of the claims are long-term, we sit on those premium dollars for longer, and we invest them. So, motorcycles have always got the benefit of that investment return through a lower rate.*
>
> *All that's happening now is that investment income piece is smaller because interest rates are so much lower. And it does have a bigger impact on motorcycles for that -- for that reason, but it impacts everything MPI does."*[13]

53. Stated another way, motorcyclists do not have to pay upfront the full costs of their long term bodily injury claims because MPI is able to invest a large portion of motorcycle premiums and earn investment income, which it then uses to reduce the initial motorcycle rates. The problem for motorcyclists is that the forecasted investment income is now lower because of declining interest rates, the result being that the benefit they receive from investment income is less than in prior years. Accordingly, motorcyclists must pay upfront a higher proportion of the full costs of their long term bodily injury claims.

54. Whether fortuitously or by design, the MPI investment strategy could not have better positioned the customers of Basic – including the motorcycle class – for the uncertainties of this pandemic, which has now endured for eight months. The assets and liabilities of Basic are now aligned to protect against interest rate risk, and the Basic Claims portfolio shows a very reasonable return on investment, outperforming

[13] Transcript, October 20, 2020, page 482, line 12;

the benchmark portfolios in British Columbia (Insurance Corporation of British Columbia) and Saskatchewan (SGI).[14]

5 Proper Forecasting Ensures MPI Ready for Whatever Direction Pandemic Takes

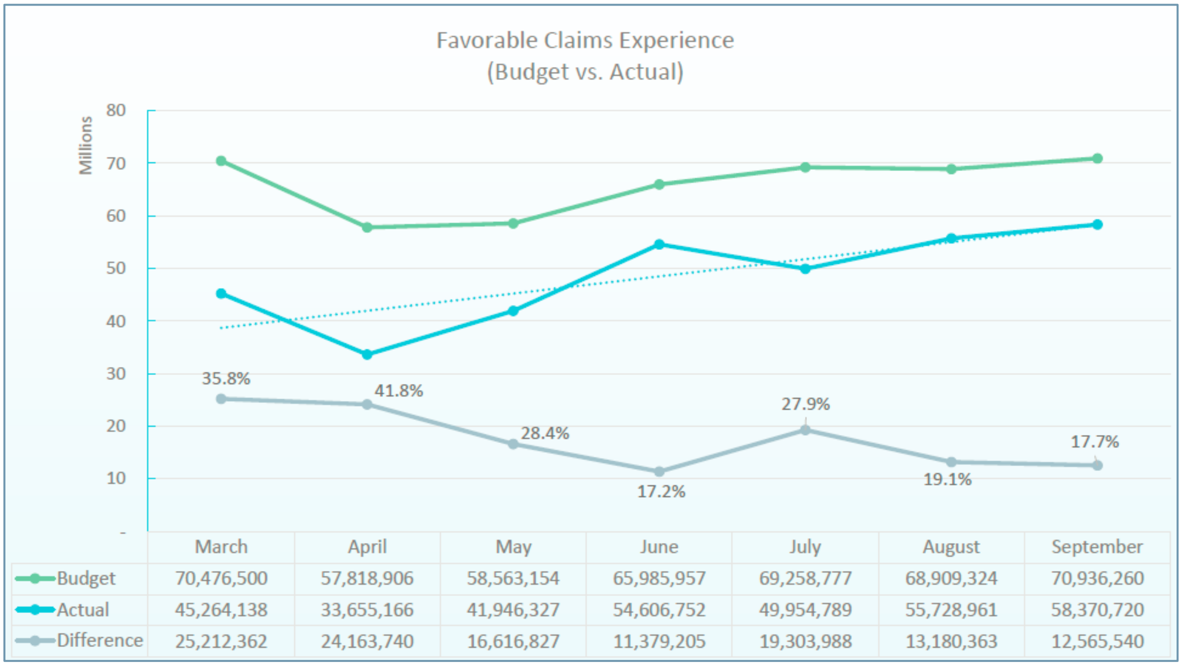
55. Predicting the outcome of this pandemic is impossible. MPI should therefore continue forecasting rates based on the available experience and current methodology.

56. The 2021 GRA introduced the Financial Condition Test (FCT), the current actuarial report that replaced the Dynamic Capital Adequacy Testing (DCAT). The FCT adds a going-concern requirement to the actuary's opinion. Most of the other aspects are very similar to the DCAT[15], as indicated by the Chief Actuary of MPI:

> *"the risks that continue to exist, so like a stock market crash, interest rate declines, have historically and continue to be modelled in the FCT.*
>
> *So we're not missing anything in that regard. The -- the claims have been favourable and to the extent they're more favourable, they would make these results better in the FCT."*[16]

57. MPI tracks and monitors the impact of COVID-19 on a monthly basis. MPI filed with this Board several reports based on its financial information,[17] permitting the Board to compare budget and actuals figures for PIPP and Collision claims. As at August 31, 2020, savings in claims represented $122 million (or 26.5% favourable compared to budget). The line chart below is a copy of MPI Exhibit #28, page 13:

[14] See Investments 10.8 at pages 51 and 52;
[15] Transcript, October 20, 2020, pg. 366, lines 2 to 8;
[16] Transcript, October 20, 2020, pg. 368, lines 14 to 21;
[17] Transcript, October 20, 2020, pg. 387, lines 11 to 19;



58. In response to Undertaking #3, MPI provided the actuarial perspective of Claims savings, focused only on Collision counts. The figure below was retrieved from MPI Exhibit #44:

Figure 1 Basic Collision - October 9th Update

		2021 GRA		October 9th Update		Difference	
Line No.	Accident Month	Collision Incurred	Collision Claim Counts	Collision Incurred	Collision Claim Counts	Collision Incurred	Collision Claim Counts
1	Apr-20	$27,063,700	6,998	$15,477,284	3,965	($11,586,416)	(3,033)
2	May-20	$29,865,293	7,447	$18,765,358	4,932	($11,099,935)	(2,516)
3	Jun-20	$31,846,354	7,704	$24,618,476	6,488	($7,227,879)	(1,217)
4	Jul-20	$31,676,284	7,680	$26,850,210	7,064	($4,826,073)	(616)
5	Aug-20	$31,869,067	7,618	$27,168,994	7,049	($4,700,074)	(570)
6	Sep-20	$33,744,974	7,872	$33,744,974	7,872	$0	0
7	Oct-20	$40,167,646	9,103	$40,167,646	9,103	$0	0
8	Nov-20	$47,051,641	10,046	$47,051,641	10,046	$0	0
9	Dec-20	$51,353,848	11,652	$51,353,848	11,652	$0	0
10	Jan-21	$49,024,023	11,462	$49,024,023	11,462	$0	0
11	Feb-21	$40,430,751	9,663	$40,430,751	9,663	$0	0
12	Mar-21	$32,309,916	8,159	$32,309,916	8,159	$0	0
13	**Total**	**$446,403,496**	**105,405**	**$406,963,120**	**97,454**	**($39,440,376)**	**(7,951)**
14	COVID-19 Adjustment	($26,485,894)	(7,557)	$0	0	$26,485,894	7,557
15	**Total with COVID-19**	**$419,917,602**	**97,848**	**$406,963,120**	**97,454**	**($12,954,482)**	**(394)**

59. From the actuarial perspective, MPI is only 3% (or $12 million) under budget for Collision claims, representing a variance of just under 400 claims. It should be noted that the difference from the budgeted figures is decreasing over time.

60. Both perspectives, the actuarial and the financial, indicate a similar trend: while it is true that MPI continues to experience favourable claims results through August 31, 2020; the actuals are approaching budgeted figures.

61. For PIPP Claims, MPI assumed a direct one-to-one correlation between PIPP and Collision claims for the 2021 Special Rebate Application. It is becoming more difficult to break out the impact of COVID on PIPP ultimates, as explained by Mr. Johnston:

> *"MR. LUKE JOHNSTON: (…) it's pretty clear to see that here's a frequency reduction and that COVID had a lot to do with that.*
> *For PIPP, it's not as obvious what the net impact is going to be from COVID. Given the significant increase in serious losses we've seen -- you've also, I'm sure, seen on the news a lot of issues with speeding and racing and all these types of behaviour that's occurring.*
> *When we're in a 50-percent-under-budget scenario on collisions, it's obviously, you know -- there has to be some impact to injury. As we're appro -- approaching 9, 10 percent under budget on frequency, it's not as clear whether we're going to see PIPP savings going forward.*
> *Really, I'm just saying that we're struggling to be confident about a one-to-one relationship going forward.*
> *DR. BYRON WILLIAMS: Okay. But you are confident about a one-to-one relationship between collision and property.*
> *MR. LUKE JOHNSTON: Yes"*[18]

62. MPI should continue to monitor the claims experience from both perspectives, proposing changes, as required, to the rating assumptions and forecasts. Regardless of the duration of COVID-19 impacts, the 2020 data will be an outlier. MPI is not suggesting that this data be ignored, but hasty decisions on a small sample size should be avoided. The Chief Actuary of MPI recognized this and stated:

> *"it's going to be hard to ever use that data for anything, even when it comes to things like collision severity, for example, or the number of*

[18] Transcript October 20, 2020, pg. 361, line 17;

> *serious losses that happened this year. Behaviour is very different, so will we totally ignore it? Maybe not. We'll just -- there's probably information to be gained from -- from some of the behaviour, but for the most part for long-term forecasts we'll likely exclude it."*[19]

63. The updated rate request is the best estimate of MPI for AAP ratemaking for the 2021/22 test year.[20] Some will undoubtedly criticize MPI for not immediately adjusting its forecasts to respond to the fallout that will occur from the declaration by the Chief Public Health Officer that the Winnipeg Metropolitan Region has reached Critical Status. Now is not the time to deviate from best practices. AAP does not guarantee 100% accuracy, but it does provide MPI with a consistent, methodical process for addressing these uncertain times.

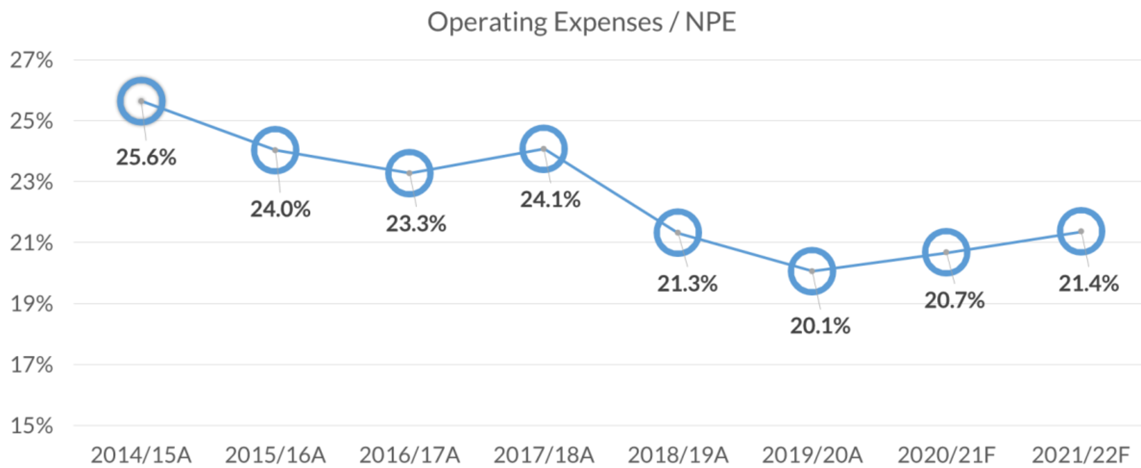
6 Prudent Fiscal Management means Expenses Remain below Natural Growth

64. For the third application in a row, MPI brings an expense forecast that is lower than the projections of the prior year[21]. In spite of a reclassification of approximately $8 million in Claims Incurred expenses (moved into Corporate Operating expenses), MPI forecasts a decrease in Total Expenses for both Basic and Extension for the 2020/21 fiscal year.

65. When operating expenses are compared against Net Premiums Earned (a measure of revenue), the positive trend is undeniable. The following chart, retrieved from MPI Exhibit 32, at page 12, demonstrates that the share of Basic ratepayer funds that are used to operate the Basic line of business has been decreasing, almost steadily from 2014/15.

[19] Transcript October 20, 2020, pg. 405, lines 15 to 25;
[20] Transcript October 20, 2020, pg. 406, lines 6 to 9;
[21] 2021 GRA, Part V – Expenses, Figure EXP-1;

Figure 2 Combined Expense Ratio



66. Mr. Giesbrecht explained in his testimony[22] that the small surge in the Combined Experience Ratio that occurred in recent history was a result of the reclassification of claims expenses. The 2021/22 ratio would otherwise be approximately 0.7% lower, thus similar to last year's application. Maintaining this performance indicator in this fiscal year is a significant achievement considering that MPI is applying for a decrease in rates of 8.8%, combined with the lowered forecast in volume of vehicles (one of the revenue drivers for Basic).[23]

67. In terms of its composition, Total Corporate Expenses is consistent with previous years. All expense groupings were within 1% of the expected budgeted spend as a proportion of overall corporate expenses. Compensation expenses continues to drive the majority of all corporate operating costs.

68. MPI is forecasting a decrease in average annual salary expense, despite economic and merit adjustments. Even though compensation is tied to economic and merit increases of approximately 4% per annum, increases in compensation expenses are managed to grow at inflationary levels (2-3%) through staffing efficiencies and vacancy management.

[22] Transcript, October 21, 2020, page 719, lines 12 to 18;
[23] Transcript, October 21, 2020, page 712, lines 18 to 25;

69. MPI employs a vacancy allowance to reflect the fact that the actual Full-Time Equivalent (FTE) complement will never equal the budgeted amount, reflecting the time that a position will be vacant while a recruitment process is ongoing. In the earlier stages of the pandemic, filling these vacant positions required more time than usual. However, hiring is active and ongoing. MPI is committed to retaining the proper number of staff to provide service to its customers[24].

70. MPI recognizes that the current level of vacancy (128 FTE) exceeds the budgeted amount (78 FTE); nonetheless, the current allowance is not unreasonable in these circumstances.

7 MPI Responds to COVID-19 Emergency

71. An important best practice that MPI has recently adopted is its ERM framework. The ERM policy is now approved and provides guidance on managing risk, governance and reporting structures[25]. ERM is important because it allows management to calmly respond to risks as they develop and avoid knee-jerk reactions. This, in turn, results in stability throughout the organization.

72. An example of the increasing maturity level of ERM is that the ERM Committee developed the Risk Appetite Statement, recently approved by the MPI BoD.[26] This document describes the types, amount, and level of risk MPI is willing to accept. With clear and direct statements, this stimulates the culture of risk management within MPI, emphasizing that it is a responsibility for all levels of the organization.

73. Top risks of MPI continue to be identified, assessed, and reviewed periodically through the lens of the ERM policy. Included in this list of critical matters is the risk "1E. Major Business Interruption". This has been on MPI's radar since the implementation of the ERM, and is identified as "Insufficient business continuity planning and disaster recovery capabilities could result in extended business interruption in the event of loss

[24] Transcript, October 21, 2020, pg. 779, line 2 to 4;
[25] MPI Exhibit #28, page 7;
[26] CAC (MPI) 1-79 (d);

of premises, loss of technology, loss of business partner, loss of people, and hazard/topic specific"[27]. This is exactly the threat that the COVID-19 pandemic visited upon MPI.

74. As a result, a business continuity program was quickly developed and MPI was able to smoothly adapt to continue serving Manitobans. Mr. Johnston testified about the efficiency of the current framework:

> *"We -- we have a business continuity program, and the truth is a lot of -- you know, as we, you know, went through all these assessments over the years, some staff may feel they're somewhat annoying at times and unnecessary, preparing for these events that are never going to happen.*
>
> *Well, they happened, and I can say that we were very well prepared, and that -- that was one (1) of the reasons we were able to move sixteen hundred (1,600) employees to working from home in less than a month. So we're very happy with how that went.*
> *Also noted is we were able to share some of our locations with the government as drive-through testing sites. So from everything I've seen -- I'm the actuary, not the -- the operations vice-president -- but all indications were that that was very smooth."*[28]

75. It should be noted that at the same time that MPI was transitioning approximately 85% of its 1,890 employees to work from home it also brought forward the Special Rebate Application and rebated $110 million. This was made possible because of ERM; without the planning to manage risks, MPI would not be able to carry out its mandate.

76. Although it was a smooth transition, there have been financial consequences to MPI. Some services were either temporarily discontinued or postponed such as driver education and driver testing. This resulted in approximately $9.4 million[29] reduction of expenses. On the other hand, MPI incurred about $6 million of incremental costs[30]

[27] MPI Exhibit #9, pages 9 to 10;
[28] Transcript, October 19, 2020, pg. 145, line 15 to line 7 on pg. 146;
[29] Transcript, October 21, 2020, pg. 717, lines 10 to 17;
[30] As at September, 2020;

which include vehicle sanitization, the Special Rebate Application, and technology enablement costs.

77. The updated rate request is supported by MPI best estimates and utilizes all available data as to August 31, 2020. As the pandemic persists, MPI will continue to respond in accordance with its ERM planning and track the associated costs/savings. MPI will apply the net impact and any associated lessons learned to future rate applications. The current rate application is based upon what is currently known.

8 Nova Progresses towards Improving Systems, Customer Service

78. Project Nova is no longer strictly a "computer project", which statement is highlighted by the fact that MPI presented a Nova witness panel separate and apart from the IT and Value Management panel. Though it stems from the Legacy Systems Modernization (LSM) project, an initiative approved by the MPI BoD in February 2019 that focused on modernizing the aging application and technology footprint of MPI, it has evolved and expanded in scope (effective August 2019). As Mr. Mitra explained in his oral evidence to the Board[31], the "elevator pitch" for Nova is this:

> *"Project NOVA is transforming our business by empowering our people and partners with new technology and processes that are responsive and efficient, giving customers more choice and a better experience."*[32]

79. While the acquisition of new technology remains a component, through Nova, MPI seeks to transform its business to become more efficient and responsive to the demands of its customers, staff, and partners.

80. The case for change is enhancing customer service and convenience.[33] The COVID-19 pandemic further highlights the need and importance of change at this juncture. Nova does not aim to limit customer choice. MPI does not intend to "take away bricks and

[31] Transcript, October 24, 2020, pg. 817, lines 6-18;
[32] MPI Exhibit #34, Nova Presentation, Slide 5;
[33] MPI Exhibit #34, Nova Presentation, Slide 6;

mortars."[34] In addition to expanding online services, MPI Service Centres and brokerages will continue to provide Manitobans with access to the products and services they desire, through their preferred channel.[35]

81. Successful change requires a good understanding of the current state. Autopac Online and the Claims Administration and Reporting System (CARS) are applications designed in-house by MPI, using antiquated systems that are no longer taught in schools or universities, and which require outside expertise and pose potential technology risks.[36] As a result, change in this area means shifting away from the use of highly customized software. As Mr. Mitra explained: "at the core of this is – is the transition that we intend on making to commercial off-the-shelf-software."[37] By contrast, Commercial off-the-Shelf Solutions (COTS) offer additional options for customer service, local capability, cost savings and improved information security.

82. On the process end, MPI staff "mapped" and analyzed a number of internal processes using the Lean methodology to identify value (in the eyes of the customer) and address inefficiencies. Process definition and revision complements the use of COTS products. As Mr. Mitra stated in his oral evidence, "you can't simply take how we do things today and try and put it into something that is off the shelf. The risk you are going to run into with that is – is the need to customize or extensively configure."[38] MPI trained and engaged front line staff to develop various Value Stream Maps (VSMs) for current and future states. It also conducted research and gathered information and insight from Gartner, PricewaterhouseCoopers (PwC), comparable Canadian companies and, most importantly, from its customers.[39]

83. On cross-examination of the Nova panel of witnesses, counsel for the CAC questioned whether the process of modernizing business processes to minimize customization

[34] Transcript, October 24, 2020, pg. 818, lines 16-17;
[35] Transcript, October 24, 2020, pg. 818, lines 11-13;
[36] Transcript, October 24, 2020, pg. 815, lines 15-21;
[37] Transcript, October 24, 2020, pg. 815, lines 5-7;
[38] Transcript, October 24, 2020, page 820, line 24;
[39] PUB (MPI) 2-33 (a);

could result in employee dislocation, disenchantment and disengagement. In response, Mr. Remillard stated:

> *"…Just actually, over the last two (2) weeks, one (1) of our operational business champions has visited all of our – and is – still in the midst of his final visits, meeting with frontline staff to provide some heightened awareness of Nova because they will be a key group that will be impacted by Nova and the technology, as well, you know, making them aware as to – as to what coming – what's coming and what's coming ahead.*
>
> *So, right now, it's more about communicating and engagement, so we like to – to refer to those two (2) words. But as we continue to move forward and as we know more, there – there are other elements that – that we plan on exercising regarding employee engagement.*
>
> *…*
>
> *The staff are going to be able to, you know, give us some feedback as to this is – I'll use the word 'clunky,' or they may find something that – that may not be the most operational efficient flow, challenge us, offer – offer a suggestion that we would consider based on, you know, the commonality of that observation and so forth.*
>
> *So incrementally, we will have pulse surveys going forward, again, as we know more. And –- and that's really to – to gauge our – our readiness for our implementation."*[40]

84. The Nova technology solution is comprised of four platforms (property & casualty (P&C), driver & vehicle administration (DVA), application and integration).

85. For the P&C Platform, MPI selected Duck Creek OnDemand, a Software as a Service (SaaS) solution (meaning the application and supporting infrastructure is provided by the vendor) and is close to selecting its System Integrator (SI).

[40] Transcript, October 24, 2020, pg. 991, 992 and 993, lines 13-25, 1-3 and 3-13;

86. For the DVA Platform, MPI is in the final stages of contract negotiations with its preferred vendor for an "on premises" (non-SaaS) solution (meaning MPI manages the application on its own infrastructure).

87. For its Application Platform, the platform that allows MPI to interact with its customers and partners, MPI has identified a SaaS solution and is in the final stages of negotiating a contract with its preferred vendor.

88. For the Integration Platform, the platform that permits the flow of data amongst the new and existing platforms, MPI entered contract negotiations with its preferred vendor for an on premises solution that will be required once other systems are ready to come online.[41]

89. Go slow to go fast is the mantra employed by MPI. It prepared the original Nova roadmap in consultation with Deloitte and Avasant, but without consultation with vendors or SIs. In fact, MPI prepared the roadmap before the project (known then as LSM) evolved into Nova.[42] Since then, MPI has adjusted its timeline for Nova with the benefit of advice from the platform vendors. And while there will be some delay in rolling out platforms, Mr. Mitra attributed that delay to allotting more time to the Program Planning & Readiness Phase of the project, stating "…if you shift planning and readiness by – ten (10) months, all the downstream deliverables also get shifted."[43] Nova is now scheduled to be completed by early 2024, with the DVA, P&C and Customer Self-Service solutions set to go completely live by April 2023, November 2023 and February 2024 respectively. MPI will soon engage all of its vendors and SIs to review the statement of work and align the timing, sequence and resources required for the delivery of the respective products.[44] Mr. Mitra testified that he has high confidence that MPI will be able to deliver Nova within this updated period,[45] and John Remillard added:

[41] Transcript, October 24, 2020, pg. 827 and 828, lines 23-25 and 1-4;
[42] Transcript, October 24, 2020, pg. 828, lines 9-17;
[43] Transcript, October 24, 2020, pg. 875, lines 5-7;
[44] Transcript, October 24, 2020, pg. 831, lines 2-7;
[45] Transcript, October 24, 2020, pg. 876, lines 18-19;

> *"…and the reasons it's higher than – than last year, and I think that that's something to – to emphasize, is it grows – the confidence is higher by – by month, phase, and so forth, reason being that, ultimately we are getting more experience. We've done more due diligence with our vendors. We've done more consultation with our future partners with respect to their approaches.*
>
> *We have – in the midst of finalizing contacts and/or statements of work that will be paced – based on deliverable based payments, so the vendors will be incentivized to – to achieve those milestones in relation to payment because they're going to want to be paid.*
>
> *And then lastly, the next three (3) months that – that we're referring to in switching from planning phase to discovery, incremental due diligence is going to be done over the course of those months via workshops, all day, every day, with – with these vendors with the goal of having an even higher confidence at the end of January for delivery."*[46]

90. The COVID-19 pandemic resulted in only a minor delay to the project and MPI was able to respond by adopting technology to do more things virtually. While MPI cannot predict how the pandemic will unfold, it should be noted that vendors and SIs do not need to be physically present for much of the work and that MPI has the ability to suspend contracts and payments in the face of any greater impacts.[47]

91. Nova is also not "PDR 2.0". It is not about forcing "MPI solutions" on customers but is focused on the use of COTS solutions with as few customizations as possible. Further, the external governance oversight of Nova by PwC is more in-depth and detailed than was the oversight of the Physical Damage Re-Engineering (PDR) project by Gartner Consulting.[48] Additionally, MPI learned many lessons from the roll out of Mitchell, the SaaS application associated with PDR. During the hearing, counsel for the CAC also referenced Fineos and the potential danger of customizing COTS solutions. In response, the Board heard that the focus of MPI has shifted to adopting out-of-the-box capabilities and that MPI has retired approximately 12 customizations to the

[46] Transcript, October 24, 2020, pg. 876 and 877, lines 25 and 1-21;
[47] Transcript, October 24, 2020, pages 894 and 895, lines 1-25 and 1-25;
[48] Transcript, October 24, 2020, page 914, lines 14-25;

Fineos application.[49] The Board also heard that Fineos was the best COTS alternative to a custom build.[50] In the case of Duck Creek, MPI purchased a 'conformance review', that is, a review by a Duck Creek architect to ensure that MPI does not over customize the core product.[51]

92. Appreciating the importance of fully understanding the complexity of the project and the potential pitfalls, MPI added 10 months to the Planning & Readiness Phase of Nova. MPI now has a comprehensive and mature project governance scheme that incorporates aspects of the Agile methodology.[52] As indicated, MPI created new positions (i.e. the Chief Transformation Officer) and dedicated other leadership positions full-time to the project to improve reporting and accountability. MPI also added a Vendor Management Team to finalize the statement of work and hold the various vendors and SIs accountable. Nova also receives departmental assistance from the Value Management Office (VMO) and the Enterprise Risk Management (ERM) Team, which oversee the financial model and monitor/report risks respectively. Outside of MPI, PwC (the program governance vendor) provides monitoring, advice and monthly reports to the Technology Committee of the BoD (which monthly reports MPI filed confidentially in this proceeding). With a sophisticated governance scheme, MPI is able to minimize the impacts of turnover of personnel such as its CEO or Nova Program Director.

93. Although MPI launched Nova using the Waterfall approach, it intends to deliver it using a hybrid approach that combines the best of the Waterfall and Agile approaches. Mr. Mitra explained the Hybrid-Agile approach as follows:

> *"What I mean by that is we had to create solution governance. We had to have dedicated roles and responsibilities. We had to create the RACI – and the decision matrix RACI, again, is the responsibility, accountability, consulted, and informed. Those are all components of a waterfall approach.*

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[49] Transcript, October 24, 2020, pages 963, 965, lines 7-10 and 2-21;
[50] Transcript, October 24, 2020, page 967, lines 1-24;
[51] Transcript, October 24, 2020, pages 968-969, lines 21-25 and 1-10;
[52] MPI Exhibit #34, Slide 3;

> *The release cycles speak to our use of agile. So, you know, "agile" also sometimes references a scale agile framework. With – with that there is portfolios or value streams and there's large initiative. Nova would be a large initiative. Hence, we felt that the use of a hybrid-agile approach would mitigate that risk and position us better to be successful."*[53]

94. This hybrid approach will utilize delivery sprints to help manage delivery risks. MPI is currently preparing project metrics and key performance indicators (KPIs), but believes that the delivery of work in 2-4 week increments allows it to measure quality, value and timing of work which tie in to vendor payments.

95. MPI is currently in the process of conducting a re-baseline of the LSM/Nova business case (an exercise involving sensitivity testing as well as analysis of the assumed costs and benefits of the project). Unfortunately, MPI was unable to share the results of this review and an updated Net Present Value (NPV) at the time of the hearing as the re-baselining exercise requires the various contracts to be negotiated and ready for signing.

96. However, MPI did share some information and outline some of its expectations about the future of the project:

- MPI shared that, to its surprise, the original business case did not contemplate approximately $12 million in software licencing fees (negotiated down by MPI) related to the use of the Duck Creek OnDemand product. As Mr. Mitra explained at the hearing, these costs stem from the selection of a SaaS solution which takes longer to "stand up" than an on premise solution[54] and were costs that were also misstated by Avasant and Deloitte, the two external consultants that MPI retained to assist in the preparation of the original business case. Further, although MPI had experience with the rollout of a SaaS application in Mitchell, Mr. Dessler testified that Mitchell and Duck Creek are different offerings, which Duck Creek being much more complex and requiring

[53] Transcript, October 24, 2020, pg. 838 and 839, lines 23-25 and 1-12;
[54] Transcript, October 24, 2020, page 841, lines 8-22;

additional configuration.[55] Once MPI learned of this additional cost, it engaged with Duck Creek to ensure other cost estimates were in keeping with their experience and is now looking at fixed-price models for its SIs to minimize the risk of cost variability.

- On all of its vendor contracts, MPI have come under initial bid estimates.[56]
- MPI provided evidence that its anticipated use of external consultants will marginally increase from 27 to a maximum of 29.34 in 2021/22,[57] with none expected to be added to operational capacities upon completion of the project.[58]
- MPI indicated that it costed the implications of project delays into the Nova re-baseline.
- Although the MPI BoD did elect to allocate a portion of the contingency (i.e. $1.3 million in respect of the program governance vendor), it expects it will revisit and adjust its contingency downward as part of the re-baseline exercise.[59]
- MPI expects its original FTE savings projections to stand.[60]

9 MPI Continues its Review of the Driver Safety Rating

97. The current DSR model has been in use since 2010, and has improved driving behaviors since its inception.[61]

98. After ten years, MPI conducted a review and public consultation of the DSR, including a pricing examination which was presented to this Board. The public consultation resulted in valuable feedback on the current model and alternative models such as a primary driver model and a driver premium risk model. The current model was widely favored over alternative models despite its shortcomings. MPI agrees with the body of evidence that suggests the good drivers who are registered owners are subsidizing the

[55] Transcript, October 24, 2020, pages 940-941, lines 11-25 and 1-12;
[56] Transcript, October 24, 2020, page 890, lines 18-22;
[57] MPI Exhibit #62;
[58] Transcript, October 24, 2020, page 865, lines 11-1;
[59] Transcript, October 24, 2020, page 905, lines 7-19;
[60] Transcript, October 24, 2020, page 945, lines 5-20;
[61] Transcript, October 26, 2020, page 1377, line 7;

bad drivers who are not registered owners. Indeed, no model appears to provide a perfect solution to the complex nature of surcharging and/or discounting premiums to reflect driver behavior in order to provide precise risk-based pricing.

99. The alternative primary driver model in theory enables MPI to provide more accurate pricing. But implementing a new model would require a disruptive overhaul of the DSR while still relying upon the honor system for customers to provide accurate information on who primarily operates a vehicle if other than the registered owner. There is also the option of maintaining the current model but amending it for greater actuarial soundness.

100. Compounding the complexity of the issues related to DSR is how it fits within Project Nova. No matter the decision, a DSR system must be in place when Project Nova goes live. As stated above, a primary goal of Project Nova, as it pertains to the implementation of IT, is to minimize customization of the software used by MPI. However, MPI does not currently know the capabilities of the software to rate risk for individual drivers/owners. Based in part on the capabilities of the new system in relation to rating individual risk, and in part upon the willingness of Government to make changes to the DSR system, MPI will soon make a decision on how it will proceed.

101. MPI anticipates by mid to late 2021 that an internal decision on changes to the DSR will be made. MPI will lead this initiative, but any changes to the DSR must be approved by government before implementation.

10 Vehicle for Hire – Working with Taxi VFH, Responding to Passenger VFH

102. In this GRA, the TC took the unprecedented step of challenging the rates of another class of vehicles, the Passenger VFH class. The TC intervention was also in uncharted waters before this Board in its request for the single largest rate increase by an intervener, confirming with MPI legal counsel that it would be just and reasonable to

impose a full 56% rate increase to the Passenger VFH class[62]. MPI appreciates the spirit of the intervention of the TC and agrees with the opinions of its expert witnesses that rates need to be adjusted for the Passenger VFH class. MPI disagrees however on the magnitude of increase required, the method used to calculate the increase, and that such an increase needs to be imposed immediately. The recommendations made by the TC failed to consider or appreciate the limitations of the data and are in direct conflict with the current Board approved ratemaking methodology and rate caps.

103. The recommendation that a 56% rate increase is required for the Passenger VFH class amounts to 36% beyond the current Board approved rate cap threshold of 20%.

104. The TC claimed that other ratepayers subsidized the rate deficiency of the Passenger VFH. Mr. Johnston struggled with this observation, stating that "…subsidization implies some sort of knowing intent in advance of the rate setting that, you know, we're just going to not charge this group enough money. And I -- I don't think that MPI had that intent at all."[63] While there may appear to be a perception of subsidization, Mr. Johnston testified that the RSR absorbs the bulk of any high loss ratios, not the ratepayer. The RSR is designed to cushion adverse developments which can lead to the type of short term high loss ratios that we are seeing in the Passenger VFH class. So at it concerns any temporary premium deficiency for the Passenger VHF class, the RSR is working exactly as intended: to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events or factors.[64]

105. As Mr. Johnston testified, there were only 452 cars in the first year of the Passenger VFH class, which means one large claim can have a magnified impact on the entire class within a short time frame. This provides an explanation as to why high loss ratios can be observed in short timeframes (i.e. 2 years or less). The second important factor was the limitation of having only 2 years of data. MPI agrees that the current Passenger VFH loss ratio of approximately 120% is higher than desired, but argues

[62] Transcript, October 29, 2020, page 2073, line 18;
[63] Transcript, October 28, 2020, page 1716, line 17;
[64] 2021 General Rate Application, Part VII – Rate Stabilization Reserve, pg.4, line 11;

that this does not justify overlooking the rate capping rules (-/+20%), which would require a special rating adjustment outside the Board-approved ratemaking methodology. More time is needed to provide a clearer picture of the trend before conclusions and major rating increases are warranted.

106. Mr. Johnston testified that the handling of the high loss ratio of the Passenger VFH class by MPI is well within its ability to control:

> *"MR. STEVE SCARFONE: And, sir, I – I want to bring your attention, again, back to the loss ratio for the passenger Vehicle for Hire group, in and round 120 percent. Do you remember that?*
>
> *MR. LUKE JOHNSTON: Yes.*
>
> *MR. STEVE SCARFONE: So is that -- does that threshold -- I want to understand -- is -- does that number cause you enough concern to come back before this Board to adjust the rates? What number or what threshold on the loss-ratio scale would re -- would get your attention for an adjustment that's contemplated here in forty-two (42)?* [MPI Closing Submission – 2018 VFH Interim Application]
>
> *MR. LUKE JOHNSTON: That is a good question. I guess one (1) way to look at it is we talked about the -- the bounds of the possible rate, all-purpose versus going right to the taxi rate. If -- let's just, in a general sense, say that the passenger Vehicle for Hire rate is around two thousand dollars ($2,000) today, just as an estimate, and the taxis are nine -- nine (9) to ten thousand (10,000). If we got this completely wrong, that we'd be talking about maybe a 4 or 500 percent loss ratio, right, to be -- because since taxi rates are basically four (4) to five (5) times, right now, what passenger Vehicle for Hire is seeing. So, we're not seeing a 500 percent loss ratio or a four hundred per -- we're seeing a loss ratio that's a -- a little bit above a hundred (100) percent. So do we want that? No. Are we actively addressing that through the rate-making methodology? Yes. So I – I gave the example of the increase in relativity and the effectively 16 percent rate increase, all else equal. Is the Board comfortable with the speed at which we're doing that? I guess that's for you to decide, but we -- for a loss ratio a little over a hundred (100) percent, our approach and recommendation is to continue to*

> *follow the rate ma -- well-established rate-making methodology that we have."*[65]

107. In other words, predictable and sensible action, based on existing rules, work best to address short-term loss ratios needing adjustment. Knee-jerk rate increases that contravene the Board approved rate-making methodology do not. There was no evidence presented from the TC on how MPI has previously resolved other classes that required a loss ratio decrease (i.e. taxis and motorcyclists), which could have led to more practical and reasonable recommendations for dealing with the deficiency.

108. MPI says the tools it has available to address this issue should prevail, including the Board-approved rate-making methodology. If the loss ratio trend continues in future years and the Board feels that further corrective action is warranted (above the 20% cap or otherwise), MPI recommends the use of targeted stakeholder consultations to address this matter. Doing so will allow MPI and the Board to gather feedback from the Passenger VFH ratepayers to determine the impact of dramatically increasing rates and how to mitigate these impacts. Consulting with the VFH ratepayers could also provide valuable insight into their loss ratio, should this trend continue in future years.

109. MPI reminds the Board, interveners and ratepayers that it will be conducting a full product suite review which will include ratemaking, territories and usage factors in addition to Passenger VFH consultations, sometime in late 2021.

11 Summary

110. 2020 will be remembered as a historic year. The COVID-19 pandemic has thrown life into flux. Notwithstanding this turmoil, MPI has been able to weather the storm, perhaps even thrive, during these unprecedented times. No better reflection of that is the negative 8.8% rate indication before this Board, also historic. And this on the heels of $110 million released to customers just 6 months ago. There are myriad reasons for this, some attributable to MPI, some not. But the financial strength of MPI is, without question, a contributing factor. MPI has finally achieved the capital position

[65] Transcript, October 29, 2020, pg. 2004, line 1;

it advocated for in previous GRAs. Properly capitalized, MPI can now withstand the normal ebb and flow that insurance claims can bring year over year. The injection of capital from Extension is obviously another factor that cannot be overlooked, serving to reduce the rate indication by 5% beginning April 1, 2021. The long overdue upgrade to Basic products contributed another 3% to the reduction, at no cost to the Basic customer. Avoiding significant financial losses, particularly from interest rate forecasting, is another important factor that appears to have been fully resolved by MPI under the ALM investment strategy now in place.

111. All of these factors, among the others described herein, have allowed MPI to boast that it provides exceptional coverage at affordable rates – indeed, among the lowest in Canada. Between 2001 and 2019, as shown in the Statistics Canada chart referenced by Mr. Johnston during his Ratemaking presentation[66], the premiums of MPI have increased at the slowest rate of any jurisdiction.

112. MPI impressed upon this Board in its opening statement that the strategies implemented over the past few years are now paying dividends. Now is not the time to tinker. No adjustments need be made.

113. It is tempting to react swiftly to the concerns raised by the intervenors in this proceeding, namely to:

- forecast based on pandemic claim counts;
- release excess capital outside the workings of the CMP;
- levy large rate increases against emerging classes;
- abandon a familiar driver rating model that has worked well for 10 years; and,
- include growth assets in an investment strategy that would mean increasing the interest rate risk of MPI and its capital requirements.

However, making one or more of these adjustments would be the knee-jerk reactions that MPI argues throughout this closing submission, are not indicated during these uncertain times. Instead, MPI recommends that this Board continue to defer to MPI on

[66] Transcript, October 28, 2020, page 1668, line 2.

these decisions, thereby allowing it to stay the course and remain the trusted auto insurance and driver services provider for every Manitoban.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

S. Scarfone

A. Lafontaine Guerra