

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)
GENERAL RATE APPLICATION FOR
2015-2016 INSURANCE YEAR

Before Board Panel:

Karen Botting	- Board Chairman
Regis Gosselin	- Board Member
Anita Neville	- Board Member
Susan Proven	- Board Member
Allan Morin	- Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
November 13, 2014
Pages 1990 to 2172



“When You Talk - We Listen!”



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1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. Welcome back. We are going to begin our
5 closing comments today, and this morning we are going
6 to start with Ms. Grammond for the Public Utilities
7 Board. Ms. Grammond, would you like to begin? Thank
8 you.

9

10 CLOSING COMMENTS BY BOARD COUNSEL:

11 MS. CANDACE GRAMMOND: Thank you, Madam
12 Chair. So we have now completed the evidentiary part
13 of the hearing with respect to the current GRA filed by
14 MPI for the 2015/'16 fiscal year. Obviously the Board
15 will soon be considering all the evidence and
16 deliberating upon the application for base rates and
17 premiums charged for Basic or Compulsory vehicle and
18 driver insurance to take effect March 1st, 2015.

19 As the lawyer for the Board, I take no
20 position on the merits of any part of the application
21 or the positions taken by any of the parties. I'm just
22 going to summarize the matters that are before the
23 Board and some pieces of evidence that it may wish to
24 consider in making its decision.

25 So MPI has applied for rates that

1 constitute an overall 2.4 percent increase in Basic
2 insurance premiums, together with an additional 1
3 percent Rate Stabilization Reserve, or RSR, rebuilding
4 fee. As an alternative position, MPI has suggested
5 that the Board grant an overall 3.4 percent rate
6 increase.

7 The Corporation is not asking for any
8 changes to driver licence premiums or vehicle premium
9 discounts. It also does not ask for changes to service
10 or transaction fees, permit or certificate fees, fleet
11 rebates or surcharges, or the discount for after-market
12 and manufacturer or dealer installed anti-theft
13 devices.

14 So pursuant to the rate application as
15 filed, the average rate adjustment that MPI proposes
16 for each major vehicle class is as follows. For
17 private passenger vehicles, an overall increase of 2.7
18 percent; for commercial vehicles, an overall decrease
19 of 2.6 percent; for public vehicles, an overall
20 increase of 5.3 percent; for motorcycles, an overall
21 decrease of 6.6 percent; for trailers, an overall
22 increase of 5.1 percent; and for off-road vehicles, an
23 overall decrease of 14.3 percent.

24 So if we take all of these proposed
25 adjustments together, it leads to the proposed overall

1 rate increase of 2.4 percent. If the Board accepts
2 that application, actual vehicle premiums charged will
3 vary, depending on the claims experience, driving
4 record of the registered owner of a given vehicle, as
5 well as insurance use, territory, and vehicle rate
6 group.

7 After consideration of insurance use and
8 territory capping and balancing for experience rate
9 adjustments, the results modelled by the Corporation to
10 assess the impact of various rate and classification
11 changes were filed with the Board.

12 At this time, or at -- as at the time of
13 the filing of the GRA, the vehicle population or fleet
14 within the province was one million, seventy-three
15 thousand, six hundred and eighty-one (1,073,681)
16 vehicles. That includes over sixty-five thousand
17 (65,000) off-road vehicles.

18 And again if the Board were to accept
19 the application as filed, we would see over six hundred
20 and thirty thousand (630,000) vehicles, or 59 percent
21 of the overall fleet, with a rate increase. The
22 majority of those would be ninety-nine dollars (\$99) or
23 less. We would see three hundred and seventeen
24 thousand (317,000) vehicles, or 30 percent of the
25 overall fleet, with a rate decrease. And we would see

1 a hundred and twenty-five thousand (125,000) vehicles,
2 or 11 percent, with no change in rates. And again,
3 that's due to the variances within each class.

4 The Corporation together with the GRA
5 filing has provided to the Board its actual financial
6 results for the last fiscal year, so the 2013/'14 year,
7 and the first six (6) months of the current year.
8 That's up to August 31st of 2014.

9 Last year, 2013/'14, we saw Basic with a
10 net loss of about 69 million. That's for rate-setting
11 purposes. And that compares with what the Corporation
12 was forecasting at this time last year, which was an
13 income of 5.4 million. So there's been a negative
14 change, or there was a negative change for the last
15 fiscal year, of about 75 million from last year's
16 hearing until now.

17 The Corporation has, of course, provided
18 some explanations to the Board with respect to that
19 variance. That includes a 3 percent higher collision
20 and property damage claims count, which increased costs
21 by about 16 million. There was also an increase in
22 costs of about 24 million due to higher collision
23 repair labour rates, as well as the PST increase of 1
24 percent and higher total loss settlements.

25 There was also an increase in PIPP, or

1 Personal Injury Protection Plan, injury claims reserves
2 for prior years' claims of 26 million. That was as a
3 result of an injury claims review done by MPI. There
4 was also an increase in loss adjustment expenses of
5 about 9 million. And there was a premium deficiency of
6 25 million.

7 Now, included within these variances
8 that I've listed was a bulk provision for a delay in
9 processing collision claims from last winter that the
10 Corporation experienced, and that was in the amount 13
11 million.

12 So if you take all of these cost
13 increases and you offset them by the higher-than-
14 expected investment gains that the Corporation had,
15 which was 57 million, it brings you to the \$75 million
16 swing that I referenced.

17 Now, in the current year, 2014/'15, at
18 this time last year, MPI was forecasting a net loss in
19 Basic of about 7.5 million. That has now been revised
20 to a net loss of about 38 million pursuant to the GRA
21 filing. This change is primarily due to the following:
22 a lower-than-forecast premium revenue because of the
23 fact that the Board granted last year a .9 percent rate
24 increase instead of the 1.8 percent that was applied
25 for, and that's a difference of about 4 million.

1 There was lower-than-anticipated fleet
2 growth. That accounts for about 5 million. There were
3 adjustments to the claim severity forecast to reflect a
4 higher base given changes experienced in 2013/'14.
5 That accounts for about 17 million. And there was an
6 increase in the forecast PIPP costs to reflect the
7 injury claims review undertaken in 2013/'14, and that
8 accounts for about 9 million.

9 Now, in the first six (6) months of the
10 current year, so up to August 31st, 2014, Basic has had
11 net income of about 8.6 million. And the Corporation
12 as a whole has had net income of about 37.6 million.
13 And those numbers are found, of course, in the second
14 quarter report. That's MPI Exhibit 10.

15 Now, embedded within MPI's financial
16 forecast is its interest rate forecast, which is based
17 on an average of the forecast of the five (5) major
18 banks and Global Insight. The interest rate forecast
19 that underlies the rate application provides for
20 interest rates increasing by seventy-one (71) basis
21 points in 2014/'15 from what the rates were last year.

22 The most recent evidence on the record
23 reflects that the Government of Canada ten (10) year
24 bond rate has decreased since MPI prepared the GRA
25 application. MPI has filed an updated interest rate

1 forecast as of October 2014, which indicated that
2 interest rates would be seventy-five (75) basis points
3 lower than that forecast in March 2014.

4 Based upon this updated forecast, MPI
5 has advised the Board that Basic's net loss in 2014/'15
6 would increase to 82.5 million for the year. MPI has
7 advised that it needs a three point four (3.4) overall
8 rate increase to enable it to break even, and that's
9 before any RSR rebuilding fee. That's reflected in
10 PUB/MPI Pre-Ask 5.

11 Now, MPI has advised that if interest
12 rates remain unchanged through the end of the fiscal
13 year, so up to the end of February of 2015, it expects
14 the Basic net loss to increase to over 103 million, as
15 a result of which the Basic RSR would be left in a
16 deficit position of about 3 million. And that's found
17 at MPI Exhibit 42, page 2.

18 MPI has urged the Board to accept its
19 view that interest rates will not increase as forecast
20 by the banks, and that a 3.4 percent rate increase is
21 needed. However, it has not formally amended its
22 application, which seeks a 2.4 percent rate increase
23 and 1 percent RSR rebuilding fee.

24 Pursuant to the forecast filed by MPI in
25 the GRA for the current year, MPI is forecasting 820.3

1 million in total earned revenues incoming, 624 million
2 to be incurred for net claims incurred, 116.3 million
3 in claims expenses, 11.4 million in road safety
4 expenses, 134.8 million in operating expenses, and 28.8
5 million in investment income. And again, those numbers
6 offset -- give rise to the net loss of 38 million for
7 the year that I mentioned earlier.

8 MPI also provides projections to the
9 Board through the outlook period, which this year is
10 2018/'19. And those projections are reflected at PF.1,
11 which is Tab 4 of the Board's book of documents.

12 As it has done in the past, MPI
13 continues to seek a break-even over a two (2) year
14 period. So per the GRA filing, it's projecting a \$6.3
15 million loss for the year of the application and a net
16 income of 18 million in 2016/'17, which averages to
17 break-even. And that's exclusive of the proposed RSR
18 rebuilding fee of 1 percent, which is embedded in that
19 forecast and accounts for 4.5 million of income in
20 2015/'16 and 8.7 million in income in 2016/'17.

21 MPI is also forecasting growth in its
22 total earned revenues over the outlook period. That's
23 due to the volume factor, the upgrade factor, as well
24 as the 2.4 percent rate increase that's sought and the
25 1 percent RSR rebuilding fee that's sought.

1 The Corporation has confirmed this year
2 the purpose of the Basic RSR, which is unchanged from
3 the past; that is, that it is there to protect
4 motorists from rate increases made necessary by
5 unexpected events or losses arising from non-recurring
6 events or factors.

7 Per the GRA filing, total Basic retained
8 earnings were just under 100 million as at the end of
9 the last fiscal year. Including accumulated other
10 comprehensive income, or AOCI, total equity in Basic
11 was 170.2 million as at last year end, so February 28th
12 of 2014.

13 Again, updating that to August of 2014,
14 end of second quarter, total Basic retained earnings
15 were 108.5 million. So they're an increase of about 9
16 million.

17 Pursuant to the GRA filing, total Basic
18 retained earnings are forecast to be 61.8 million at
19 the end of the current fiscal year and 55.4 million at
20 the end of 2015/'16. Both of those forecasts exclude
21 AOCI and consideration of the 2014/'15 second quarter
22 results.

23 Overall, corporate equity as at February
24 2014, including AOCI, was 397 million. And that
25 increased to 477.1 million as at August 31st, 2014.

1 The forecast that MPI has put forward
2 for the RSR as of the end of the current year, the 61
3 million, is below the minimum RSR target established by
4 the Board, which is currently 82.3 million.

5 The Corporation has asked for a minimum
6 RSR target of 194 million, and that's based on the
7 results of the 2014 DCAT report, or Dynamic Capital
8 Adequacy Testing report, that it prepared.

9 MPI has also asked for a minimum RSR
10 target of 213 million in total equity, which includes
11 AOCI. The Corporation has asked for an RSR target
12 range with an upper limit based on the Minimum Capital
13 Test, or MCT, and in particular a ratio of 100 percent,
14 which was determined to equate 325 million based on the
15 2013/'14 MCT.

16 MPI has asked that the Board exercise
17 its discretion and set the upper limit of the RSR based
18 on either this 2013/'14 MCC (sic) target or the
19 2012/'13 MCC -- MCT target of 323 million. And that's
20 given the similar test results between the three
21 twenty-three (323) and three twenty-five (325).

22 If the Board accepts MPI's proposed DCAT
23 and MCT-based target, the Corporation has committed to
24 transfer over \$100 million in excess retained earnings
25 from its non-regulated lines, Extension and Special

1 Risk Extension, into the Basic RSR.

2 At present, the methodology by which the
3 RSR range is set is on the basis of 10 to 20 percent of
4 gross written premium. The existing RSR range is 82.3
5 million at the minimum end and 165.7 million at the top
6 end. That's forecasted to grow to 89 million at the
7 bottom end and 179 million at the top end in 2015/'16.

8 MPI's DCAT report was prepared
9 internally by its chief actuary, Luke Johnston, in
10 accordance with the Canadian Institute of Actuaries
11 Standards and accepted actuarial practice. The DCAT
12 report reflects that the Corporation's financial
13 condition is satisfactory if, throughout the forecast
14 period, it is able to meet its future obligations under
15 all plausible adverse scenarios and under the base
16 scenario that meets the minimum regulatory capital
17 requirement.

18 Based on this definition, Mr. Johnston
19 has concluded that Basic's future financial condition
20 was not satisfactory at the current approved regulatory
21 maximum RSR target level. Based on the result of the
22 DCAT analysis, the Corporation has determined that the
23 minimum RSR level should be \$194 million based upon a
24 combined adverse scenario which includes a combined
25 equity decline scenario, four (4) year interest rate

1 decline scenario, and high claims loss ratio scenario.

2 In Board Order 157/'12, the Board stated
3 its belief that the DCAT methodology is an improved
4 approach for determining the target range for the RSR
5 over the current methodology. However, the Board at
6 that time stated that further analysis and discussion
7 was needed, particularly regarding the adverse
8 scenarios used in the DCAT and the methodology
9 construct of the DCAT before the Board would implement
10 the approach for rate setting.

11 The Board ordered MPI to hold a
12 technical conference in early 2013 to discuss this --
13 these issues as between all of the parties, with a view
14 to refining the adverse scenarios and gaining a better
15 understanding of the DCAT modelling process. That
16 technical conference took place in April 2013, at which
17 time a useful discussion was had. MPI agreed to make
18 certain changes to the DCAT methodology and to include
19 the modelling of its balance sheet.

20 At last year's GRA, MPI provided an
21 updated DCAT report. And in last year's Order 151/'13,
22 the Board directed that the technical conference should
23 continue and should include the financial model with
24 balance sheet and considerations of modelling the DCAT
25 imp -- DCAT impact on total equity, including AOCI,

1 based on a recommendation from MPI's external actuary.
2 A one (1) day technical conference was held in April
3 2014. At that time MPI provided a high-level
4 walkthrough review of its financial model, but the
5 plausible adverse scenarios were not reviewed at that
6 time.

7 MPI has also proposed that the minimum
8 RSR target be based on total equity, including AOCI,
9 which pursuant to the current DCAT report was 213
10 million. MPI's president, Mr. Guimond, has also
11 suggested that the Corporation is willing to allow the
12 Board's actuarial advisor to propose changes to
13 finalize the adverse scenarios within the DCAT with
14 input from Intervenors, as long as MPI's internal and
15 external actuaries can approve of the changes.

16 In establishing Basic rates, the Board
17 has stated in the past that it looks to the overall
18 financial wellness of the Corporation. MPI has
19 expressed disagreement with this approach and has asked
20 that the Board look at Basic's retained earnings only,
21 as it is a mandatory line of business that has to stand
22 on its own financially, though MPI acknowledges that
23 the Basic compulsory program comprises the vast
24 majority of the Corporation's operation.

25 The Corporation has, as of February

1 2014, 320 million in retained earnings, including the
2 100 million in Basic that I mentioned earlier and 220
3 million in the competitive lines. MPI has exceeded its
4 retained earnings targets in Extension and SRE by over
5 106 million and, as I mentioned, has indicated an
6 intention to transfer excess funds into the RSR if
7 certain conditions are met.

8 MPI has provided evidence rel --
9 relative to changing vehicle design and new vehicle
10 models, and the resultant specific repair requirements
11 that are coming down the pipe and are expected to
12 result in higher repair costs over the next number of
13 years.

14 The estimated increase, once the change
15 is implemented, is \$30 million annually. And MPI is
16 making investments in technology to find savings to try
17 to meet this anticipated increase in cost.

18 We know that the Corporation's
19 investment income is a major component of its income,
20 and offsets its annual underwriting losses. MPI has an
21 investment committee working group, which includes
22 members of MPI and the Department of Finance, and
23 discusses aspects of the Corporation's investment
24 portfolio including policy, investment income,
25 rebalancing, and the retainer and monitoring of

1 external investment managers.

2 MPI's investment portfolio exceeded \$2.4
3 billion as at February 28, 2014, and is expected to
4 grow to almost 2.8 billion by 2017/'18. The funds
5 available for investment are primarily unearned premium
6 reserves and unpaid claims reserves. The investment
7 portfolio supports both the payment of accident claims,
8 as well as the pension obligations of the Corporation.

9 The size of the Corporate investment
10 portfolio for 2015/'16, the year of the application, is
11 projected to be just over 2.4 billion, comprised of
12 about 57 percent in long-term bonds, 24 percent in
13 equities, 1 percent in cash and short-term investments,
14 13 percent in real estate, and 5 percent in
15 infrastructure.

16 In last year's Order 151/'13, the Board
17 directed MPI to have the composition of the investment
18 portfolio reviewed by an external expert to assess
19 whether this current asset mix should continue, or
20 should be revised in some way. And MPI has indicated
21 that that is being done.

22 MPI is projecting corporate investment
23 income of approximately 34 million for the current
24 year, and about 84 percent of that, or 28 million,
25 would be attributable to Basic. The forecast is based

1 on a four (4) year rolling average as a proxy for how
2 the actual investment income allocation results.

3 This year, MPI changed the allocator to
4 Basic from a four (4) year to a three (3) year average,
5 eliminating the 2010/'11 fiscal year from the equation
6 because of a negative equity position in one (1) of the
7 other lines of business in that year. MPI advised that
8 this was an anomaly that would misrepresent the
9 allocation results, and this change actually reduced
10 the share of investment income forecast to be allocated
11 to Basic by 1.7 million through 2016/'17.

12 As I mentioned, the portfolio has a
13 significant weighting and long-term bonds, about 57
14 percent, and those returns are susceptible to changes
15 in interest rates. Current average interest -- or,
16 pardon me, current average yields on long-term bonds
17 are approximately 5 percent, and so an increase in
18 interest rates would result in a reduction in the value
19 of the bond portfolio and would negatively impact the
20 returns on those bonds.

21 MPI's investment income forecast
22 includes calculation of interest rate impacts upon this
23 market value of the bond portfolio, the addition of
24 marketable bond and equity turnover assumptions, a
25 spread assumption for new marketable bond purchases,

1 and adherence to rebalancing rules. MPI forecast the
2 impact of changes in interest rates that would become
3 apparent on the value of the fixed-income portfolio and
4 its claims liabilities.

5 Now, the low level of forecast
6 investment income is attributable primarily to material
7 projected unrealized losses in the marketable bond
8 portfolio. These forecasted losses are as a result of
9 changes in the Government of Canada ten (10) year bond
10 rate forecast, which is expected to increase by only
11 seventy-one (71) basis points by the end of February
12 2015. If the impact of changing interest rates was not
13 included in the forecast, then the expected Basic
14 investment income would be 80 million in the year of
15 the application, 2015/'16.

16 MPI has advised that it continues to use
17 an asset liability matching program to duration match
18 its portfolio returns with the payment of its
19 obligations, attempting to match the approximate
20 average duration of maturity of marketable bonds to the
21 claims liabilities. At present, there is an
22 intentional mismatch in place in order that the
23 Corporation can take advantage of future increases in
24 interest rates.

25 A forecast of increasing interest rates

1 is favourable to the Corporation, given this mismatch
2 of assets and liability duration. However, if an
3 increase in interest rates as predicted does not occur,
4 the Corporation has advised that the downside financial
5 impact would be significant. In particular, due to the
6 current actual level of duration mismatch between the
7 claims liabilities and the underlying fixed-income
8 portfolio, for every hundred basis points that interest
9 rates are lower than forecast, it is estimated there
10 will be a negative variance in net income of
11 approximately 40.7 million. And that's found at the
12 duration matching study on page 4.

13 Due to the risks faced by MPI related to
14 interest rates, the Board last year directed MPI to
15 provide a discussion paper on the duration matching of
16 claims liabilities and investments. As a result of the
17 analysis undertaken, MPI concluded that a duration
18 mismatch of plus or minus two (2) years was too much of
19 a downside risk related to potential decrease in
20 interest rates while providing only a modest
21 incremental upside benefit.

22 As a result, MPI has adjusted that
23 duration bandwidth from two (2) -- plus or minus two
24 (2) years to plus or minus one (1) year. MPI has
25 stated that this is an interim measure until it

1 receives advice from the external expert, which is Aon
2 Hewitt, on the asset liability matching study that's
3 currently in process. MPI has said that it will
4 provide this study and the Corporation's proposed
5 course of action on this issue at next year's GRA.

6 MPI has provided to the Board a
7 corporate-wide capital expenditure forecast. The
8 projected capital expenditures for 2014/'15 are 38
9 million, for 2015/'16 are 32 million, and for 2016/'17
10 are 27 million, so about 98 million over the next three
11 (3) years. The majority of the capital spending is on
12 IT-related projects, including the physical damage
13 reengineering project that's currently underway and
14 slated to be complete in 2017/'18.

15 Certainly MPI incurs significant annual
16 costs to support its IT. Those annual IT expenses have
17 grown from about 24 million in 2005/2006 to over 56
18 million in 2013/'14. And the compound annual growth
19 rate has been over 10 percent. MPI is forecasting to
20 spend 57 million in the current year, 55 million next
21 year on information technology expenses. Thereafter,
22 MPI is forecasting growth in the expenditures to 79
23 million by 2018/'19, and that represents a compounded
24 annual growth rate of about 7.1 percent.

25 When you include the deferred IT

1 development expenditures, MPI's IT-related expenses
2 were 87 million last year and forecast to be about 88
3 million in the current year. That spending is expected
4 to increase to 96 million by 2018/'19. At that time,
5 amortization of deferred development expenditures is
6 forecast to double to 24 million as the physical damage
7 reengineering project comes into service.

8 And as I referenced, MPI is hoping to
9 leverage its technology investments to realize savings
10 that will offset the extra 30 million per year that
11 it's expending -- expecting in costs due to the changes
12 to vehicles within the fleet.

13 Total Basic expenses were 199 million
14 last year, and that's up from 188 million the year
15 before. And total Basic expenses are forecast to be
16 204 million in the current year. Thereafter, Basic
17 expenses are forecast to grow to 209 million in the
18 year of the application.

19 Certainly salaries and benefits are the
20 major component of operating expenses for Basic,
21 representing over 56 percent of total operating
22 expenses in the year of the application. From 2009/'10
23 to 2013/'14, Basic's compensation expenses have
24 increased by 25 percent. Compensation has grown from
25 just over 90 million in 29 -- or 2009/'10 to 113

1 million in 2013/'14. And that's a compound annual
2 increase of 5.7 percent, which is in excess of annual
3 inflation. Salaries and benefits are forecast to be
4 116 million in the current year, up to 121 million in
5 2015/'16.

6 MPI is forecasting an increase in
7 compensation expenses of 4 percent in the current year
8 and an increase of 4.2 percent next year. And those
9 increases are also in excess of inflation at 2 percent.

10 The collective agreement between MPI and
11 the Manitoba Government and General Employees Union, or
12 MGEU, covers about 90 percent of MPI's workforce. And
13 that agreement is in place from September 2012 to
14 September 2016. It included no increases in pay for
15 the first two (2) years of the contract, but it did
16 include increases of 2.75 percent in the third and
17 fourth years of the contract. There is also a .8
18 percent increase for benefit improvements. That was
19 effective in year 3 of the collective agreement.

20 In terms of staffing levels, corporate
21 staffing levels have decreased. In 2009/'10, there was
22 nineteen hundred and forty-six point eight (1,946.8)
23 FTEs, or full-time equivalents. That is down slightly
24 to nineteen hundred and forty-four point two (1,944.2)
25 budgeted for the current year. And MPI has said that

1 it has been seeking to control the growth in staffing
2 levels by implementing a hiring freeze for non-
3 frontline employees.

4 MPI is targeting to reduce staffing
5 levels by thirty (30) full-time equivalents in the
6 forecast period, though the 2014/'15 forecast does not
7 reflect these -- this reduction of thirty (30) FTEs.
8 And that's at PUB/MPI 2-23 and 2-24.

9 Now, the overall corporate staffing
10 level forecast for current year, that's the nineteen
11 hundred and forty-four (1,944), includes nineteen
12 hundred and twenty-seven (1,927) full-time equivalents
13 in normal operations and sixteen (16) full-time
14 equivalents in improvement initiatives.

15 In addition, MPI's current staff
16 complement includes two hundred and twelve (212) full-
17 time equivalents to support its IT infrastructure and
18 projects. And MPI makes use of external IT contractors
19 to deliver its IT infrastructure with approximately a
20 hundred and twenty (120) full-time equivalents forecast
21 for the next few years.

22 With respect to road safety, MPI is
23 forecasting to spend 10.5 million on road safety and
24 loss prevention in the year of the application. The
25 largest component is spent on driver education, which

1 includes the high school driver education program.
2 That's about 3.6 million, or a third of the overall
3 budget.

4 Auto crime prevention is the second
5 largest expenditure at 1.4 million, or 13 percent of
6 overall budget. And impaired driving prevention
7 strategies are 1.1 million, or 12 percent of the
8 overall budget.

9 The balance of the road safety programs
10 relate to advertising and sponsorships, road safety
11 programming and Road Watch, which is increased
12 enforcement.

13 At next year's GRA, MPI intends to
14 provide a comprehensive loss prevention strategy and
15 report card on its loss prevention activities and takes
16 the view that road safety forms part of its overall
17 loss prevention analysis.

18 So, Madam Chair, members of the Board,
19 I've attempted to comment on the main issue that have
20 arisen this year. It's certainly not everything, but
21 it's a highlight of some of the pieces of evidence.

22 I thank the Board, the Intervenors, and
23 MPI for attention and cooperation throughout the last
24 few weeks, and I'm happy to answer any questions. But
25 otherwise, those are my comments.

1 THE CHAIRPERSON: Are there any
2 questions from the Board? No?

3 Thank you very much, Ms. Grammond.

4 Now I'm going to call upon Mr. Oakes
5 from CMMG to give his closing remarks -- comments. And
6 then I'm not sure who's following. I think the
7 Intervenors have decided amongst themselves which order
8 they would go in, so I'll start with Mr. Oakes.

9

10 CLOSING COMMENTS BY CMMG:

11 MR. RAYMOND OAKES: Thank you, Madam
12 Chair. I'd like to thank Board counsel as well for
13 their excellent recap of the facts concerning the
14 application, the evidence filed in this proceeding.
15 I've often thought that that summary should be mailed
16 to every insured in Manitoba so they fully understand
17 the complexity of the insurance product and the
18 financial circumstances of this Corporation at this
19 time.

20 With respect to the intervention of CMMG
21 and its final argument, I'll just recap briefly that
22 the Corporation of course filed its GRA in June of
23 2014, seeking the Public Utility Board approval of a
24 decrease of approximately 6.6 percent for motorcycles.

25 While on first glance this would appear

1 to be a favourable situation, the decreases since 2011
2 reflect over a decade of skyrocketing increases which
3 caused financial hardship to motorcycle riders in
4 Manitoba. The -- the present decreases or, as I've
5 characterized them, the backpedalling by the
6 Corporation, flow from the fact that the average
7 required rate should have never have risen to an
8 average required rate of some eleven hundred dollars
9 (\$1,100). And the eleven hundred dollars (\$1,100) is
10 misleading, of course, because that includes an average
11 of everything from mopeds to highly rated motorcycles.

12 One (1) of the factors that MPI has had
13 to admit over the past few years is -- was its
14 actuarial selection of an inappropriate tail factor
15 increasing the case reserves overall by well over \$250
16 million. This inappropriate tail factor went on for
17 seventeen (17) years before it was discovered by the
18 Corporation.

19 Even after this massive gaff by the
20 Corporation and this flawed actuarial methodology with
21 significant effect, the Corporation still likes to
22 throw reassuring phrases like the assertion that it has
23 procedures in place to create rate stability and that
24 we should have faith in its rate-making methodology.

25 And if I could ask Diana at this time if

1 she'd put up IR-5 of CMMG. Thank you. This the other
2 person, obviously, we have to give great thanks to is
3 Diana for her fantastic work this year.

4 CMMG spent a great amount of time in its
5 intervention dealing with this exhibit because it
6 clearly shows that the rate-making methodology does not
7 work for motorcycles. In fact, the last ten (10) years
8 has resulted in numerous instances in which motorcycles
9 have been discriminated against and treated inequitably
10 and unfairly. One (1) of these examples was the
11 release of the reserves in which, despite the
12 motorcyclist paid premiums based on 80 percent of PIPP
13 benefits, which is three (3) times what -- the same
14 amount for private passenger, motorcyclists only got
15 the same one dollar (\$1) for one dollar (\$1) rebate as
16 private passenger.

17 As well, in the course of the testimony
18 we saw the Corporation uses kid gloves for the private
19 passenger population. I'm referring to Mr. Guimond's
20 comments quoted in the Winnipeg Free Press filed as an
21 exhibit in these proceedings. He said he considered a
22 4.4 percent rate increase as too steep of an increase
23 for vehicle owners. We also heard his comments in the
24 course of this hearing that he wishes to immunize
25 Manitobans from rate volatility.

1 Well, look at IR-1-5 in front of us.
2 Realize his comments don't extend to motorcycles.
3 Obviously, this Corporation hasn't cared to even try to
4 immunize Manitoba motorcyclists from rate volatility.
5 It's clear that the RSR has no applicab --
6 applicability to motorcyclists. There's never a time
7 it was used to caution -- or to cushion a massive rate
8 increase requested for motorcycles.

9 Mr. Guimond, in the transcript at page
10 1,597 and 8, indicated that the RSR is needed to
11 guarantee that a person insuring a vehicle can expect
12 relatively the same rate the following year. Well,
13 look at the table in front of you. Motorcyclists
14 experiencing applications for 19 percent rate increases
15 in 2004 and 2005, and substantial rate increases in the
16 next several years that follows.

17 Despite the Standards of Practice for
18 Canadian Actuaries, which set out a numb -- number of
19 practical principles to assist in rate making, the
20 Corporation refuses to change its rate-making
21 methodology that creates these inequities and
22 hardships. In the course of cross-examination I
23 referred to the Actuarial Standards of Practice. The
24 first one (1), 1730.11 that states:

25 "Pertinent past experience data

1 relates to the recent past rather
2 than the distant past."

3 The Corporation refuses to give greater
4 rate to the last three (3) insurance years. I was --
5 had the privilege of attending the CMMG AGM last night
6 for a couple of hours and spoke to the members about
7 their decreases. And we talked about the years, like
8 2006/'07, where the loss ratio was down to 40, and
9 other years where it was at 50 percent.

10 And they asked me, Well, why aren't our
11 rates coming down as quickly as they should to reflect
12 the Corporation making that much money on motorcycle
13 insurance? And I said, Well, because the Corporation
14 uses ten (10) years of data, you're actually being
15 penalized for a bad that -- year that you had nine (9)
16 years ago. And they find that incredulous that nine
17 (9) yeas ago their experience is costing them today.
18 The -- so I would suggest to you that that offends the
19 principle in the Standards of Practice 1730.11.

20 Move to another one, Actuarial Standard
21 of Practice 2620.05. It says that the actuary should
22 consider that loss experience may be affected by
23 changes in circumstances that may affect loss cost.
24 Well, even the Corporation is well aware that the loss
25 distribution rules were expanded in Board Order 122/'10

1 at page 57. They refused to give a greater weighting
2 to the year since that change, which would be in
3 accordance with the Actuarial Standard of Practice that
4 I just referred to.

5 Going further, Actuarial Standard of
6 Practice 2620.09 says that an actuary should consider
7 that loss experience may have been subject to a
8 catastrophe, a large loss, or other unusual events.
9 Large loss capping is popular in rate making, and its
10 purpose is to limit the kind of fluctuation of
11 indicated rates that you see in the table in front of
12 you on the screen.

13 MPI refuses to use large loss -- loss
14 capping. This would have mitigated the year-to-year
15 rate changes that you see in front of you and would
16 have addressed the anomaly or the outlier of the
17 '06/'07 year that the Corporation uses to continue to
18 punish motorcyclists over the last decade.

19 CMMG asks this Board to recommended --
20 to recommend changes in the methodology, given the
21 massive rate volatar -- volatility that you see in
22 front of you, and recommend that the Corporation look
23 at large loss capping or using five (5) years of data
24 in order to prevent the rate volatility and the
25 unfairness that results in loss ratios of 40 percent in

1 2012/'13 instead of the more break-even rate of
2 approximately 77 percent that is the average for
3 private passenger.

4 At this time, I think it's helpful to
5 remind the Board of the statement contained in page --
6 paragraph 23 of the CMMG Court of Appeal case, which
7 dealt with our application to the Court of Appeal and
8 is found in the MPI brief that was filed in its motion,
9 at page 8 of that twenty (20) page brief. And the
10 court there said that:

11 "The Board's function is not only to
12 protect consumers from unreasonable
13 changes, but also to ensure that the
14 physical health of the Corporation
15 and the fairness between different
16 classes of consumer."

17 CMMG calls upon this Board to fulfill
18 that jurisdictional mandate by ensuring that there is
19 fairness between the different classes of consumers,
20 and especially between motorcyclists and private
21 passenger. CMMG is asking for a rate reduction of 10
22 percent, which would likely result in loss ratios being
23 close to that of private passenger, and certainly more
24 fair than the loss ratios we have seen since 2011/2012,
25 which average about 55 percent.

1 If this Board is not inclined to wade
2 into the vaguaries (sic) of actuarial principles and
3 science in the manner that I've just suggested would be
4 appropriate, then we ask that you look at
5 directionality. Obviously as indicated in CMMG-1-5,
6 the Corporation's rate-making methodology does not work
7 for a small vehicle population like the motorcyclists.

8 But I recognize the Board aren't
9 actuaries, and while it has access to an actuary, it
10 perhaps does not want to direct what MPI's actuary is
11 going to do in the performance of his work. Then I
12 would suggest the fallback position is that the Board
13 look at directionality.

14 We've seen -- if the Corporation is
15 asking for massive increases only to backpedal later,
16 and giving discounts since 2011 to -- to get back to
17 square one.

18 The Board should temper both the
19 increases and provide more decreases than are sought by
20 the Corporation, viewing the directionality of those
21 changes. We've seen for the past three (3) year the
22 Corporation has had to offer decreases, and we're still
23 -- CMMG contends, still not there in terms of getting a
24 loss ratio that's fair to motorcyclists.

25 And so both on this issue, we would

1 encourage the Board to look at directionality. And
2 that says that if MPI says there's a 6.6 percent
3 decrease, look at what's happened in the past decade
4 and suggest that it's probably more like 10 percent.

5 I'm going to use that same fall-back
6 position with respect to the RSR. And I'm moving to
7 that issue at this time. And we're going to suggest
8 that, despite the MCT and the DCAT and all the rest of
9 it, the Board look at the history of the RSR and the
10 Corporation performing its mandate, and look at the
11 historical levels of the RSR and temper those requests
12 and requirements by this Corporation when it looks to
13 put aside funds.

14 So in addressing the RSR, the first
15 thing that stands out is the incredible injustice in
16 this Corporation coming and asking motorcyclists to
17 contribute a 1 percent surcharge to the RSR.

18 We've already reviewed that this
19 Corporation has no compunction about applying for
20 rates, almost 20 percent in 2004/'05, without any
21 thought of ever using the RSR to accomplish the
22 volatility immunization that its president talks about.
23 So RSR has never been used to help motorcyclists,
24 probably never will. And there's -- it's inequitable
25 and unfair to ask the motorcyclists to contribute to

1 it.

2 As well, the Corporation admits that the
3 areas that are stressing the RSRs are not motorcycle
4 experience issues: the bad winter experience the last
5 two (2) years, highly technical -- technologically
6 advanced vehicles. We heard about aluminum frames in
7 Ford-150s. We didn't hear anything about motorcycles.
8 Those situations -- hail, bad winter experience,
9 advanced new metals -- they're not experiences in the
10 motorcycle major use, and we're not a stress to the
11 RSR.

12 On the issue of the RSR reserves and
13 what the appropriate amount should be, I'd suggest
14 again a commonsense approach. We note in cross-
15 examination there's a number of years in which there
16 are no positive balances in the RSR, and each year the
17 Corporation fulfilled its mandate.

18 I'd suggest that the Board, in making
19 this deliberation, look at the years referred to in
20 Undertaking 58, and look at the -- the limits set by
21 this Board back then. When you compare the amounts set
22 by this Board compared to what the Corporation is
23 asking for these days, it's laughable that ten (10)
24 years ago we could be looking at \$50 million as an
25 appropriate RSR, and now the Corporation says it ranges

1 between 194 million and 325 million. I don't know what
2 -- in what planet that would be considered reality, but
3 certainly it seems odd when we review those years.

4 We know that the Corporation is
5 backstopped by the Province of Manitoba. We know that
6 they own hundreds of millions of dollars in real
7 estate. We -- when we cross-examined on that point, we
8 had several concerns about transparency. The
9 Corporation would not advise of the fair market value
10 of its real estate holdings.

11 We can understand that the Corporation's
12 not eager to have confirmation as to the difference
13 between its book value and fair market value on the
14 public record, given that perhaps that's an exposure
15 for recapture of depreciation. But this, too, is
16 concerning. Should not the Regulator and the public
17 reviewing the Corporation's books know what its
18 exposure is for income tax on that basis?

19 In any event, whatever the numbers are,
20 because they wouldn't tell me, the Corporation is well
21 funded, continue to be well funded, and the RSR targets
22 should be unchanged, which is a far cry from the
23 massive sums that the Corporation is seeking to
24 withhold from its consumers at this time.

25 In addition to sending out summaries of

1 the Public Utility Board review of the application in
2 the evidence, I wonder if we should be advising
3 motorists of this province that MPI has 2.8 billion in
4 retained earnings. That certainly puts everything in
5 perspective.

6 With respect to the issue of road
7 safety, again, this Corporation gets a failing grade,
8 but it's -- the situation is totally unacceptable, the
9 evidence that we saw this year. The Corporation was
10 unable to produce any witness who could testify as to
11 the working of the road safety departments and its
12 various programs in such important areas as wildlife
13 collision, distracted driving, hotmapping, research,
14 and other necessary areas for involvement for the
15 Corporation if it's going to reduce its claims
16 expenses.

17 Questions were answered with responses
18 that had nothing to do with the questions posed. We
19 heard references to telematics, which is, frankly, a
20 nonstarter and -- and not likely to be of assistance to
21 anyone. We heard about various other computer-based
22 toys, like simulators.

23 The Corporation needs to get to the
24 basics of road safety and demonstrate a commitment in
25 areas of distracted driving, hotmapping, wildlife

1 collision, and the other ones that we've spoken about.
2 Writer, after two (2) explanations by Mr. Guimond, has
3 no idea why changing the name of the road safety
4 program and having it under a different portfolio
5 addresses any of those deficiencies, or makes road
6 safety initiatives more successful or cost effective.

7 The CMMG is going to be looking forward
8 to next year's comprehensive plan being filed by the
9 Corporation. And hopefully we can get down to an
10 examination of the basics of the work that the
11 Corporation has to do.

12 Generally and overall, with respect to
13 the application, the CMMG cautions this Board this
14 Corporation does not still understand expense
15 reduction. And obviously, a reading of the report of
16 the legislative standing committee on Crown
17 corporations, based on the testimony of September 30,
18 was filed by CAC as an exhibit, identifies the various
19 missteps and poor financial control recently that the
20 Corporation exhibited.

21 The CMMG is concerned that there are a
22 great many other expenditures that are difficult to
23 monitor and has concerns that generally this
24 Corporation seems enamoured with technologically
25 advanced spending of hundreds of millions of dollars on

1 computer programs and streamlining processes with a
2 view to making the Corporation's job easier but with
3 considerable expense to the consumers in building that
4 finished product.

5 With those comments, the CMMG will close
6 its final arguments and submit its bill of cost in due
7 course to the Board. I thank everyone in this room for
8 their courtesy and attention during the intervention by
9 the CMMG. Thank you.

10 THE CHAIRPERSON: Thank you very much,
11 Mr. Oakes, for your comments. Are there any questions
12 from the Board?

13 Mr. Gosselin...?

14 MR. REGIS GOSSELIN: No, Madam Chair.
15 I'm okay. Thank you.

16 THE CHAIRPERSON: I'm not sure who was
17 -- okay, sorry. Mr. Frost, from ARM, will give his
18 closing comments. Thank you very much.

19

20 CLOSING COMMENTS BY ARM:

21 MR. IRVIN FROST: Thank you, Madam
22 Chair, members of the Board. ARM has applied to the
23 Board and received Intervenor status by virtue of Board
24 Order number 81/14. The purpose in so doing was to
25 bring important and cost-sensitive issues to the

1 attention of the Board, more specifically, to
2 critically evaluate MPI's new PD reengineering program,
3 review cost-containment initiatives relative to
4 recycled parts, review environmental controls in the
5 resale of total loss vehicles, and suggest improvements
6 to reduce physical damage repair costs.

7 THE CHAIRPERSON: Excuse me. Mr.
8 Frost, some of our panel members can't hear you. Could
9 you please speak into the mic a little bit. Thank you.

10 MR. IRVIN FROST: I -- I apologize. Do
11 you want me to begin again, Madam Chair?

12 THE CHAIRPERSON: Yes.

13 MR. IRVIN FROST: Okay. Again, my
14 apologies. I will do as best as I can. ARM has
15 applied to the Board and received Intervenor status by
16 virtue of Board Order number 81/14. The purpose in so
17 doing was to bring important and cost-sensitive issues
18 to the attention of the Board; more specifically, to
19 critically evaluate MPI's new PD reengineering program,
20 review cost containment initiatives relative to
21 recycled parts, review environmental controls, and the
22 resale of total loss vehicles, and suggest improvements
23 to reduce physical damage repair costs.

24 The Automotive Recyclers of Manitoba,
25 ARM, is comprised of fourteen (14) Manitoba auto

1 recyclers whose members are committed to serving the
2 Manitoba automotive industry, the Manitoba public, and
3 the environment generally. The members of ARM strive
4 to offer the consumers the best in quality recycled
5 parts, service, and guarantees in the recycle industry.
6 The recycle industry has been represented by ARM since
7 1967, and is a non-profit corporation operated by an
8 elected volunteer of four (4) executives that belong to
9 nationwide -- to a nationwide association of automotive
10 recyclers of Canada. And you heard Mr. Fletcher
11 yesterday speak on that; is one (1) ARC's founding
12 members.

13 Both ARM and ARC are major sponsors of
14 the Canadian Collision Industry Forum. Again, Mr.
15 Fletcher spoke to that. Each member of ARM has been
16 evaluated, audited, and certified by an indivi --
17 independent environmental group to meet the
18 requirements of the Canadian Recyclers Environmental
19 Code (sic), CAREC. And the governing principle central
20 to both ARM and its parent ARC is to standardize the
21 process for end-of-life vehicles in a cost -- in a
22 safe, cost efficient, environmentally friendly manner.
23 Again, Mr. Fletcher spoke to those issues, so I don't
24 propose to go into any details on those -- on those
25 matters.

1 In its application MPI has proposed a PD
2 reengineering program with a specified purpose and
3 objective. The project description referenced in the
4 application identifies increasing recycled parts uses
5 through the expansion of the recycler network;
6 improving the recycled part process through automation,
7 whereby recyclers provide their inventories online; and
8 repair estimates including those parts automatically.

9 Many insurance companies have tried this
10 hands off approach throughout North America. They can
11 only supply a small fraction of the parts usually
12 needed to repair the vehicles in their respective
13 jurisdictions. With ARM involved and working on the
14 basis of a hands on, side-by-side basis with MPI, this
15 will increase part usage and reduce cost and cycle
16 times, therefore saving MPI and Manitoba ratepayers
17 significant tax dollars.

18 Recycled parts supply the largest
19 discount by percentage of any other supplier. In
20 previous agreements with MPI the recyclers have had a
21 recycle first policy to ensure the maximum saving on
22 recycled parts since the removal of the policy
23 continues -- and since the removal of the policy, the
24 costs continue to sub -- to soar. It is submitted that
25 this policy be adopted and re -- affirmed by the Board,

1 and we are suggesting a recommendation in any future
2 arrangements or dealings between the recycle industry
3 and Manitoba maintain a recycle first policy.

4 It is, however, worth noting that with
5 the onset of the PD eng -- reengineering program,
6 change in the industries have caused a massive decline
7 in the number of recycled parts spoken for and
8 eventually sold. At this early stage of the
9 implementation of the PD reengineering program, ARM
10 urges the Board to also include a recommendation that
11 any development in this program needs to be
12 accomplished in both a cooperative and considered
13 manner with ARM.

14 Most importantly, the automation of the
15 parts process with inventories and repair estimates
16 online must also consider -- be considered on a
17 consultative basis with ARM. In other words, we urge
18 the Board to also make a recommendation that moving
19 forward, whether in the PD reengineering program or in
20 the automa -- automation of parts online, requires --
21 no, I suggest more than requires; demands both
22 consultation and direct input from ARM given their
23 decade of experience in this business.

24 ARM believes that it is -- that -- ARM
25 believes that its intervention at this hearing is very

1 timely given -- in order to bring the Board up to speed
2 on this industry challenge and how careful
3 consideration of the PD reengineering program going
4 forward will prove as both a positive and cost-saving
5 exercise.

6 The continued supply of recycled parts
7 is the most cost-effective in an environmentally
8 friendly manner. MPI has provided a detailed breakdown
9 with project cost savings from the PD program which
10 includes a -- a chart showing a cost saving of 1.4 mil
11 per year with the continued use of recycled parts.
12 That's PUB/MPI 1-75.

13 The basic premise submitted by ARM is
14 that recy -- the recycled parts are based upon no more
15 than 45 to 60 percent of the OEM parts. This is an
16 absolute saving to the Manitoba public in -- and this
17 has prompted millions of dollars of less expensive
18 parts with obvious savings to -- to Manitobans con --
19 in repair costs. These savings disappear if the
20 recyclers are not there to quote on parts, as the OEM
21 dealers will not match the OEM parts to the recyclers.

22 The important factor is that the
23 recyclers continue to be able to offer a safe and
24 abundant supply of recycled parts locally. Removing
25 cyclers (sic) from the landscape within five (5) years,

1 at least with respect to the late-model part portion of
2 the industry as discussed by MPI, is obviously
3 detrimental to the industry and Manitobans at large,
4 from a cost per -- and Manitobans at large from a cost
5 perspective.

6 Simply put, if the recyclers go away,
7 the OEM suppliers are free to price their parts as high
8 as they can, as there will be no competition. Please
9 bear in mind that MPI in its pre -- it's -- it's
10 presentation was forecasting a 30 million increase per
11 year due to new alloys and part complexities. Price
12 matching against these recycled parts is critical to
13 this forecast and needs to be in place to either offset
14 or at least reduce this proposed increase to the
15 Manitoba public.

16 The last five (5) years has seen an
17 observable decline in the ordering and sale of recycled
18 parts. Eleven (11) percent in 2008 declined to 7
19 percent in 2013, with a concurrent increase in the use
20 of new parts; that is, 56 percent in 2008 to 67 percent
21 in 2013. And for those -- and for those references,
22 I'm referring to the table for 2015 rate application
23 based on claims paid data. And I think that's MPI-
24 1.54.

25 ARM has indicated a willingness to work

1 with MPI to reverse this trend or to at least reduce
2 the decline in use of recycled parts and, as such, to
3 have a viable alternative to the OEM parts.

4 Please note that many insurers across
5 North America see OEM as an alternative to recycled,
6 not the other way around, which is becoming the trend
7 in Manitoba. It is submitted that MPI adopt a strong
8 initiative to both foster and assist the auto recycling
9 industry in order to help it remain both viable and
10 sustainable. We would respectfully ask PUB to make a
11 further recommendation to this end.

12 As has been stated during the course of
13 this hearing, the -- the recyclers have been in
14 business for decades. They know this business far
15 better than MPI. They can reduce cycle time by working
16 with MPI in the RPP system, eliminating redundancies
17 and reducing supplements.

18 They are not concerned with competition,
19 as this is the very nature of their business. The
20 recycling -- the recycling industry will survive, as it
21 always has. It will adapt to new technology, as it
22 always has. And it will continue to supply parts to
23 Manitoba, as it always has.

24 But without the support of MPI as a
25 business partner, the late-model side salvage business

1 will fail, resulting in huge costs to MPI and the
2 Manitoba motoring public.

3 Simply put, ARM is looking for an even
4 playing field in which to compete fairly on numerous
5 parts that the OEM dealership will not price match.
6 Indeed, they have an intricate and locate daily
7 distribution network in place which has been efficient
8 in the delivery of parts to auto body shops over the
9 course of decades.

10 ARM challenges the statement that OEM
11 dealerships can't provide the parts quicker and
12 cheaper. Generally dealerships do not stock large
13 inventories and often must search other parts of the
14 country, or North America, for items that are required
15 to be back ordered. Indeed, Manitoba recyclers have
16 inventories both within the perimeters and on the
17 outskirts of Winnipeg.

18 As a matter of course, acres are
19 dedicated by the recyclers to the storage of automobile
20 parts, both large and small, which are both computer
21 inventoried and easily delivered to the shops within a
22 matter of hours of the original order.

23 As you heard yesterday from Mr.
24 Fletcher, the RCO in Manitoba was a positive model, and
25 indeed the showpiece throughout Canada and North

1 America, when it was under the control and mandate of
2 ARM. When the RCO was taken over by MPI in December
3 2012, not so much. It was taken over by MPI with a
4 promise of greater and more efficient use of recycled
5 parts. We ask for a recommendation from the Board that
6 MPI be responsible to that pledge and that MPI work
7 with ARM to revisit the RCO to ensure both transparency
8 and efficiency.

9 Over the course of the past week, MPI
10 officials have indeed indicated a willingness to work
11 with ARM in order to deal with the above challenges.
12 Indeed, MPI and ARM have met to determine what changes
13 can be made to the CAREC computer system that
14 effectively shuts out recyclers where there is a glass
15 component in the claim, and where part stored by
16 recycler assembles instead of individual parts.

17 As earlier noted, the eGlass program has
18 been implemented in July 2014, is simply not working.
19 Any glass part is not included in the automated
20 inventory system. Indeed, whether the component does
21 or does not contain glass has become irrelevant. The
22 simple reference to the word 'glass' in any part
23 removes that part from the claim, effectively shutting
24 the door on the recyclers from bidding on any repair or
25 component part in where -- in which the word 'glass'

1 appears.

2 This is somewhat critical and an obvious
3 flaw in the system, which MPI has acknowledged and
4 agreed to both renew -- to -- I'm sorry, and agreed to
5 both review and resolve in consultation with ARM.

6 Furthermore, MPI is currently in
7 discussions with ARM with respect to MPI employees who
8 -- who perform a watchdog function over the body shops
9 to ensure that they do not reject recycled parts out of
10 hand and without -- and without cause, to move
11 expensive OEM parts in order to increase their markups.
12 We are confident that MPI will meet this challenge and
13 resurrect its policy of monitoring the rejection of
14 parts that has contributed substantially to the decline
15 in the use of recycled parts in Manitoba.

16 It is obvious that these joint
17 activities are critical in order to ensure Manitobans
18 receive the benefit of the least expensive part, yet
19 maintaining critical safety parameters. It is
20 important that MPI and ARM work together to ensure a
21 consistent set of practices that are aligned as much as
22 possible with federal, provincial, and municipal laws
23 and regulations, as well as within product and industry
24 stewardship programs to ensure the safety, health, and
25 well-being of Manitoba.

1 Outcomes. The -- we are looking for
2 outcomes insofar as the reterm of -- of ARM -- the
3 return of ARM as a business partner with MPI to rebuild
4 the auto recycling portion of the parts procurement
5 process. This is not about mandating profitability of
6 one (1) sec -- sector over another. This is not about
7 demanding minimum recycled part content.

8 ARM is proud of the auto recycling
9 industry in Manitoba and the auto recyclers who make up
10 the Automotive Recyclers of Manitoba -- and just for
11 the record they are here again today and I acknowledge
12 their presence -- for wanting to play their role in
13 stabilizing rate and saving money for the mone -- for
14 the monitoring (sic) public.

15 Finally, I'd like to thank the Board for
16 its courtesy and MPI for its cooperation and
17 willingness in handling a timely and sensitive
18 intervention. Finally, ARM is looking forward to a
19 good relationship in the future going forward with the
20 Board and, most particularly, with MPI in its joint and
21 continuing endeavour to provide automative --
22 automotive coverage to Manitobans in both a cost-
23 efficient and transparent manner.

24 Those are my closing -- those are our
25 closing submissions, Madam Chair. And again, finally,

1 I'd like to thank again the Board for its courtesy and
2 counsel for their courtesy and cooperation. And that
3 concludes our presentation, Madam Chair. Thank you.

4 THE CHAIRPERSON: Thank you very much,
5 Mr. Frost.

6 Are there any questions from the panel?

7

8 (BRIEF PAUSE)

9

10 THE CHAIRPERSON: Hearing none, I'm --
11 I'm not sure who's going to step up to the mic next.
12 Okay. Ms. Young, from CAA. Thank you.

13 MS. ANGELE YOUNG: Just being mindful
14 of the time, we don't know if now would be a good time
15 maybe to have a break before we start with ours, and
16 then Bike Winnipeg's.

17 THE CHAIRPERSON: Sure. That would be
18 fine. We'll take a fifteen (15) minute break. Thank
19 you.

20

21 --- Upon recessing at 10:15 a.m.

22 --- Upon resuming at 10:36 a.m.

23

24 THE CHAIRPERSON: I think we're ready
25 to begin with our closing comments from Ms. Young from

1 CAA. Ms. Young, would you like to take the mic?

2

3 CLOSING COMMENTS BY CAA:

4 MS. ANGELE YOUNG: Perfect. Thank you,
5 Madam Chair and members of the Board.

6 CAA Manitoba is grateful to have the
7 opportunity to sit as an Intervenor in this year's
8 General Rate Application process, as we have done for
9 the past twenty (20) years. We appreciate the
10 opportunity to take part by participating in a watching
11 brief so that we can provide information to our two
12 hundred and three thousand (203,000) members in
13 Manitoba.

14 As always, our closing comments will be
15 brief. As mentioned previously, my president and CEO,
16 Mike Mager, would have liked to be here today as he has
17 in the past to deliver these closing comments. He
18 sends his regress -- regrets, as he is away. I hope to
19 do justice in conveying this message on behalf of both
20 Mike Mager as well as our membership, which represents
21 one (1) in four (4) motorists in Manitoba.

22 First off, we would like to again
23 congratulate Manitoba Public Insurance's new president
24 and CEO, Dan Guimond. We feel optimistic about the
25 vision he brings to the Corporation in the short time

1 that we have gotten to know him. As of late, we have
2 found Manitoba Public Insurance to be cooperative and
3 more willing to work together on a number of
4 initiatives with you -- which touch both of our
5 organizations, and thank you for that.

6 CAA Manitoba has participated in these
7 hearings for two (2) decades now to ensure rates for --
8 rates set for all Manitoba drivers are fair and
9 reasonable, no matter what kind of vehicle they choose
10 to drive.

11 There are a few things that have been
12 brought up in these hearings that I would like to touch
13 on, such as MPI's role in road safety and its place at
14 the Public Utilities Board, as well as the transparency
15 of the Rate Stabilization Reserve.

16 For us, it boils down to ROI, and not
17 just the return on investment, but also the results on
18 investment. For everything that MPI does, we want to
19 know: What kind of impact does it have on our
20 community? What impact does it have on our rates?

21 We can appreciate that some things are
22 hard to measure in dollars and cents, but it is
23 important to us that MPI develop other measures of
24 success, especially as it pertains to road safety.
25 This will help us as Intervenors understand and

1 appreciate the rationale and allocation of funds.

2 On the topic of road safety, we want to
3 say that CAA Manitoba would like to continue to see
4 road safety as part of the MPI's General Rate
5 Application. We understand that this has been a point
6 of contention in this year's proceedings and whether or
7 not it fits here.

8 It is our belief that the overall
9 operations of the Corporation should be discussed at
10 these hearings. We believe that a big part of ensuring
11 rates are fair and reasonable is ensuring that
12 operating expenses are, too, fair and reasonable.

13 That being said, MPI has offered to the
14 PUB to include a loss prevention scorecard in next
15 year's GRA, something CAA Manitoba strongly supports.
16 We think it is a good idea to separate road safety from
17 loss prevention.

18 As indicated at these hearings, we are
19 very curious to learn more about the uptake of MPI's
20 winter tire loan program and the results that can be
21 extrapolated from collision data, much like our
22 successful immobilizer program with auto theft.

23 This is something we would definitely
24 like to see included in next year's filing. This is a
25 great way to demonstrate return on investment and how

1 it relates to frequency and severity of claims. We've
2 also asked on the record for this to be included in
3 MPI's undertaking where they provided a draft on how
4 the scorecard would look and have chatted with them,
5 since it has appeared that it had been overlooked in
6 that undertaking.

7 Another issue that has come up in the
8 past few years at these proceedings is Manitoba Public
9 Insurance's role in road safety and driver advocacy.
10 We would like the -- the Board to know that CAA
11 Manitoba, along with Bike Winnipeg and CAC (Manitoba),
12 have had discussions with the Minister of
13 Infrastructure as well as the minister responsible for
14 MPI about the need for road safety leadership in
15 Manitoba. We had a very productive meeting in late
16 September and will be following up with this shortly.

17 We hope that this will help to find not
18 only MPI's role in road safety, but also leverage the
19 strength of each of our organizations for our common
20 goal of making streets safer for all Manitoba road
21 users.

22 My last comment is about the Rate
23 Stabilization Reserve. The RSR can be complicated and
24 confusing. And whatever MPI can do to make it clearer
25 and better understood to the motoring public, our

1 members, will be helpful. They want to know what is
2 the RSR for, when can it be used, and when has it been
3 used and for what.

4 We do not have any comment on what
5 forecasting model should be used to estimate target RSR
6 levels, but we feel that whatever is decided upon
7 should be clearly communicated in a way that can be
8 understood by the average ratepayer. After all, they
9 are the ones that have to foot the bill.

10 In closing, I would like to thank you,
11 Madam Chairperson and the Board, for allowing us to
12 once again be a part of these proceedings on behalf our
13 two hundred and three thousand (203,000) members in
14 Manitoba. CAA will continue to act on behalf of
15 Manitoba motorists to ensure fairness in the rate-
16 setting process. We look forward to the Board's
17 decision. Thank you.

18 THE CHAIRPERSON: Are there any
19 questions from the panel?

20 MR. REGIS GOSSELIN: I do. And I -- I
21 wanted to ask in relation to the comment that you made.
22 You talked about the loss prevention scorecard and you
23 supported it, but you -- you want it to be separate
24 from road safety. And I -- I wasn't sure.

25 Could you repeat that comment? Could

1 you -- or...?

2 MS. ANGELE YOUNG: What -- what I
3 understand with MPI's wanting to -- to file a loss
4 prevention scorecard is making that designation between
5 road safety and loss prevention. So loss prevention
6 things would be things like winter tires, immobilizers,
7 whereas road safety might be something like a Jets
8 sponsorship.

9 So we think that it is a good idea to
10 make that designation. That some things are going to
11 be road safety. There's some things that you can't
12 get, you know, a very specific ROI, whereas there are
13 other things that you can. So that's why we support
14 that designation between those two (2) lines.

15 MR. REGIS GOSSELIN: Thank you for that
16 explanation. Now the other -- you mentioned a meeting
17 that was had with the minister responsible for MPI
18 involving CAC, CAA, and Bike Winnipeg. Was that about
19 -- it probably was a number of things, but was it about
20 the issue of -- of who would take leadership with
21 respect to road safety?

22 MS. ANGELE YOUNG: Yes, that is
23 actually something that came out of last year's
24 proceedings, is we realized that there -- there's no
25 leader in road safety in Manitoba a lot of the times.

1 You know, we might look to the Government of Manitoba,
2 we might look to MPI, we might to organizations like
3 CAA Manitoba, but there's real no defined leadership.

4 So we came to both infrastructure
5 minister and infrastructure response -- or minister
6 responsible for MPI to seek that leadership and to see
7 what kind of model we could look at. BC, for instance,
8 has a really good model that we, as a small committee,
9 seem to be favourable for. And it's -- like MPI had
10 suggested in their loss prevention scorecard, it's a
11 collaboration model where -- where you get a lot of
12 road safety leaders and you kind of figure whe -- where
13 is the best allocation of resources and time and money.
14 But it also just helps to make sure that someone is the
15 voice of road safety.

16 THE CHAIRPERSON: Well, thank you
17 again, Ms. Young. That was -- we appreciate you being
18 here and giving your closing comments. Now I'd like to
19 call upon Mr. Monnin, from Bike Winnipeg, to give his
20 closing remarks.

21

22 CLOSING COMMENTS BY BIKE WINNIPEG:

23 MR. CHRISTIAN MONNIN: Thank you, Madam
24 Chair, members of the Board. Bike Winnipeg's closing
25 arguments today will be along the four (4) broad

1 strokes of an overview of why we're here, Bike
2 Winnipeg; an overview of the evolution, as we call it,
3 of the road safety issue before the PUB; and comments
4 from Bike Winnipeg with respect to what is -- to use
5 the vernacular of this hearing, what's the new
6 construct that we've heard often; and some
7 recommendations or suggestions on what needs to be
8 done.

9 Bike Winnipeg has intervened and was
10 given a limited scope to assist to critically evaluate
11 the optimum size of MPI's road safety budget and
12 whether it is sufficient to enable a significant
13 reduction in the cost to MPI of injuries to cyclists in
14 the short and long term, the adequacy of MPI's Road
15 Safety Program with respect to fatal and severe injury
16 of cyclists, and the third prong, the quality and
17 clarity of MPI's data collection analysis and
18 accessibility regarding collisions involving cyclists.

19 Simply put, the difficulty with this
20 limited scope is -- is it's hard to critically evaluate
21 something in a vacuum. And that's very much where we
22 are today. That's very much where we've been
23 throughout these proceedings. And I think it's
24 important to -- you know, the new construct has been
25 suggested by the -- by MPI and then that's -- that's

1 something to -- to consider. But I think in order to
2 know where we're going, where we're heading, it's
3 important to know where we've been.

4 And with that, I'd like to get into the
5 second issue which we want to address this morning,
6 which is the overview of the -- an evolution of the
7 road safety issue that is found in the Board's orders.
8 Now, I know the Board is quite familiar with its
9 orders, but again, for the benefit of -- of the record
10 and -- and of these proceedings I'm going to be lifting
11 some language from some of the orders which I think are
12 relevant to the road safety issue.

13 Board Order 162/'11, specifically
14 through pages 65 of 88, are quite relevant to the
15 evolution of the road safety issue that the Board has
16 been dealing with, with quite some -- for quite some
17 time, frankly. And in that order the Board says:

18 "Last year the Board suggested that
19 MPI segregate an amount out of Basic
20 RSR and establish a road safety fund
21 from which road safety initiatives
22 could be funded."

23 Further on it states:

24 "MPI declined to establish such a
25 fund in the absence of identified

1 initiatives that have an expected,
2 measurable impact on claim costs.
3 MPI differentiates between road
4 safety and loss prevention, and the
5 Board generally agrees with that
6 distinction.

7 An effective loss prevention
8 initiative may be anticipated to
9 result in tangible, measurable claim
10 cost reductions which should be able
11 to be projected. On the other hand,
12 the claims cost reductions from road
13 initiatives, while equally important,
14 may be more difficult to protect. As
15 MPI has testified, it is hard to know
16 when an accident has prevented -- has
17 been prevented.

18 It is exactly for that reason that
19 the Board sought to have a road
20 safety fund established out of RSR.
21 Nonetheless, the Board is of the view
22 that more tangible and measurable
23 results can be gleaned from MPI's
24 expenses on road safety and loss
25 preventions. The Board is of a view

1 that there is significantly more that
2 can be done with respect to both loss
3 prevention and road safety, and that
4 all involved parties, including the
5 Board, MPI, the government, and
6 Intervenors, should do their part to
7 be heard and work cooperatively."

8 And to that end the Board directed a
9 technical conference. Further down the road Order
10 157/'12. Again, I draw the Board's attentions to pages
11 58 through 63 of that order. And I'll be lifting -- in
12 fact, please disregard that. Order 22/'13, and at page
13 7, there's a variation of the previous order which I
14 identified. In here, it's stated:

15 "MPI stated it has always been open
16 to Intervenors at GRA hearings and
17 the Board in its orders to indicate
18 whether the budgeted amount for road
19 safety should increase or decrease,
20 and whether certain expenditures
21 should be eliminated or expanded upon
22 within the context of approving
23 rates. MPI states that this analysis
24 can occur at a GRA hearing rather
25 than at a technical conference.

1 The Board expressed in the order that
2 matters of road safety need to be
3 given a higher priority by the
4 Corporation than has been assigned in
5 the past, including motorcycle
6 safety, wildlife collisions, and
7 other road safety investments. At
8 present, only 1.5 percent of Basic
9 rates are dedicated to road safety
10 initiatives which, in the view of the
11 Board, may be too low.

12 The Board continues to believe that
13 the technical conference would be of
14 assistance in developing MPI's road
15 safety programs, given that a
16 technical conference is less
17 adversarial than a GRA hearing, and
18 is a proven tool for achieving
19 consensus among parties."

20 Moving further down to Order 151/'13,
21 pages 50 through 62:

22 "In Order 157/'12 the Board expressed
23 the view that matters of road safety
24 need to be given a higher priority by
25 the Corporation than has been

1 assigned in the past, including
2 motorcycle safety, wildlife
3 collisions, and other road
4 investments. If this happens, the
5 Board anticipates the Corporation
6 will be in a position to come forward
7 with new initiatives."

8 The Board also stated in 157/'12 that:

9 "Consistent with MPI's develop -- the
10 desire to develop and defined --
11 sorry, define road safety mandate,
12 the Board believed that a road safety
13 research technical conference would
14 assist MPI in developing new road
15 safety initiatives that are broadly
16 supported by the road safety experts
17 and stakeholders, and would focus on
18 reducing risk on Manitoba roadways
19 which in turn should lead to lower
20 claims cost.

21 Given the lack of knowledge and
22 analysis regarding the effectiveness
23 of road safety programs, the Board
24 finds that MPI has not fully
25 established that the current

1 portfolio of road safety expenditures
2 is prudently and reasonably optimized
3 to maximize value to ratepayers, or
4 to minimize economic and social costs
5 of collisions. MPI has not reviewed
6 the cost benefit of its current road
7 safety programs. The Board believes
8 that this must be done."

9 As the Board is familiar, the Board
10 orders among other things, that MPI was to provide at
11 the next GRA an independent review of the current road
12 safety portfolio with a view of optimizing it and
13 setting goals for outcomes, and minimizing the economic
14 and social costs of collisions. And provide at the
15 next GRA an independent review of the optimal size of a
16 road safety budget portfolio for the Corporation with a
17 view to minimize the economic and social costs of
18 collisions.

19 In its application, Road Safety, SM.3 at
20 page 12, MPI provides the following:

21 "The Corporation acknowledges the
22 Board's concerns over the lack of
23 documented evidence to support the
24 current road safety expenditures are
25 optimized to minimize claims and

1 costs, and maximize value to
2 ratepayers. The Corporation has
3 taken a number of steps to address
4 the Board's concerns and to han --
5 enhance overall road safety efforts
6 and outcome -- and outcomes."

7 That is a non-answer to what was ordered
8 by the Board with respect to (f) and(g) of the previous
9 order, which we highlighted.

10 Under cross-examination by Board
11 counsel, the transcript is dated October 22nd, page 189
12 through 191, there was a discussion between Ms.
13 Grammond and Mr. Guimond. And the question was asked:

14 "I guess just to be of maybe some
15 further assistance, if you go to
16 SM.3.5 there's a reference to this
17 part of last year's order. The
18 Corporation says it acknowledges the
19 Board's concern over lack of
20 documented evidence to support the
21 existing portfolio, and then it says
22 it's taken a number of steps to
23 address the concerns, enhance road
24 safety efforts, and so forth. And
25 then it goes through in the next

1 section the changes to the
2 department, strengthening partnership
3 with law enforcement, et cetera, but
4 I don't see anything in here about
5 the idea of this independent review
6 of the budget. So that's the basis
7 of my question."

8 Answer:

9 "Mr. Guimond: Yeah. I think at the
10 end of the day the optimal size of
11 the road safety program has not been
12 answered. We've not been able to
13 determine that at this point."

14 And he goes further:

15 "And so at the end of the day, I
16 believe that we're going to be able
17 to provide the answer next year,
18 assuming that -- that this approach
19 to the loss prevention approach is
20 satisfactory to the Board. I think
21 it's -- it's they -- they weren't
22 able to provide the answer this
23 year."

24 Question:

25 "In your time over the last, I guess,

1 eight (8) months or so as CEO have
2 you formed any view about the size of
3 the existing road safety budget and
4 whether you have any inclinations as
5 to whether we -- it should be changed
6 in -- in a material way?"

7 Answer:

8 "Mr. Guimond: I think what happens
9 is that over time, you know, the
10 budget became what it became. And I
11 think the Regulator asked some good
12 questions about it, and -- and at --
13 and at the end of the day whether
14 it's -- it should be more or less,
15 that's not a construct to be able to
16 answer that question. And that's
17 what I'm trying to do right now, is
18 build a construct for the Regulator,
19 and put road safety under the loss
20 prevention program and then really be
21 able to have a good framework from an
22 expense perspective of return on
23 investment that the Regulator could
24 look at and say, Yeah, that works.
25 That makes sense, or that doesn't

1 make sense. I think it would be very
2 hard to determine what is the right
3 size of a road safety program if you
4 don't tie it to the overall loss
5 prevention program when you can make
6 decisions as to whether the expert is
7 worth it or not."

8 And that -- that, members of the Board,
9 is -- is my overview of where we came from and where --
10 and where we're going. And we're -- here we are with --
11 - with that answer. And as you know Undertaking number
12 6, which is now Exhibit 48, which is the new construct,
13 the loss prevention strategy, and even in submissions
14 that we've heard today, there's some confusion on what
15 that is. Is it a bifurcation of a loss prevention
16 strategy with a stand-alone road safety initiative
17 inside the envelope? We don't know. We have a draft.

18 What has been submitted by -- by Bike
19 Winnipeg, quite frankly, in cross-examination, that
20 this is just kicking the can down the field. There is
21 no reason, we submit, why an independent review of the
22 current road safety portfolio with a view to optimizing
23 it and setting goals for outcomes and minimizing the
24 economic and social costs of collisions could not have
25 been done. And there is no reason why an independent

1 review of the optimal size of a road safety budget
2 portfolio for the Corporation with a view to minimizing
3 the economic and social costs of collisions could not
4 have been done.

5 Now, there are some positives. I'm not
6 all doom and gloom here this morning. MPI has
7 submitted an application that they're acting
8 purportedly on developing a better analytical
9 department and promising to involve Bike Winnipeg and
10 other members of the road safety community in that
11 process.

12 They've also stated they're going to
13 hire road safety managers who will focus on program
14 management and will engage stakeholders, plus analysts
15 for research and program planning and evaluation, hire
16 an outside firm to develop a formal review of road
17 safety priorities and make research of evaluation
18 framework to identify emerging issues that could impact
19 claim on -- claims on a forward-looking basis, and
20 establishing a three (3) year safety strategic plan.

21 These are all good, but the new
22 approach, this reorganization of the road safety, the
23 new construct, Bike Winnipeg would suggest that it's
24 not sound. In fact, you've heard in evidence that it's
25 not done in any other jurisdiction in the coun -- in

1 the country.

2 Now, there's nothing wrong with that.
3 There's nothing wrong with being bold and starting with
4 something new that's never been done. But we would
5 suggest that this isn't rocket science. It's not
6 something that necessitates the reinvention of the
7 wheel -- no pun intended. It's something that can be
8 done and ought to be done.

9 At a very high level -- because,
10 frankly, that's all we can address this -- this new
11 construct on is a very high level because we don't know
12 what's in it. It's a draft. It's -- it's a living
13 document, and where it's going to end up, we don't
14 know.

15 We appreciate that MPI has put the ball
16 firmly in the Board's court. And it's up to you -- you
17 have the pen now to provide some direction on what that
18 new construct will look like. Whether MPI respects
19 that order remains to be seen.

20 Now, the out -- what we've seen today,
21 it's submitted the proposal does not respond to the
22 Board's requests with respect to the optimization of
23 the road safety budget. What is being proposed we
24 don't know, but we would submit it does not enhance
25 road safety programming. It -- it introduces new

1 delays and external barriers to prompt action on road
2 safety.

3 It's not just a question of more money.
4 It's a question of using the resources allocated
5 effectively. And MPI has submitted that it has
6 difficulty measuring the impact of road safety
7 programs, yet it wants to bundle them with other
8 measures in their loss prevention programs so that the
9 whole loss prevention program frankly shows a return on
10 investment. Road safety, much as My Friend from CAA
11 has indicated, ought to be a stand-alone issue.

12 If the goal of this new envelope is a
13 return on investment through the prism of a business
14 case, which is clearly in the language of -- of the new
15 construct, which we submit isn't found in the
16 legislation at all, if the goal of this envelope is a
17 return on investment, the incentive will be to spend
18 more money where it will deliver the maximum return on
19 investment under the whole umbrella. And lost in the
20 fray, maybe the less -- or the more intangible items,
21 the ones harder to item: road safety, as per the
22 evidence of MPI.

23 MPI has stated in its application
24 materials that it has started the process of building a
25 stronger analytical department. It needs to proceed

1 apace to enhance its behaviour modification measurement
2 systems so it can track behavioural change on key road
3 safety issues. That, we submit, is more important than
4 determining the payback in lower claims costs.

5 The benefits of road safety concerns are
6 more than just property damage. Here -- you know, as I
7 said yesterday, it's -- it's -- there's tin and there's
8 skin. And I'll keep this G-rated, so I won't go any
9 further on that. But it has to be more than just
10 property damage. And lost in the fray of a loss
11 prevention strategy, the overwhelming emphasis will be
12 on property damage. And road safety, we submit, should
13 not be dependent on the payback from other loss
14 prevention programs, full stop.

15 I alluded to this a little earlier in my
16 submissions. We've heard that MPI has more legislative
17 scope for developing programs under loss prevention
18 program -- pardon me, under loss prevention and road
19 safety. We submit that there's no basis in current
20 legislation for this position and it doesn't square
21 with the amendments to legislation or the submissions
22 of Minister Swan, as he then was, before the
23 legislative assembly of Manitoba standing committee on
24 Crown corporations on September 30th, 2014.

25 MPI, and we seen it in the language of

1 the proposed draft loss prevention strategy, interprets
2 their mandate in the legislation to reduce claims if
3 there's a good business case. And that's at page 6 of
4 Exhibit 48. The business case criterion is something
5 that they have added; it's not found in the
6 legislation.

7

8

(BRIEF PAUSE)

9

10 MR. CHRISTIAN MONNIN: Making economic
11 decisions respecting the social cost of collisions
12 requires a use of values for human life other than
13 claims costs. And where will that fit in the loss
14 prevention plan? We don't know. Similarly, there's a
15 social cost of serious injury that should be optimized,
16 that should be used in optimized cost benefit, but
17 again, where -- where is that in -- in the loss
18 prevention plan?

19

Equally concerning about this new
20 construct are the three (3) challenges identified at
21 the end of that document which peremptorily MPI's, in -
22 - in our submission, is saying, Well, the data's not
23 good, it's hard to measure. Right at the outset
24 they're saying, We're probably not going to be able to
25 do this. And that's -- that's far different than the

1 language you find in the application, which is
2 definitive, which is concrete and saying, This is what
3 we're doing, here's the data we're collecting, we're
4 leveraging that data. You get to a new construct, and
5 there's a lot of grey in there.

6

7

(BRIEF PAUSE)

8

9 MR. CHRISTIAN MONNIN: Now, I come back
10 to -- to the scope of intervention of Bike Winnipeg.
11 And again, I have to stress, how do you critically
12 evaluate something in a vacuum? And -- and I -- I
13 don't want to be glib, but going through the history of
14 -- of the evolution of the road safety initiative, it
15 makes me sometimes think of the Bill Murray movie
16 "Groundhog Day." You're coming back on a yearly basis
17 and you're at the same place on something that, again,
18 the measures are out there.

19 You can have an independent review of
20 the road safety portfolio. That can be done. It
21 doesn't need to be a new construct. You don't need to
22 reinvent the wheel.

23 Now, in addition to what we suggest
24 ought to be done, which is found in (f) and (g) at page
25 51 of 62, 151 -- of Order 151/'13, we would submit that

1 MPI will -- needs to add resources to build successful
2 road safety initiatives. They need to be active in the
3 community on the roads and not sitting in their offices
4 studying.

5 Now, we might hear that spending money
6 won't necessarily improve road safety, that's a
7 possibility, but spending money effectively can. PUB's
8 measures of MPI's performance and road safety loss
9 prevention should not be related to MP -- MPI's
10 expenditures or claim reductions but rather to MPI's
11 results in improving key road and safety measures.
12 That can be done now.

13 MPI's road safety performances measures
14 should be an actual measure of the safety of people on
15 our roads, not property damage. MPI can discount for
16 variables out of their control, like the increasing
17 numbers of cars and the weather, as long as they do so
18 in a transparent way. It's important to note and to
19 stress that MPI, Bike Winnipeg submits, is the only
20 Manitoba entity that receives a direct financial
21 savings from primary prevention initiatives and
22 transportation safety. Therefore, MPI must lead and
23 coordinate all aspects of road trace -- of road
24 transport safety.

25 Manitobans expect MPI to lead,

1 coordinate, and improve road safety in the province.

2 And it's got to be more than -- that polling about, Do
3 you think safe roads are good? I don't know anyone in
4 their right mind who's going to say opposite to that.

5 And built in that -- in that purpose of
6 MPI, it's not purely a financial organization. It has
7 a public purpose. It has an obligation to fulfil that
8 purpose, a public responsibility to be accountable on
9 its progress with regards to road safety, accountable
10 to the PUB.

11 MPI's road safety program needs specific
12 targets, aggressive and creative marketing campaigns,
13 and progressive plans to attain those goals, targets,
14 and outcomes, not a mere schedule of activities.

15 Subject to any questions from the Board,
16 those would be the submissions on behalf of Bike
17 Winnipeg. We thank you for the opportunity to be here.
18 We thank MPI for their cooperation throughout the
19 hearing, and My other Learned Friends who have
20 participated. And we will submit our bill of costs in
21 due course in accordance with the rules. Thank you.

22 THE CHAIRPERSON: Thank you very much,
23 Mr. Monnin.

24 Are there any questions from the panel?

25

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Okay. Hearing none,
4 I think we're set to go next. I believe, Mr. Williams,
5 are you going to be giving your --

6 MR. BYRON WILLIAMS: Yes. I'm -- I'm --

7 THE CHAIRPERSON: -- closing comments?

8 MR. BYRON WILLIAMS: Yes. Thank you,
9 Madam Chair, and good morning, members of the panel.
10 I'm hoping to move up --

11 THE CHAIRPERSON: Would you like to --

12 MR. BYRON WILLIAMS: I just wanted to
13 say we -- we have a lengthy PowerPoint, and -- and it's
14 here. The paper versions unfortunately are not. I'm
15 told that it'll probably be an hour and a half till
16 they're ready.

17 So I'm totally -- if the Board wishes to
18 proceed right now, we're happy to -- to work off the
19 electronic copy and -- and take a -- a break at lunch.
20 Or, if you prefer to -- to come back early from lunch,
21 we're totally at your beck and call. And I do
22 apologize for the inconvenience. Apparently blue is a
23 very hard colour to -- to print.

24 THE CHAIRPERSON: Okay. Thank you, Mr.
25 Williams. I'll just confer with the panel.

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Can we just take
4 about a five (5) minute break? And Mr. Gosselin's
5 going to check to see if we can maybe print it out or
6 see where -- where we're at or whether we have lunch
7 coming in. Okay. And we'll get back to you in about
8 three (3) to five (5) minutes.

9

10 --- Upon recessing at 11:07 a.m.

11 --- Upon resuming at 11:14 a.m.

12

13 THE CHAIRPERSON: Okay. I think we've
14 all got our presentations downloaded now. And, Mr.
15 Williams, we're looking forward to your "Eccentric
16 Journey." Thank you.

17

18 CLOSING COMMENTS BY CAC (MANITOBA):

19 MR. BYRON WILLIAMS: I think by very
20 definition, all my journeys are somewhat eccentric. I
21 did Google it last night to -- to make sure that it
22 could be used as kind of a -- a proxy for the word
23 'erratic', and I'm -- I'm told I can.

24 Thank you, and I do apologize for the --
25 for the delay. I -- the logistical issues are all my -

1 - my responsibility. And I certainly wish to
2 acknowledge our client, Ms. Desorcy, whose -- who was
3 up with me late last night working on recommendations,
4 and up even earlier this morning doing the same.

5 Madam Chair and -- and members of the
6 panel, we chose this name quite consciously. This has
7 been a very difficult and unusual hearing for our
8 client. I think we've all -- it's been a -- a bit of a
9 different vibe in this room. In a few moments
10 we'll talk about some conflicting signals. And one (1)
11 of the challenges for our client in this hearing has
12 been the fact that, in -- in her view, there are some
13 signals suggesting rates should go one (1) way, and
14 there are some signals suggesting rates should go the
15 other end. And it's been a erratic and eccentric
16 journey with many lessons learned about some of the
17 keystone initiatives of Manitoba Public Insurance. And
18 we'll -- and we'll spend a bit of time on that as well.

19 Like our friends at CMMG and CAA, the
20 Consumer's Association has been appearing at these
21 hearings, as well as at other regulatory hearings
22 before this Board, for over two (2) decades. I'm not
23 sure if Ms. Kalinowsky or I go back farther before this
24 tribunal, but she has aged much better than -- than I
25 have.

1 CAC (Manitoba) is always -- is informed
2 by the eight (8) great consumer principles or rights.
3 In this hearing, four (4) of the key ones that they
4 have brought to my attention are the right to be
5 informed, the right to choose, the right to be heard,
6 and the right to consumer education. Working off those
7 principles, CAC develops its position. It develops its
8 position based upon day-to-day contact with consumers.
9 It develops its position based upon work with focus
10 groups. And, ultimately, the ultimate position is
11 through the CAC Board, as directed to me through Ms.
12 Desorcy.

13 The focus of the Board and of the focus
14 groups this year was on four (4) issues:

15 Efficiency expectations. Trying to get
16 a sense from the Board and -- and from -- from the
17 public in terms of the relationship between rate
18 increases and inflation.

19 The value of road safety investments.
20 As you've heard from our friends at Bike -- Bikes
21 Winnipeg (sic) as well as CAA.

22 And also risk tolerance and the RSR.

23 And some of these questions, in
24 particular risk tolerance, those are questions that
25 tend to come before our focus groups every year. And

1 it certainly made its appearance this year.

2 The core themes from the CAC Board,
3 really they call Missouri "The Show Me State," it conc
4 -- Manitoba, based upon the advice of my clients, is
5 the Show Me Province. They place a high priority on
6 MPI demonstrating good value for money. They want the
7 proposed rate application to be transparent. They want
8 a demonstration of accountability from the Corporation.
9 They insist upon visible fiscal responsibility, and
10 they want it to be evidence based, or based upon good
11 precedents whether within MPI or other jurisdictions,
12 whether that's on the RSR, whether that's on road
13 safety, whether it's on any of the business cases in
14 which MPI chooses to invest in information technology
15 expenditures.

16 My client hastens to add, and sometimes
17 I don't do as good of a job of articulating this point,
18 that from the perspective of the CAC Board, cost
19 effectiveness and good value also involves good service
20 for victims, and cost effective road safety programs
21 that reduce both the social and economic costs of
22 accidents. And our client reminds me, as I think most
23 -- we can take judicial notice of, that pensioners,
24 wage earners feel very lucky if they're getting a -- an
25 increase at the rate of inflation. So for people in

1 tough times, a 3.5 percent increase is a lot.

2 The core questions our clients asked
3 ourselves -- asked -- our client asked itself is, a)
4 focussing on the original MPI application, has it
5 demonstrated that a 2.4 percent general rate increase
6 coupled with the 1 percent RSR is just and reasonable?
7 Alternatively, from the very start of this hearing
8 we've been chasing the alternative, has MPI
9 demonstrated that its alternative recommendation of a
10 general rate increase in the range of 3.4 to 3.6
11 percent is just and reasonable? And I'm going to keep
12 you in suspense in terms of where our client's ultimate
13 position is because I want you to join us on this
14 eccentric journey.

15 Last week Chairperson Gosselin asked a
16 question, and I -- and I just -- I just about jumped up
17 and applauded. It really captured a challenge our
18 client was experiencing: the feeling that there wasn't
19 enough information to quantify in dollar terms the rate
20 impact, the rate changes.

21 Now, Chairperson Gosselin asked that in
22 the context of interest rate forecasts, but my client
23 has -- has been struggling with this application in --
24 throughout -- has been struggling with this application
25 on issues beyond the interest -- interest rate issue.

1 So we've titled this 'Conflicting
2 Signals' because these are some of the things our
3 client is struggling to understand -- it's struggling
4 with. An important premise of this hearing that we all
5 labour under is the fact that MPI has had two (2) bad
6 years. And while we may take issue with its forecast
7 for the current year, they allege that there will be
8 one (1) more, and that's certainly at the back of our
9 client's mind, or perhaps more so than that.

10 But our client has expressed a great
11 deal of frustration to me about a lack of clarity about
12 what is really driving these inferior results, these
13 rate pressures. There's been various themes kicked
14 around, some by MPI, some by others: A bad winter? Or
15 is it the trend of materially increasing operating
16 costs, particularly as they relate to IT? Is it risk
17 taking related to the asset liability mismatch? Is it
18 challenges in managing PIPP's -- PIPP claim duration?
19 What about all these reserving issues, and what's going
20 on with these reserving issues and reserving lags? Is
21 it disruption associated with computer implementation
22 issues? Is it short or long term trends in collision
23 severity? Is it a failure to manage collision
24 estimates? Is it investment income uncertainty? Is it
25 missed opportunities in road safety investments? Or,

1 as my client suspects and would submit, they're all in
2 there. This is not an easy narrative, and that's one
3 of the challenges that our client is struggling with.

4 And another important submission, from
5 our client's perspective, is what they consider to be a
6 failure by Manitoba Public Insurance to listen to this
7 Board's advice about benchmarking and cost control.
8 And you heard My Friend, Me. Monnin, speak in terms of
9 road safety and Groundhog Day. Well, there might be a
10 bit of benchmarking groundhog -- hog days going on --
11 along -- around, as well.

12 So what is the leal criteria that CAC
13 (Manitoba) and this Board are obliged to apply? Here's
14 the test set out by the Board. And I'll -- I'll just
15 note that I've -- I've put it in the traditional order
16 but we're actually going to address bullet number 2,
17 prudence and necess -- necessity of actual and
18 projected costs first, and then come to forecasts. And
19 then the third major issue that our client will address
20 is the reasonable revenue needs of an applicant
21 including its reserves.

22 So in -- in order, we'll focus on the
23 management of costs and good management practices
24 overall, secondly forecast reliability, and thirdly on
25 the reserving issue.

1 We note we invited Manitoba Public
2 Insurance at the start of this hearing to endorse --
3 endorse Board Order 98/'14 and, in particular, the jor
4 -- Board's jurisdiction to make determinations in terms
5 of the prudence and necessity of proposed and actual
6 expenditures. And, as we're aware, MPI has declined.

7 We'll canvass a number of issues with
8 regard to prudence and necessity, but there are two (2)
9 key themes. The first is we've heard a lot about MPI
10 over the past few years upgrading the roof in terms of
11 information technology, putting on some shingles, some
12 bells, some whistles. The question our client asks --
13 poses is: In the course of upgrading its information
14 technology roof, has MPI inadvertently neglected its
15 core foundation of claims management and cost control?

16 And secondly, again going to the
17 prudence and reasonableness of MPI's management of
18 risks and costs, has MPI inadvertently exposed Basic
19 ratepayers to inordinate risks by betting on the asset
20 liability duration mismatch?

21 Although it's clear that Ms. Menzies is
22 the more technical -- technically orientated person of
23 our team, I have not often been accused of being a
24 Luddite, and my client is certainly not one. And so
25 our client starts from the premise, when we talk about

1 information technology, that all modern organizations
2 must invest. But the questions our client asks: Are
3 MPI's investments delivering as promised? Are the core
4 strengths of MPI, including its people, being neglected
5 in the rush to information technology solutions? Are
6 the cost containment benchmarks necessary to provide
7 meaningful efficiencies being put in place? And is
8 there a disconnect?

9 If you go back and read through val --
10 "Value for Manitobans", is there a disconnect between
11 what MPI claims in that document and the evidence in
12 this hearing? And our client says indeed there is.

13 Diana, if I could -- I don't know if I
14 could get you to pull up PUB/MPI 1-74(c), the
15 attachment.

16

17 (BRIEF PAUSE)

18

19 MR. BYRON WILLIAMS: I just want to
20 focus on the top line here. These are the corporate
21 information technology costs. And there's a dramatic
22 story told. You can see, going from '09/'10, just
23 focussing on the top line, to 2013/'14, there's roughly
24 a \$27 million increase in IT costs, compounded annual
25 growth of almost 18 percent.

1 We were somewhat surprised in cross-
2 examination when MIP suggested that growth had really
3 moderated because if you look from '13/'14 up to
4 '18/'19, there's another \$23 million there. Because
5 it's on a bigger base, the compound annual growth rate
6 is 7 percent but still very substantial, from our
7 client's perspective.

8 Thank you, Diana. So the question is
9 today, yesterday, tomorrow: Are we getting value for
10 that expenditure? Are we getting the claims control,
11 the cost control efficiencies that such a significant
12 and dramatic increase would suggest? We can move to
13 the next slide.

14 There you just see a reiteration of my
15 going through the table. The next slide, please.
16 What's interesting about that table, of course, we had
17 always understood that it captured all the corporate IT
18 costs, but it doesn't. For example, as we understand
19 through our discussion with Ms. Reichert in MPI Exhibit
20 64, there's roughly 3.5 million that's not in that
21 table that's associated -- associated with the Mitchell
22 product which is going to be purchased for body repair
23 shops. Now, I don't think that figure comes online
24 until about 2018/'19, but that's information that we
25 had not understood which might make that growth rate of

1 7 percent look a -- a little higher.

2 A critical question our client has been
3 asking, and this Board has been asking, relates to the
4 BI3 initiative. And we know that MPI started work on
5 that in twenty (20) -- excuse me, 2005. This -- it was
6 brought into service on or about September 2010 and is
7 functioning today. Like My Friend Mr. Monnin, Me.
8 Monnin, I do want to direct your attention to what the
9 Board said last year about BI3.

10 It expressed the concern that the
11 Corporation does not have a cost containment framework
12 in place to the same extent as it does a service
13 commitment framework. The Manitoba Public Utilities
14 Board expressed an expectation based upon assertions by
15 MPI that BI3 would bring productivity improvements to
16 MPI with a view to reducing, legitimately, claimants'
17 disability durations and optimizing the recovery time.
18 And the Board in this second bullet is expressing an
19 interest, the importance of cost containment
20 benchmarks, Let's get those benchmarks in place, and
21 asking where they were. A similar question to what my
22 client has been asking for at least -- well, for a
23 number of years.

24 So what is the promise of BI3? And we
25 urge you to read the prefiled evidence of Mr. Guimond,

1 as well as "Value for Manitobans." I think page 23
2 comes to mind. Here's the promise is his pre -- in the
3 CEO's prefiled testimo -- testimony:

4 "The Corporation has done many things
5 to ensure that its biggest expense is
6 managed with state-of-the-art
7 systems. The very aggressive BP,
8 business process, review project,
9 that was began in 2005 and was
10 completed in 2013, was instrumental
11 in allowing the Corporation to
12 control claims costs."

13 Our particular focus is on BI3. What's
14 its success in controlling claims costs?

15 If we turn to the next slide, this is
16 what MPI set out in "Value for Manitobans." Increasing
17 consistency in claims handling between case managers.
18 Providing staff with tools such as disability duration
19 guidelines. Leading to risk reduction to be
20 accomplished by reducing claims leakage over time.
21 That's the promise of "Value for Manitobans."

22 So what is the evidence of this hearing?
23 In our client's respectful submission, that promise has
24 not been fulfilled. In fact, the evidence of this
25 hearing has demonstrated, in our client's submission,

1 that the BI3 initiative is not yet achieving its
2 promise. And, indeed, that there is deterioration in
3 the Corporation's performance as compared to pre-BI3
4 benchmarks.

5 So if you think back to the message
6 around these very significant, dramatic growth and
7 information technology cost savings, claim savings,
8 indeed, that's the only way that those expenditures can
9 -- were ge -- let me rephrase that. It's a core
10 element of the justification for these programs. Has
11 BI3 delivered?

12 We put the headline here, "Time of
13 Dislocation and Turnover." I'll admit that the word
14 'dislocation' is mine. The word 'turnover' is that of
15 Mr. Guimond dating back to our conversation of October
16 23rd.

17 So here we have BI3 implemented in
18 September 2010, and we'll get into the details in a
19 moment, but we have the double reserving related to
20 system implementation. Now, that was addressed by
21 November of 2012. And then we had the very material
22 lag in complying with case reserving guidelines
23 confirmed in March 23rd -- 2013, excuse me, going the
24 other way identifying quite significant gaps in
25 reserving. Much more extensive than expected.

1 And I'm -- interestingly, this lag in
2 complying with case reserving guidelines was identified
3 by the actuaries. Good for them. But not through the
4 monthly corporate monitoring, an important point
5 because that's where one would have expected that to be
6 picked up. And we have -- and we -- we have exhibits
7 on the record for this now, ongoing challenges in
8 managing claims leading to longer-than-expected
9 duration of files. Longer than expected as measured
10 against the pre-BI3 benchmark.

11 Mr. Johnston, who I have to apologize
12 because I often forget to put the 'T' in his name --
13 and I'm sorry for that, sir -- has been frank on this
14 issue. His discussion of what they identified by the
15 time of the 2012/'13 actuarial review -- actually, two
16 (2) issues; one (1), a duration issue, claims lasting
17 longer than expected, and one (1) a case reserving
18 issue, a lag in -- in implementing or complying with
19 case reserving guidelines.

20 So under the heading of "BI3, What Have
21 We Learned," we'll focus on the challenging in adhering
22 to the reserving guidelines. And, Mr. Johnston,
23 perhaps the third bullet on this page, explains it to -
24 - the best. There appear to be deviations from
25 existing reserving guidelines on active injury claims

1 over the last three (3) fiscal years, and still in --
2 affecting claims from older loss years, and having some
3 significant impacts there.

4 And interestingly and quite
5 surprisingly, as part of the PIPP reserve review
6 undertaken the older years, 1994 to 2003, case reserves
7 for some of those years were significantly increased,
8 something which was not expected. So there you see
9 some significant turbulence in the PIPP side of the
10 business.

11 Turbulence that when we get to the
12 claims forecasting issue, our client's submission is
13 that it's -- it's affecting the estimates on the PIPP
14 side, and the dislocation associated with the very
15 significant case reserves is throwing into some doubt
16 the reliability of the PIPP forecast.

17 Madam Chair, we do have our paper copies
18 on at least some. I'd -- we are happy to distribute
19 them at the break, or if you would like them now? I --
20 I'm totally at your...

21 THE CHAIRPERSON: I think we're okay to
22 distribute them at the break, and you can continue with
23 your cro -- with your closing remarks.

24 MR. BYRON WILLIAMS: And, Diana, in a
25 couple of moments I'm going to pull up -- ask you to

1 pull up MPI Exhibit 58, which is Undertaking 44. Not
2 yet though.

3 What else have we learned about BI3? A
4 deterioration in duration performance compared to pre-
5 BI3 benchmarks. And again, Mr. Johnston candidly
6 discusses this. The purpose of BI3 wasn't to meet the
7 old benchmarks. It was to pass -- it was to surpass
8 them. It was to deliver savings for Manitoba
9 ratepayers.

10 And he's saying here so the goal of BI3
11 isn't just to maintain the old benchmarks. But where
12 we -- where MPI is right now effective February or
13 March of 2014, when they put in these benchmarks, is
14 they're starting to track performance relative to
15 benchmarks based on pre-BI3 experience. So the
16 starting point isn't the new uber, U-B-E-R, I think,
17 post-BI3 benchmarks but the pre-BI3 experience.

18 And it's not just not meeting
19 benchmarks, not meeting duration. It's a decline in po
20 -- performance compared to pe -- pre-BI3 benchmarks
21 that's costing money. And here's Mr. Johnston saying,
22 You're paying a lot more money, you know, why are you
23 still paying these claims, et cetera.

24 And, Diana, we probably don't need to go
25 there. A much more detailed explanation of these

1 benchmarks, it's a really good and thoughtful exhibit,
2 is MPI Exhibit 58, the response to Undertaking 54. And
3 it tracks -- it discusses the two (2) financial
4 performance benchmarks put in place. It tracks the
5 subpar performance in terms of meeting benchmarks for
6 the years 2008/'09 through 2013/'14. It also does note
7 some improvement since the benchmarks were put in place
8 in March of 2014. Again, this is measured against a
9 pre-BI3 standard.

10 So our client's conclusions with regard
11 to BI3: And we would note that there is still
12 opportunity for improvement, and we certainly wish MPI
13 the best. But certainly, from our client's
14 perspective, the dislocation and disruption associated
15 with the lag issue has thrown into some doubt the
16 credibility of the case reserves -- excuse me, the
17 credibility of the ultimates for some of the PIPP
18 lines.

19 We certainly identified concerns
20 relating to management systems as well, particular the
21 failure of monthly reporting to identify the material
22 lag issue. And we think MPI's assertions regarding the
23 prudence and reasonableness of its costs are put into
24 question by the challenged experienced in managing
25 duration limits associated with the PIPP claims. And

1 certainly we do not think the Corporation can
2 successfully maintain that the BI3 initiative has
3 demonstrated its ability to control its claims costs.

4 From our client's perspective, there is
5 an ongoing future-looking need for an examination of
6 what is going on with the PIPP reserves; temporary
7 dislocation, ongoing dislocation, what's going on? And
8 certainly, from our client's perspective, MPI has not
9 yet demonstrated value for money with regard to BI3.

10 We asked Manitoba Public Insurance
11 whether the post-operational review suggested seven (7)
12 years out, at least to my understanding, was going to
13 be undertaken by an external party. And we were
14 advised that those are done internally. And you'll see
15 this in our recommendations, but certainly, from our
16 client's perspective, this is a major keystone
17 initiative. It's a keystone initiative that's showing
18 some -- some stress. And our clients certainly would
19 ask the Board in -- in our ultimate recommendations to
20 contemplate whether it's appropriate to recommend an
21 external look at what's going on there.

22 The question we pose on slide 32 is
23 whether MPI is governing itself, whether it is acting
24 in a manner consistent with a Corporation that has lost
25 \$133 million in Basic over the past two (2) years. And

1 we know the truly outstanding work that the Gartner
2 Group does, and Ms. Reichert was kind enough to help me
3 understand it a bit better on November the 5th, I
4 believe. We do know that, as compared to its peers,
5 when we're looking at FTEs as a percentage of the
6 labour force -- and she reminded me, internal and
7 external -- MPI's got a significantly higher percentage
8 who are engaged in information technology. And she
9 also highlighted the fact that it is disproportionately
10 reliant upon external consultants.

11 And as we move to the next slide, and as
12 we contemplate the alleged culture of cost constraint
13 at Manitoba Public Insurance, our client asks
14 ourselves: Are these external consultant costs
15 untouchable?

16 We tracked this information in
17 Information Request CAC 1-55 from this GRA. MPI
18 initially declined to answer it but was compelled to
19 respond. Here we have the external consultants in the
20 '14/'15 year, somewhere between a hundred and a hundred
21 and forty (140) is measured in full-time equivalent,
22 consulting fees, \$30.6 million.

23 And for those who would suggest that MPI
24 might be ramping down its expenditures, it's
25 interesting to compare that to the 2012/'13 year where

1 the actuals were around 18 million. Now, maybe that
2 was an exception, but you see a \$12 million difference
3 in the external consultants' fees measured against
4 those two (2) years. '14/'15 is just slight higher
5 than the '13/'14 years. Here you see Mr. Guimond being
6 kind enough to confirm that point to us.

7 And we've heard talk about -- I forget
8 if the word is a hiring freeze. I forget the -- the
9 term we used for it. But the question that I point --
10 I put to Mr. Guimond, and I see the word "straitened"
11 is not spelled correctly here, but I was asking:

12 "In these tight circumstances, would
13 it be correct to suggest that the
14 budget for external consultants has
15 not changed?"

16 And Mr. Guimond was very emphatic, as he
17 often is. I enjoy that about him. He says, "Yeah, we
18 won't change that budget." And, frankly, that response
19 is difficult for Manitoba consumers to understand.

20 The heading here is not a lot of
21 evidence of cost control. And Ms. Grammond did an
22 outstanding job, as she always does, with the
23 assistance of her advisors, in terms of testing cost
24 control. But just do a simple eyeball test of
25 operating expenses between '13/'14 and '14/'15. In the

1 application, we see a \$5.6 million increase, or 8
2 percent. Now, the -- there -- it sounds like there --
3 there'll be a -- MPI may be tracking somewhat ahead of
4 that, but there we have in the application quite a bit
5 of "inflation", in quotation marks, built into the
6 operating costs in a very difficult year, according to
7 the MPI projections.

8 Now, My Friend Ms. Reichert likes to
9 make a great deal and to distinguish between normal and
10 other operating expenses. I can assure her our client
11 does not distinguish. Our client looks at what's
12 coming out of her or his pocket, and especially when
13 the Corporation cannot demonstrate value for money.

14 Madam Chair, I'm going to turn to the
15 collision repair industry, and this is a lengthy
16 section. I am -- I am happy to go through it, or if
17 this a -- I'm not trying to sh -- it's just a -- a kind
18 of -- it's probably a twenty-five (25) minute section
19 so maybe --

20 THE CHAIRPERSON: This would probably
21 be a good time to have lunch and maybe distribute your
22 PowerPoint presentation.

23 MR. BYRON WILLIAMS: Thank you.

24 THE CHAIRPERSON: Then we'll come back
25 in an hour. Thank you.

1 --- Upon recessing at 11:51 a.m.

2 --- Upon resuming at 12:59 p.m.

3

4 THE CHAIRPERSON: Welcome back. I
5 believe Mr. Williams will continue with his closing
6 arguments.

7 MR. BYRON WILLIAMS: Apparently I was
8 on page 37. Thank you, Diana. And we're moving out of
9 BI3 and into collision, and doing so quite consciously.
10 It's obviously -- oh, excuse me, Madam Chair. Ms.
11 Menzies reminds me we have some exhibits.

12 THE CHAIRPERSON: My apologies. Would
13 you like to enter the exhibits into the record?

14 MR. BYRON WILLIAMS: I would like her
15 to.

16 MS. MEGHAN MENZIES: Good aft -- good
17 afternoon. So the first exhibit that we'll be
18 introducing is CAC-21, and that will be CAC
19 (Manitoba)'s recommendations. And I believe that that
20 was distributed electronically, but we'll distribute
21 hard copies in a moment.

22

23 --- EXHIBIT NO. CAC-21: CAC (Manitoba)'s
24 recommendations

25

1 MS. MEGHAN MENZIES: And then CAC
2 Exhibit 22 is Undertaking number 59.

3

4 --- EXHIBIT NO. CAC-22: Response to Undertaking 59

5

6 MS. MEGHAN MENZIES: And that was also
7 emailed out this -- this morning, along with CAC-23 --
8 or Exhibit 23, my apologies, and that is Undertaking
9 number 60, which was also distributed electronically
10 this morning. Thank you.

11

12 --- EXHIBIT NO. CAC-23: Response to Undertaking 60

13

14 THE CHAIRPERSON: Thank you, Ms.
15 Menzies.

16 Mr. Williams...?

17 MR. BYRON WILLIAMS: Yes. And I note
18 the -- the undertakings came in late, which was again
19 my responsibility. And I appreciate the consideration
20 of MPI in consenting to their introduction.

21 Just in terms of the discussion in this
22 hearing on the collision repair industry, obviously
23 it's a major strategic focus for the Corporation moving
24 out over the next five (5) or six (6) years. It's
25 attracted out client's attention for a couple of

1 reasons.

2 One is because of course, while there's
3 an opportunity there, there's also a risk. And -- and
4 especially if we -- the direction in the Corporation
5 appears to be moving in a -- a fairly significant
6 change in ter -- difference in terms of how estimating
7 is done.

8 And so there's a risk for consumers, and
9 also learning from the BI3 experience, or our clients
10 hope we are, also an opportunity in terms of cost
11 effectiveness to be developing cost control benchmarks
12 at an earlier stage than perhaps were rolled out with
13 BI3.

14 So in -- in the discussion which follows
15 for the next few pages, we're going to talk a little
16 bit, just contextually, about what we know about this
17 industry. And then also we're going to move then to
18 estimators both within MPI and within the collision
19 repair industry and -- and some context in terms of
20 them. And then we'll move to the subject of
21 benchmarks.

22 The MNP report is obviously a 2012
23 document. It's the most current information we have.
24 What it underscores right off the start is the heavy
25 reliance of this industry upon MPI. They're not the

1 only -- MPI's not the only game in town, but it's
2 apparently about 85 percent of the only game in town.

3 And Ms. Reichert and I tried to figure
4 this out, but I've pulled the quote right from MNP,
5 page 18. It looks like there's been a general trend to
6 increasing work with MPI. I'm sure she'll check my
7 quote to make sure that I've presented that properly.

8 We've seen over the -- the past few
9 years some relative improvement in the financial
10 situation of this industry. And I should know how to
11 pronounce EBITDA but I'm going to use the acro -- or
12 just the spelling. We see some growth between 2009 and
13 2011, and you see the average is 10.8 percent of
14 revenue in 2011.

15 But there is obviously not a class
16 distinction, but a economy of scale distinction in this
17 industry. And again I think the sample for smaller
18 shops is relatively small. But you see that those with
19 revenues of less than a million dollars are -- are
20 clearly not performing as well on average as the bigger
21 shops.

22 And if we move to the next slide,
23 there's a bit more information there. There you see
24 the contrast in the industry with the -- those with
25 revenues of more than 2 million in 2011 having an

1 EBITDA -- EBITDA -- of more than 13 percent. Now,
2 there's also -- I put in, perhaps for Ms. Proven or
3 others, the regional breakdown, and there's a -- MNP at
4 page 60 has some interesting information on that.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: Whether it's our -
9 - in our discussion of deductibles or otherwise, we
10 also see captured on slide 40 important developments in
11 -- in terms of the complexity of vehicle repairs,
12 suggesting again that this will work to the relative
13 advantage of larger shops qualified to perform these
14 repairs. And again, portending challenges for the
15 smaller revenue shops.

16 A number of panel members have captured
17 this in their discussions with MPI. Notwithstanding
18 the increasingly complex vehicles, there is a --
19 training activity is -- is relatively low in this
20 industry which certainly raises some risks moving
21 ahead. And we elaborate more on that on slide 41.

22 We've seen concerns raised by the
23 industry in terms of the lack of formalized training in
24 the apprenticeship technical training, and certainly
25 Mr. Guimond wasn't able to update us in terms of

1 relative improvements. And then we see the relatively
2 low level of training for some of those core positions:
3 journeypersons, whether body repair persons or
4 painters.

5 Interestingly, as well, going to the
6 bottom bullet on slide 41 in terms of the training
7 gaps. To -- to identify the two (2) key ones, one (1)
8 was in estimating and the other was in lean production
9 management. And certainly as the Corporation looks to
10 become more reliant upon the industry for estimating,
11 there's certainly not any red flags raised yet but
12 there's a challenge or risk that presents.

13 We're turning now on slide 42 to what do
14 we know about estimators and estimating, and we'll
15 start with MPI. And it was interesting for our client
16 to learn the relatively high qualifications for the
17 estimators and journeypersons, which -- and certainly
18 relatively higher training than MPI adjustors.

19 And Ms. Reichert, on slide 43 at
20 transcript page 1,251, underscored the importance, even
21 though they're working inputting information to the
22 computer, the importance of having experienced
23 estimators, skilled estimators, who know exactly what
24 to look for. And so that was a point she made to us.

25 Mr. Guimond was frank in terms of the

1 current claims control at slide 44, and highlighting
2 that the key process they have in terms of managing
3 leakage in terms of estimating is the visit to the
4 service centre. So that's the key mechanism now. And
5 so certainly from our client's perspective, without
6 offering judgment on where the Corporation wishes to
7 go, this is the risk factor if you're moving away from
8 this key control mechanism, a mechanism that's in your
9 hand. That raises some -- certainly one would want to
10 be aware of the risks associated with that.

11 At slide 45 we talked a little bit about
12 estimators in the bodily injury industry. And it --
13 it's interesting, MNP page 37 actually has a comparison
14 of the relative salary scales. And certainly we don't
15 judge individuals solely by their salaries, but this is
16 a relatively poorly paid position in the industry.
17 And, interestingly, it's the one (1) on slide -- page
18 37 where you actually see a decline in reported average
19 salaries in -- in that time period between 2009 and
20 2012.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: So we get, at
25 slide 46, to the criticism by the industry of MPI's

1 estimators. So Mr. Guimond certainly provided his
2 perspective on this. So on the one (1) hand, slide 46
3 you've got the industry criticizing MPI estimators,
4 often inaccurate, suggesting that policies and
5 procedures are not clearly communicated and not
6 followed consistently by all claims centres. Perhaps
7 echoes of what we've heard to some degree with BI3.

8 But when we turn to slide 47 you see the
9 other element of this tension. You see the criticism
10 of MPI adjusters and estimators being focussed on cost
11 containment with little consideration for customer
12 satisfaction. And so from our client's perspective
13 it's a -- a bit of a diff -- a difficult tension to
14 understand. And our clients are certainly -- want
15 clients and customers to be satisfied. But they also
16 see this -- certainly there's a perception from the
17 repair industry that the estimators are very focussed
18 on cost containment. And -- and that, from our
19 client's perspective, is valuable and something they
20 have some concerns about losing.

21 Directionally, MPI has given you its
22 advice that this system, this key control mechanism, is
23 not sustainable in the long -- long run. And I've got
24 -- we'll stay on page 48 for a second. Mr. Guimond,
25 and I've highlighted -- emph -- emphasized his words at

1 the start, he doesn't think the current system is
2 doable on the long run. And on slide 49, he talks
3 about a much heavier reliance upon analytics and data,
4 and what he calls 'management by exception'. And
5 certainly, with no pejorative connotations, a -- a --
6 really a radical transformation from the existing
7 mechanism of claims control.

8 And so in our recommendations our
9 clients are -- are seeking some insight into what's the
10 data. What's the track record? What's the empirical
11 work giving insight into the existing status quo
12 measure of claims control, hands on, grizzled -- or
13 perhaps not grizzled, but journeywoman or journeyman
14 versus the new-fangled stuff? And not -- again, what's
15 the data that's driving this decision? And certainly
16 in our client's recommendations we'll be seeking
17 insight into that and -- and hope -- hoping that MPI
18 will be reported -- directed to report back.

19 At page 50, perhaps I was feeling a bit
20 punch drunk. Instead of asking what we have learned
21 about the estimator, I asked what we learned about
22 Chairperson Gosselin. And he's not the only one (1) of
23 you folks who's has asked a good question. But this
24 was a good one (1). And it's an experience we can all
25 relate to. Walking in. They open up your car. You

1 think it's four hundred (400). You come back. You
2 start crying because it's twelve hundred (1,200).

3 And he put that question to Mr. Guimond.
4 And Mr. Guimond had an interesting response, and I --
5 I've given you the reference to it. But that's the --
6 that is certainly the risk that our client identifies
7 without offering judgment. It appears that MPI is
8 giving up significant control. It -- it's seeking
9 another tool to -- another mechanism to achieve that
10 end, and that may be ultimately the preferable
11 mechanism, but our client is looking for more than
12 assertions that this works.

13 We spoke about benchmarking with regard
14 to BI3 and flagged our concern that cost control
15 measures and benchmarks were not in place soon enough.
16 Here we have Board Order 151/'13, again looking for key
17 performance indicators with regard to physical damage
18 benchmarks. And Ms. Reichert is reporting at the
19 bottom of this page that those are still in progress.
20 And I think her advice to me because -- is that,
21 because of the great transition that the Corporation is
22 undergoing, it's not -- it's not the time.

23 What we find interesting is at the heart
24 of the MNP report there's a tremendous emphasis on
25 benchmarks and a tremendous emphasis on the

1 opportunities that may come from benchpar -- marking as
2 a mechanism to control overall claims cost and to
3 reward productivity. And we find that insightful both
4 in the collision -- the physical damage context.

5 But within the broader context of MPI
6 here's MNP, a well-regarded, insightful firm, talking
7 about the opportunities from these benchmarks. And we
8 draw an analogy not just to collisions, but to
9 elsewhere within the Corporation. The same advice that
10 the Public Utilities Board and CAC and others are
11 providing to MPI, we see echoed by MNP.

12 Our client has identified risk factors
13 associated with PDR, as the acronym goes, and also the
14 importance of early claims control benchmarking
15 initiatives. But our client is agnostic on the
16 prudence and reasonableness of this. And we do flag
17 for the Corpora -- or for the Board's attention MNP's
18 advice that at -- at least on low-risk claims,
19 undefined to our knowledge, there are opportunities to
20 increase efficiency. And again, there's this emphasis
21 on performance measures.

22 An interesting piece of advice from MNP
23 at page 80 was, if you'll recall during the cross-
24 examination, we went through the estimated hours in
25 terms of estimating, form filling out, et cetera, that

1 MNP had gathered in its surveys. But MNP's advice was
2 that was pretty global and that if MP -- Manitoba
3 Public Insurance was walking down this path, it would
4 be important to go back and validate the baseline for
5 each activity: estimating, et cetera.

6 And you can see the emphasis that MNP
7 placed upon that the sec -- the -- the first full
8 bullet on slide 54, line 4, "Validate the baseline for
9 each activity," and then again a bit farther down the
10 page, "Average time once further validated."

11 And at page 55 we've set out a fairly
12 humorous exchange I had with Mr. Guimond, who I said
13 has -- I -- has grown upon me for his bluntness if --
14 if nothing else.

15 And I went to him and I said, You recall
16 that MNP said, Go back and validate the baseline for
17 each activity. And he said, Yes. And I -- and then I
18 go on to say, And I take it this was done? No.
19 Optimistically, I -- I went, Is it in the process of
20 being done, sir? And -- and directly he just said, No.
21 And I -- I added the emphasis there.

22 And so it may have been a
23 miscommunication, it may have been a misunderstanding,
24 but we think that's important advice from MNP: Don't
25 rush in. Go back and get some solid baselines. And

1 certainly we're seeking guidance and confirmation from
2 MPI that that is being done.

3 Where are we on cost containment
4 benchmarks? I'll let you read this discussion at your
5 leisure, but Ms. Reichert is telling me it's at least a
6 year away on slide 56. Mr. Guimond, at slide 57, left
7 me feeling a little bit better when he indicated that
8 they were in the process of de -- developing a
9 preliminary list of key performance indicators.

10 And -- and certainly from our client's
11 expect -- that's something that we'll be asking in our
12 recommendations. From our client's perspective, that's
13 important information to get from MPI sooner rather
14 than later, and certainly hopefully to learn from the
15 BI3 experience.

16 Slides 58 and 59, just to clarify where
17 we are, originally we were told that there were
18 projected annual cost savings of 13 million. Slide 59
19 tells us that that is -- is -- has been reduced by
20 about 5 million annually, in particular related to
21 licensing agreements, as we understand it, at least
22 3.65 million of the change related to the software
23 being put into the body shops.

24 Our client is also aware and flagged
25 this for the Board's attention that there is -- there's

1 important new information about this project that will
2 become available in January of 2015. So from our
3 client's perspective, and certainly they'll be
4 recommending this, it is important to get an update on
5 what, if any, changes to the capital estimates flow
6 from the -- the January update.

7 So what has our client learned about
8 PDR? Certainly, there's potential opportunities
9 flagged both by MNP, the industry, and MPI. But our
10 client also senses significant vulnerabilities, really
11 re-envisioning of property damage claims control
12 mechanisms.

13 And maybe it's the wave of the future,
14 and hopefully it is, and maybe it's not. But that's
15 something that, from our client's perspective, has to
16 be watched closely. And they would certainly expect to
17 see more than assertions from MPI in terms of -- of the
18 empirical support for this fairly fundamental move.

19 And we just simply again link back to
20 BI3, which again the jury's still out on. But times of
21 dramatic business tranfor -- transformation do have
22 unintended at times, and unwelcome, legacies. And
23 certainly our clients would like to avoid that with
24 regard to the PDR.

25 Just a few questions, and these are more

1 questions that I think our client will pursue next
2 year. We're trying to understand what MNP describes as
3 the low-risk -- delegation of the low-risk claims to
4 the body shop as compared to MPI's management by
5 exception.

6 And certainly we've already raised the
7 question about what we see as a muted enthusiasm by MP
8 -- MPI for cost control benchmarks.

9 Going to slide 62, our client notes an
10 interesting discussion in the course of this hearing,
11 and My Learned Friend, Ms. Grammond, raised it again
12 yesterday. And there's a dialogue, whether it's about
13 deductibles or otherwise, about trying to -- to keep
14 the smaller shops around. And that certainly in part
15 driven obviously by the regional interests and regional
16 concerns, and our -- and our clients are aware of that.

17 They're not confident that they fully
18 understand the tradeoffs. They don't know and don't
19 understand whether these small shops, whether it's less
20 than five hundred thousand (500,000) in revenues or
21 less than a million, are truly sustainable. And so
22 that's a discussion that My Friend, Ms. Grammond, began
23 with Mr. Guimond yesterday.

24 And -- and certainly our client will be
25 monitoring this and -- and certainly critically

1 examining whether MPI can expect to intervene in the
2 market in a way to sustain these businesses, whether
3 it's trying to. We're -- we're still trying to
4 understand that. So that's an issue that our client
5 flags for fur -- future discussion.

6

7

(BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: A core efficiency
10 issue our clients raise, and they don't have an opinion
11 on nor is there a lot of evidence in -- in this
12 hearing, but here you see Mr. Guimond talking about
13 BI3. A lot of -- in the first bullet. A lot of
14 changes real fast with a lot of turnover.

15 And our client asked in this hearing,
16 What are these times of rapid change, profound change,
17 doing to MPI morale and staff productivity? And our
18 client doesn't have an answer or information for you,
19 and certainly if you look to the second quarter report
20 you'll see that the most recent employee satisfaction
21 survey dates back to 2011/'12.

22 Now, I think MPI has got one underway
23 for this quarter, but certainly our client is very
24 interested and --and would have expected MPI to be
25 serving its employees about their response to the

1 significant changes in -- in the PIPP side, and their
2 response to the change in PDR.

3 And if you go to value for Manitobans,
4 you'll see an allegation of increased employee
5 satisfaction related to bodily injury improvement
6 initiative. So our client thought, Great, there'll be
7 some survey data that we can -- we can look at and see
8 what if any impact it -- that initiative has had on
9 productivity and morale, at least as -- as described by
10 the staff.

11 But that -- there wasn't survey data to
12 support that allegation. And Ms. Reichert, as I
13 indicated previously, has indicated that there's been
14 about three (3) years since an employee satisfaction
15 survey was completed. And it wasn't comp -- conducted
16 in 2013/'14.

17 So when you look at the significant --
18 very significant changes that the Corporation has under
19 -- undergone, we've flagged five (5) of them here,
20 there's not a lot of data or insight that we have in
21 terms of what that's doing for productivity and morale,
22 and that's certainly -- our clients think -- and are
23 anxious to see the human equation and the productivity
24 consequence of times of significant transformation.

25 Rather cheekily we ask whether the new

1 legislative mandate and the advice of Mavis Johnson has
2 triggered an energetic response from the Corporation in
3 terms of road safety. And my client, whenever we talk
4 about the new mandate, the new -- the new legislation,
5 my client all -- always cautions me. We -- we should
6 be making sure that MPI is doing its job, other
7 departments are doing their job.

8 But here's the message that we had from,
9 I guess, former Minister Swan now. With the change in
10 legislation his expectation was that this will enable
11 MPI to be more proactive in helping to prevent
12 accidents that have a cost for all. Our client -- it's
13 slide 70 -- will express quite -- oops.

14 THE CHAIRPERSON: Did you want to take
15 a break?

16 MR. BYRON WILLIAMS: I'm fine, but I --
17 I just see some -- I -- I don't know if I'm killing you
18 up there or not.

19 MS. ANITA NEVILLE: We're just
20 concerned about you.

21 THE CHAIRPERSON: We just wondered if
22 you were getting tired.

23 MR. BYRON WILLIAMS: Do I look that
24 bad?

25 THE CHAIRPERSON: You look tired.

1 MR. BYRON WILLIAMS: Oh, no. I'm fine.
2 As -- I'm fine.

3 THE CHAIRPERSON: Okay. Thank you.

4 MR. BYRON WILLIAMS: What I'd recommend
5 is, once we move to -- to -- perhaps in about ten (10)
6 minutes, we'd just take a very -- five (5) minute break
7 and then I'll be -- I'll try and look fresher, but I'm
8 not promising anything.

9 Our client was very pleased last year
10 with the contribution of Ms. Johnson. We thought she
11 brought an insight from another jurisdiction -- we're
12 at slide 70 -- we thought she brought an insight from
13 another jurisdiction. And she had some central
14 messages. Evidence based, integrated road safety
15 endeavours can have a meaningful effect in reducing the
16 tragic social and economic costs of accidents.

17 And she said you can and you have to
18 evaluate the cost effectiveness of road safety
19 programming both economically and socially, looking at
20 programs, looking at it as part of a pro -- portfolio,
21 and as part of a broader integrated approach. Good
22 advice, based upon good success, whether in BC,
23 Alberta, out east. That advice, in our client's view,
24 has been repudiated in this hearing. MPI has, from our
25 client perspective, walked away from what was good,

1 sound advice from Ms. Johnson.

2 And in a way our client has no doubt
3 that MPI will have challenges in justifying the utility
4 of its road safety expenditures. But that doesn't mean
5 that it can't redesign, re-optimize its road safety
6 expenditures to achieve something more. And indeed Ms.
7 Johnson's evidence was that that is what leading-edge
8 jurisdictions in Europe, in Australia, in North America
9 are doing, and not with this false distinction between
10 road safety and loss prevention.

11 Our client notes that one (1) area of
12 priority for Manitoba Public Insurance is driver's ed.
13 And emotively and intuitively we -- we all want
14 driver's ed to work. We do note some -- not
15 distressing, but we do note some sobering information
16 again from the AAA study, which was a thoughtful study.
17 Road safety programs, driver ed programs, there's still
18 some challenges with them. We note that MPI in -- in
19 this case, unlike Oregon, didn't choose to assess whe -
20 - its success rate in terms of collisions, convictions,
21 and suspensions.

22 Also from the AAA study, what it did
23 look at was the pass rate. And it concluded there was
24 no significance difference in the pass rates for
25 Manitoba students versus the non-driver's ed group.

1 And at the second bullet we see one (1) of the concerns
2 flowing from some of the driver's education investments
3 that students do get more confidence and sometimes that
4 raises -- it's a benefit, but it's also a risk to the
5 extent that they overestimate their actual skill
6 levels.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: Madam Chair,
11 that's the road safety bit. And perhaps if I could
12 just stand down for five (5) minutes, and then...

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: Thank you. This
17 is -- this section here starting at page -- slide 74 is
18 the second core element of our prudent and reasonable
19 cost control management section. The first one was the
20 BI3. It's the last section that we'll address in --
21 under prudent and reasonable -- or prudent and
22 necessary cost control.

23

24 And it is our client's submission that
25 MPI has failed to demonstrate that its management of
interest rate risk is prudent and reasonable. And

1 turning to slide 84 -- oh, excuse me.

2

3

(BRIEF PAUSE)

4

5

MR. BYRON WILLIAMS: Turning to slide
6 75 instead of slide 84. Ms. Reichert's made a
7 important statement and suggested that, As an insurance
8 company, I can say that MPI doesn't bet. And as we --
9 the core message of our submissions on the asset
10 liability dur -- duration issue takes issue with that
11 submission by her.

12

Our client suggests that since 2010 it
13 would appear that MPI has had a history of placing
14 losing bets on duration mismatches and interest rate
15 risk. And this evi -- stay here, please, a slide back.
16 This evidence and certainly the evidence almost
17 unsolicited by MPI suggests that this has cost
18 ratepayers a significant sum of money.

19

Our client is suggesting that MPI
20 appears to still be betting on interest rate duration
21 mismatches, notwithstanding the evidence of its CEO,
22 that it does not expect interest rates to rise in the
23 near term. And our client observes, as well, that as
24 compared to the Corporation as a whole, Basic
25 ratepayers are disproportionately exposed to declining

1 interest rate scenario given the longer duration of
2 Basic liabilities.

3 MPI has a very interesting duration
4 matching discussion paper. And there's an observation
5 in that paper that when MPI went to the two (2) year
6 band in 2010 it had the effect of increasing interest
7 rate risk. And our client in Information Request 1-
8 146f asked: What were the factors driving that
9 decision?

10 There were three (3) factors, but among
11 them, as stated in that response, was the expectation
12 that interest rates were forecasted to increase. So
13 that's MPI's evidence. Our client's assertion is that
14 by moving to a two (2) year bandwidth, by taking on
15 that increasing interest rate risk, MPI was betting
16 that interest rates would rise. And interestingly,
17 they were doing so and they were betting without the
18 benefit of the robust financial model that they
19 currently have.

20 And Ms. Reichert, on November the 4th,
21 had used some pretty strong language to describe the
22 consequences of that bet. And there's three (3)
23 bullets that I'll draw to your attention.

24 She points out in the first bullet that
25 this negatively impacted the net income of MPI in those

1 years. And she suggests, if not for the offsetting
2 impact in the second bullet of the excess IBNR, it
3 would have resulted in massive negative positions. Her
4 words, my emphasis added.

5 Again, she points out on this bullet on
6 page -- slide 79 and identifies a significant impact
7 from interest rates not increasing as expected,
8 although it was masked by the release of claims
9 reserves. Not Mr. Williams's conclusions. Unsolicited
10 advice and information from the Corporation.

11 Turning to slide 80, our client's
12 concern is though -- that, while we are using the
13 duration bandwidth and the one (1) year band as a -- a
14 mechanism to mitigate investment risk, it's got to be
15 understood that the Basic program is more exposed. Its
16 liabilities last longer.

17 And I put this question to Mr. Johnston,
18 with a 'T', and the bullet at the bottom of slide 80:
19 It's a fact that the gap is bigger. The mismatch will
20 be bigger.

21 And if one turns to MPI Exhibit 61 -- we
22 don't need to turn there, Diana -- but there you'll see
23 the longer duration of Basic liabilities, nine point
24 eight (9.8) years, almost a full year longer than
25 corporate liabilities.

1 It's a two (2) edged sword. If interest
2 rates go up, MPI is better positioned to take
3 advantage. If interest rates decline, MPI is more at
4 risk. And so that -- a concept of a one (1) year
5 bandwidth, in our client's submission, is not the
6 actual duration mitigation protection for Basic. That
7 represents the Corporation as a whole. And so our
8 client is concerned that Basic is over-exposed.

9 As fatigue set in on November the 4th,
10 I'm not sure if I became increasingly incoherent or
11 not. Ms. Reichert and I had a bit of a discussion
12 about CAC Information Request 323 and CAC-1-146G.

13 And those were important Information
14 Requests from our client's perspective because they
15 present information demonstrating circumstances where
16 MPI has failed, in our client's view, to adhere to the
17 bandwidth guidelines. So if it was two (2), all of a
18 sudden it's not at two (2). Maybe it's two (2) three
19 (3).

20 Those IRs should be read carefully. And
21 so our client is worried about the risk to Basic. They
22 are also flagging the importance of adhering to
23 whatever guidelines or policies are -- are put in
24 place.

25 And certainly in our recommendations,

1 our clients will be recommending that the Public
2 Utilities Board get a report from MPI going into the
3 next General Rate Application in terms of its adherence
4 to these guidelines.

5 I think Ms. Reichert may have
6 misunderstood me in this conversation. She
7 characterized the non-adherence to bandwidth
8 guidelines, at least as I interpret her evidence, as a
9 forecasting issue. That wasn't our client's concern.
10 It's a risk mitigation issue.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: As I advised you
15 at the start, usually our client would start with, Are
16 the forecasts reasonably reliable, but we chose to
17 focus on prudence and reasonableness of expenditures.
18 We are on our eccentric path. We're kind of wondering
19 back to -- to forecasts being reasonably reliable.

20 And there are a number of important core
21 messages that I'm going to highlight on these next two
22 (2) slides, then we'll walk through them in a bit more
23 detail. One (1) is a transparency issue, an
24 accountability issue, and -- and our client has
25 expressed this from the onset of this hearing, that

1 they have not been impressed by the Corporation's
2 approach to describing what it considered to be its
3 best estimate in terms of the required revenue
4 increase.

5 In the second part of this conversation
6 we're going to focus on investment income, and this is
7 one of those areas where there are pressures, both
8 upwards and downwards, in terms of the revenue
9 requirement. Our client will argue, and I think our
10 client will have support in this room, that it's
11 important to use the most current consensus forecast of
12 interest rate risk rather than the more dated and
13 materially changed March 2014 consensus forecast. And
14 all other things being equal, that is likely to put
15 upward pressure on rates.

16 Our client also will express a lack of
17 confidence in the current methodology for forecasting
18 investment income. In our client's submission, it
19 doesn't pass the eyeball test, and we'll come to that
20 in a couple moments.

21 The panel will be aware -- moving to
22 slide 85 -- whether through Ms. Grammond's cross-
23 examination or hopefully through mine that there --
24 with all the noise in PIPP, with all the lag reserves
25 and duration challenges, there is a concern that the

1 ultimates are overstated.

2 Our client also has some lingering
3 uncertainty -- uncertainty relating to the reliability
4 of collision severity estimates, given both the change
5 in forecast methodology and the unusual claims
6 processing challenges in the winter of '13/'14,
7 although that is somewhat muted by the update Mr.
8 Johnston provided in -- in terms of the results from --
9 from September.

10 So those are the four (4), and our
11 client has asked me to start with what she considers to
12 be the opaque approach to the rate guidance being given
13 by the Corporation. Here you see me early in the
14 hearing trying to make sense of Mr. Guimond's evidence
15 saying, Leave aside the RSR, aren't you telling us you
16 need a general rate increase of 3.5 percent? His
17 advice was, No.

18 If you go to the next slide, I'm asking
19 a similar question to Ms. Reichert but I'm getting
20 modestly smarter in my approach. And asking, What's
21 your advice? And she -- you know, she said, 3.4
22 percent, that's desirable.

23 From our client's perspective,
24 ratepayers deserve better. If MPI thinks it needs 3.5
25 percent to break even, tell us. We may differ with MPI

1 on that, but from our client's perspective ratepayers
2 need to know what is in the best judgment of the
3 Corporation, what it needs to break even.

4 I want to turn to interest rate
5 methodology. And I -- I didn't include a citation from
6 last year's decision. But I will say this, our client
7 interpreted the Board's decision last year very
8 different from Manitoba Public Insurance. And for want
9 of a better description, I'm going to describe the
10 interest rate forecasting approach of Manitoba Public
11 Insurance last year as the 'risk averse' forecasting
12 methodology and compare it to the consensus forecasting
13 methodology.

14 Our client interpreted last year's Board
15 order as saying the Board wasn't provided with enough
16 evidence to persuade it that the risk averse scenario
17 was the best estimate approach. Our client interpreted
18 last year's Board order as an invitation to Manitoba
19 Public Insurance, if it felt deeply, profoundly that
20 that was a preferable approach, to bring new evidence
21 supported by an expert. That's certainly how we
22 interpreted that decision.

23 Our client would submit that MPI chose
24 not to take advantage of that opportunity. And so
25 we're left really in the same position as we were last

1 year, in that we don't have an extensive analysis back
2 testing the risk averse scenario over a number of years
3 compared to different solutions, whether they're
4 consensus forecasts, more recent consensus forecasts,
5 or different versions of risk averse.

6 So in our client's submission the Public
7 Utilities Board on this issue is left with an evidence
8 vacuum, a vacuum that MPI chose not to fill. What
9 there does appear to be in this proceeding is at least
10 some consensus, assuming that we can't decide risk
11 averse -- that approach because MPI hasn't done its
12 work. There is, in our client's view, a consensus that
13 the Board should be ur -- using a more current
14 forecast, the -- the most current consensus forecast,
15 given that it is significantly different from the
16 earlier forecast.

17 And that is very consistent with what
18 CAC (Manitoba) has been saying in Centra hearings back
19 to 2009, in Hydro hearings back to 2010. Given the
20 challenges with interest rate forecasting, let's at
21 least start by using the most current data. And
22 obviously the Centra Board orders articulate that
23 common sense approach to interest rate forecasting.

24 And I -- I can't say my client is
25 enthusiastic about the directional implication of that

1 on rate increases, but it's consistent with what CAC
2 has said for half a decade. If there's a current
3 forecast that's materially different employ it. And
4 here we have Mr. Johnston, with a 'T', certainly
5 presenting and agreeing that in this case the more
6 relevant forecast is the more current forecast. At
7 least in the context of interest rates. So in our
8 recommendations, and we'll come to them, whether or not
9 I drag you through them will be your choice. But in
10 our recommendations we certainly have some
11 recommendations in terms of interest rate forecasting.

12 Our client is concerned with the overall
13 investment income forecast, though. And it notes that
14 this issue of the volatility of investment income has
15 been a long-standing issue for the Public Utilities
16 Board. And back in Order 145/'10 the PUB asked MPI to
17 consider the use of five (5) year averaging, both to
18 reduce the annual rate of net income risk and to report
19 back. Now, that approach was not adopted, but our
20 client wants to draw your attention to Volume II,
21 investment income, page 5. Thank you, Diana.

22 And if you work your way to -- to the
23 bottom of that table you'll see, "Total In --
24 Investment Income," and let's start with the column
25 under 2009/'10, MPI at 96.3 million for total, and 84

1 million for Basic. And you'll see in the five (5)
2 years -- the five (5) historical years being from
3 2009/'10 through 2013/'14, the low total investment
4 income being 83 million, the high being one hundred and
5 seventy-two (172). And you'll see for Basic the low
6 allocation being 68 million, the high being 147
7 million.

8 And then if you move to the right,
9 you'll see the forecast year being 2014/'15 and the
10 test year being 2015/'16, and the investment income
11 falls off the map -- off the chart, 34.4 million total,
12 '14/'15, around 59.5 million total, '15/'16. And that,
13 from my client's perspective, raises concerns and
14 doesn't pass the eyeball test.

15 And if we return to slide 93 we note
16 that our client's eyeballs became even more strained
17 when Ms. Grammond, in her cross-examination about the
18 second quarter report, flagged the substantial
19 potential unrealized gains within -- within the
20 corporations at that point in time.

21 And from our -- from our client's
22 perspective, this is a very challenging forecast. The
23 results for MPI could change dramatically even if it
24 returns to the five (5) year average, and that flags
25 for our client two (2) things. One (1) is that those

1 numbers must be looked at with caution in the current
2 application. And -- and, secondly, it begs the
3 question of whether we need to go back and revisit
4 investment income forecasting.

5 I'd encourage Ms. Reichert, with regard
6 to slide 94, to get her calculator out because I did
7 this math late at night, so I -- or early this morning.
8 I think I was pretty solid, but I'm not going to spend
9 a lot of time on it. That'll be my -- it wasn't a five
10 (5) year rolling average, it was a simplistic 3:00 in
11 the morning average, but those are the conclusions we
12 came to.

13 I want to leave investment income, and -
14 - and hopefully the -- the Board has our point, and
15 turn to PIPP. And there's been an extensive cross-
16 examination on PIPP issues. And, frankly, there was a
17 lot of IRs, and also pre-asks. Ms. Grammond did a --
18 with the aid of her video partner, Mr. Pelly, an
19 outstanding job on the 29th. I staggered through the
20 4th and the 5th.

21 But I think the Board, from the interest
22 showed both by Board counsel and CAC counsel, could
23 infer, if it so chooses, that it's difficult to make
24 sense of MPI's evidence with regard to PIPP claims.
25 Just to reiterate, we know that the stresses associated

1 with BI3 have led to a lag issue related to the timely
2 posting of claims reserves in a manner consistent with
3 the guidelines. That's a fact that we know.

4 We know that the stresses associated
5 with BI3 have also led to challenges in managing
6 duration exposure, even compared to pre-BI3 benchmarks.
7 And MPI-58, as I've recommended to you, is a good
8 response that articulates that.

9 Turning to slide 97, we have Mr.
10 Johnston's advice -- and it wouldn't be any different,
11 I trust, if it was Ms. Sherry or Mr. Pelly -- saying if
12 -- if it's -- if -- if nothing else has changed, if
13 it's just the lag issue, then your exposure hasn't
14 really changed. Good commonsense advice.

15 Slide 98. We also know, and I -- I
16 understand Mr. Johnston trying to articulate this. His
17 point seemed to be at least, on transcript page 1,354,
18 that it wasn't just a timing issue. They had the
19 duration issue ongoing.

20 But then when our client turned to MPI
21 Exhibit 59 on the next slide, I hope, here's the
22 Corporation talking about the duration experience and
23 saying that its PIPP claim forecasts have been prepared
24 on the assumption that PIPP claims experience will
25 return to the historical patterns, that they haven't

1 assumed deterioration of the results rel -- relative to
2 benchmarks will continue into the forecast period.

3 And you'll recall in my cross-
4 examination of Mr. Johnston on November the 4th, he
5 also talked about the issue primarily being a timing
6 issue. At least that was our understanding.

7 And is -- at least as I can try to
8 present this, all other things being equal, if case
9 reserves are going up, then the IBNR should be going
10 down. Simplistically put, a dollar into case res --
11 reserves should be a dollar out of IBNR, and the
12 ultimate should be essentially unchanged.

13 What has puzzled our client from the
14 start on this, and it's not assisted by the dialogue in
15 the hearing to date, is that MPI seems to be see --
16 saying that an increase in the case reserves is not
17 bringing down the IBNR, so that its ultimates were
18 wrong. So our client and its advisors continue to be
19 perplexed.

20 And just to take another crack at
21 explaining this, there has been significant development
22 in case reserves which, in our client's view, suggests
23 that the data used to establish loss development
24 factors in recent years is not reflective of
25 experience.

1 Now, our client -- and again, Mr.
2 Johnston and Mr. Cheng are -- are well known in their
3 field, but our client remains perplexed and awaits a
4 better explanation. And our client wonders, going down
5 to the second last bullet, why the data was not
6 restated. And certainly that might have been a
7 different and perhaps a better approach.

8 So from our client's perspective,
9 there's this lingering question mark over the PIPP
10 ultimates with all the noise, and they have yet to be
11 given a satisfactory explanation for where they are.

12 Collision severity, just going to slide
13 103. Our client will just note this, this is a -- a
14 less critical issue from our client's perspective than
15 the -- the PIPP issue. Our client -- our client does
16 note though that the collisions claims forecast is
17 clouded by changes in the forecast methodology, and
18 then trying to disentangle the adverse consequences of
19 a bad whe -- wet -- winter.

20 So those are some factors that -- that
21 led our client to have some doubts about the severity
22 forecast, but thanks to the -- we do note going the
23 other way that there does appear to be additional
24 adverse development in the collision IBNR.

25 Slide 104. I just want to flag the

1 impact of technology rollouts on some of the reserves.
2 Again, this is on the collision side. And we'll move
3 fairly quickly to slide 106.

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: I'm not saying Mr.
8 Johnston is as funny as Mr. Guimond, but I thought this
9 was a pretty funny comment. We were talking about the
10 changes in collisions forecasting methodology, and that
11 there was a change in the approach and the exclusion of
12 the repair growth forecast. And Mr. Johnston simply
13 points out that the year we did that, we had a 10
14 percent severity increase.

15 So our simple point here is that -- so
16 the timing wasn't the greatest. So our simply point
17 here is this is one of the factors that gives us some
18 uncertainty about the collision forecast.

19 I think I've addressed slide 107 and
20 108. The more important slide, from our client's
21 perspective, is 109 because MPI entered this hearing in
22 a flurry, a collision flurry from Mr. Guimond, and he
23 talked about my Byron steel, I think, in Dodge Darts
24 and aluminum in Ford F150s. And our client's initial
25 impression was this kind of doomsday scenario, this big

1 truck of collision severity racing down the track. And
2 that's not to discount the very real long term issues
3 that he identifies. But the Board received a
4 thoughtful undertaking, which provided more guidance on
5 -- on that evidence.

6 And there's a typo on the first line, I
7 think, reflecting a line number. The preliminary
8 analysis, we note, was based on a sample of three (3),
9 not twenty-two (22), vehicles. The preliminary
10 analysis was not a forecast simply indicative of a
11 trend that should be monitored. As we move to the next
12 slide, just to put it into timing context, a
13 significant part of the repair mix, 2020/2021, and with
14 these impacts quite properly not being incorporated
15 into the current forecast.

16 So our client certainly appreciates Mr.
17 Guimond coming to share that information. Our client
18 just doesn't want anyone in this room to be walking
19 away with the sense that this is a pending crisis, not
20 to say that it's not a potential and -- and potentially
21 significant risk out half a decade or so.

22 Our client also knows though something
23 that received less emphasis in at least the oral
24 evidence of Manitoba Public -- Public Insurance,
25 although it appeared in the terms of reference for the

1 cost control committee. Again, on the collision side.
2 And Ms. Reichert carefully explained this to me because
3 I was a little slow on the -- the point, safer
4 vehicles, being autonomous cars, there are in the
5 future, perhaps longer term than the 2010 -- 2028/20 --
6 21 period opportunities there which suggest to some
7 positive trends in terms of claims and claims costs.
8 And moving to slide 112, she just makes it clear to me,
9 'cause I was being unusually thick at that point in
10 time, that it was on the physical damage side.

11 So just to temper any sense of doomsday
12 on the collision side, there are other longer term
13 trends, perhaps suggesting a -- a different reality or
14 a more muted real -- reality.

15 Madam Chair, I'm -- I'm feeling
16 strangely refreshed, but if I could have like a five
17 (5) minutes and then we'll -- we'll finish off...

18 THE CHAIRPERSON: Yes, please. Let's
19 take a five (5) minute break.

20

21 --- Upon recessing at 2:11 p.m.

22 --- Upon resuming at 2:21 p.m.

23

24 THE CHAIRPERSON: Well, we're ready to
25 begin again, I believe.

1 MR. BYRON WILLIAMS: We'll move to
2 slide 113. This is the -- under the -- maybe we'll go
3 back to slide 112. We were just simply -- we were just
4 simply flagging the evidence of Ms. Reichert.

5 And -- and again, she emphasized that
6 this was longer term, beyond 2021. But the potential
7 for autonomous cars, there's supportive evidence in
8 terms of that they're actually avoiding collisions
9 altogether. And that, in the longer term, offers some
10 -- some -- at least in this area, grounds for optimism
11 in terms of collision repairs. And that's simply the
12 evidence of Ms. Reichert that I was flagging there.

13 Back to slide 113, under the just and
14 reasonable rate test, the Board looks at the overall
15 health of the Corporation under Section 26.4 of the
16 Crown Corporations' Public Review and Accountability
17 Act. It certainly looks at necessary reserves. And
18 here we are at the subject that seems to never end, the
19 Rate Stabilization Reserve. And I think I can
20 characterize the tone in the room, the feeling in the
21 room is being RSR fatigue. I sensed from Manitoba
22 Public Insurance. I can assure you it's shared by
23 legal counsel for CAC (Manitoba) and even more
24 vehemently by his client.

25 The source of that fatigue may be

1 different, though. MPI no doubt feels that it's
2 engaged in good faith efforts to come closer to a
3 solution. CAC, speaking on behalf of my client, at
4 times feels close to -- to despair looking at this --
5 our discussions on the DCAT, and still the significant
6 amount of judgment in play. And when our client comes
7 close to despair, we do remind her that certainly my
8 perception is that there's been good faith efforts by
9 all parties, by Board counsel, their advisors, by MPI,
10 and certainly by CAC and its advisors to -- to move
11 forward.

12 And -- and that we have made some
13 progress.
14 We see the equity scenario much more defensible than it
15 was just a couple of years ago. And we see the
16 financial model, albeit with some transparency issues,
17 but certainly more robust than the last hearing that we
18 took part in.

19 And one (1) of the challenges our client
20 has observed as we at least try and give a really good
21 shot to making the DCAT a made in Manitoba solution for
22 the RSR. We're not there yet, our client strongly
23 believes, and sometimes wonders whether we'll ever get
24 there.

25 But there -- there is a transition and a

1 change in mindset, because the D -- DCAT, when Mr.
2 Johnston is performing it for Manitoba Public
3 Insurance, he's performing dual roles. One (1) is
4 giving advice about an appropriate RSR, but he's also
5 pronouncing upon what he apprehends is financial risk
6 to the Corporation. Hence, the -- the disconnect be --
7 between him and Dr. Simpson and perhaps Board counsel,
8 at least board advisors, in terms of the equity
9 scenario, where Mr. Johnston, wearing the non-RSR part
10 of his DCAT hat, says, I've got a report on this, and
11 Dr. Simpson says, That's not a defensible scenario for
12 the purposes of the RSR.

13 So there are some learning curves that I
14 think collectively as we attempt to transition to using
15 the DCAT for an RSR purpose as well as its original
16 purpose that are -- are natural. And we see that in
17 the equity debate of this year.

18 So our client has not -- while fatigue
19 has set in, I'm not sure exhaustion has yet, and our
20 client, while it believes that the DCAT is not ready
21 yet, is at least prepared to continue in the
22 discussion.

23 What is -- on the second bullet under,
24 "Core Messages," a core issue that our client has been
25 insisting I talk about for years, and I perhaps

1 incompetently have not, but there is a lack of clarity
2 and our -- in terms of -- our client believes in this
3 room, and certainly amongst consumers more broadly, in
4 terms of the purpose of the RSR and how it's being
5 used. And I will try and elaborate in a few moments in
6 terms of, from our client's sense, that the RSR does
7 not necessarily seem to mean what consumers might think
8 it means. And you heard that message from CAA today,
9 as well.

10 And it was interesting to me that two
11 (2) organizations that are in daily contact with
12 consumers are -- are flagging -- flagging that issue.
13 And I'll come back to that in a minute.

14 Staying with our core messages with
15 regard to the RSR. Our client's vigilance on the RSR
16 isn't driven by the pipe dreams of dividend after
17 dividend. Our client's vigilance on the RSR is based
18 upon a sense of the need for good evidence and the risk
19 within what our -- our client believes an excessive RSR
20 is an invitation to overspend and, hypothetically, to
21 bet on duration mismatches or to fund expensive IT
22 programs which you might not be able to justify within
23 operating costs.

24 And this was a really critical point for
25 our client entering this hearing. And repeatedly we

1 sought assurance from Manitoba Public Insurance on
2 seeking assurance that the MPI -- that the RSR would be
3 used for its stated purpose, and no other, and
4 certainly were, in our client's view, unsuccessful in
5 that regard.

6

7

(BRIEF PAUSE)

8

9

MR. BYRON WILLIAMS: CAC (Manitoba)
10 recognizes that MPI has come partway in terms of risk
11 tolerance. But CAC (Manitoba) does not accept a one
12 (1) in forty (40) as consistent with consumer risk
13 tolerances. They believe a range between one (1) in
14 twenty (20) and one (1) in forty (40) is more
15 appropriate.

16

And they use the example that often
17 appears in our focus groups, with a senior in her or
18 his 70s versus a -- someone in their 30s. And
19 certainly the senior, the hypothetical senior, may want
20 enough protection against a one (1) in twenty (20)
21 event, perhaps may be less inclined for a one (1) in
22 forty (40) event. And so that's the kind of analogy
23 that our client uses.

24

And our final core message, and this is
25 the heart of Dr. Simpson's evidence, CAC (Manitoba)

1 understands with the interest rate scenario and the
2 combined scenario, MPI was required to employ
3 substantial judgment. And CAC (Manitoba) does not say
4 that the scenarios that MPI presented are absolutely
5 impossible. Where CAC strongly disagrees with MPI
6 though, and Mr. Johnston, is his characterization of
7 those events as one (1) in forty (40) events -- one (1)
8 in forty (40) year events. In our client's respectful
9 view, and in Dr. Simpson's well-considered evidence,
10 they're way farther out on the tail than that.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: Our client spent
15 some considerable time in the course of this hearing
16 trying to get a sense of what's there to protect
17 consumers from the use of the RSR for a different
18 purpose? And at the instruction of my client, starting
19 at page 447, I put to Manitoba Public Insurance and its
20 chief executive officer, the suggestion that funds
21 within the target range should not be used for any
22 other purpose than protecting against unforeseen
23 extreme events. A lengthy discussion followed.

24

25 We talked further at page 449 about
whether it would be appropriate to draw down the RSR

1 level to invest in capital projects. And again a
2 lengthy discussion ensued.

3 And at the slide on page 117, perhaps
4 you can picture me with my client whispering in my ear,
5 Mr. Guimond and -- and I start out on the -- in a good
6 place. He understands the interest of our client in --
7 in avoiding subsidization of imprudent expenditures
8 through the reserve. And -- but when it comes to my
9 client seeking assurance that next time a promising IT
10 project comes along it won't be funded out of the RSR,
11 we're unable to reach agreement.

12 And at slide 118, our client reminds
13 this Board of the historical experience of the IT
14 optimization fund. And ultimately the -- the money was
15 returned at the recommendation of the Public Utilities
16 Board. But it is those type of activities that raise
17 our client's concerns about excessive reserves.

18 And our client can appreciate, from the
19 perspective of MPI, how it's more comfortable with a
20 reserve at 325 million. It makes sense to our client.
21 You can absorb a lot more risk without having -- or
22 adverse events without having to make hard decisions.
23 Our client though -- that is not the type of comfort
24 that our client with -- wishes to give to Manitoba
25 Public Insurance.

1 Manitoba Public Insurance in the Basic
2 program already enjoys a monopoly. In the Extension
3 program, it enjoys an effective de facto monopoly.
4 That comfort is there, and our client's concern is --
5 is to provide extra cushion, extra comfort, extra
6 backstops which may encourage imprudent expenditure.

7 One (1) of the threshold challenges our
8 client has with the interest rate scenario in the DCAT
9 is -- is the client understands the rate stabilization
10 reserve concept. We still wish to encourage the
11 Corporation to engage in prudent behaviour to mitigate
12 its risks.

13 We have very strong evidence in this
14 hearing from the CEO of MPI that MP -- that interest
15 rates are not going up in the short-term. "I don't
16 agree that interest rates are going to go -- go up,"
17 page 397. You can check it for context. "I don't
18 think they're going up." He was pretty adamant on that
19 point on page 397. Yet the Corporation continues to
20 support an interest rate mismatch where mitigation
21 options appear open.

22 I spoke previously about concerns about
23 the co -- understanding of what the RSR is used for,
24 what it's meant for, what its purpose is. And I
25 suggested to you that outside the room there's

1 confusion amongst consumers, and you heard that from
2 CAA as well. But if you'd turn your attention to pages
3 4 -- you don't need to go there, Diana, but 445 and 446
4 of the transcript, that sort of con -- confusion is in
5 the room as well.

6 And in his opening evidence, the CEO of
7 MPI spoke about immunizing customers from volatility.
8 Our client has never understood the RSR to be a perfect
9 cloak of immunity against rate volatility. Driver
10 safety rating is going to affect consumers' rates.
11 Goodness knows, my youngest son is experiencing some
12 fairly volatile impacts from -- from that.

13 Clear adjustments. You've heard from
14 Mr. Oakes cl -- clients over the years, there's
15 substantial volatility there. Inflationary trends are
16 going to affect consumers' rates as -- as well.

17 So the RSR is not this omnibus cloak of
18 immunity from rate volatility. It's something more
19 specific. It comes from a specific historical conc --
20 con -- context. But here you see at page -- slide 122
21 of our PowerPoint, I'm suggesting to Mr. Guimond that
22 we shou -- you know, the RSR is there to immunize con -
23 - consumers, but only from the effects of the extreme
24 winter. He says, "I wouldn't limit it to the 16
25 million." So I go, Would you -- would you use it as

1 protecting us from the 104 million adverse variation in
2 claims incurred. And -- and he said, "That could be an
3 example, yes." He subsequently amended his evidence
4 and at slide 123 you can see him narrowing the
5 definition.

6 But even in this room we see that
7 conceptual challenge that we're having with the RSR.
8 And I'm not sure if any members of this panel will
9 remember it, but we had a similar conversation with Ms.
10 McLaren a few years ago on that -- on that very point.
11 And we understand how, from the Corporation's
12 perspective, any type of rate increase is -- is
13 unwelcome, and certainly from the consumer perspective
14 it -- it is as well. We understand that the
15 Corporation, because of its volume and upgrade growth,
16 has been immunized from rate increases, to a certain
17 degree, but there are limits to what the RSR can do.
18 And on slide 124 I just reiterate the point I made a
19 couple of moments ago.

20 Here I present questions developed by
21 the CAC (Manitoba) Board. Is the RSR just another word
22 for retained earning? Some of the conceptual
23 challenges our client is having: If the RSR is there
24 for unforeseen nonrecurring events why is it drawn down
25 for other purposes, i.e., ordinary loses re -- relating

1 to inflationary trends?

2 Is the RSR surcharge guaranteed to
3 contribute to the RSR? And our understanding is no,
4 not unless the Corporation enjoys net income in that
5 particular year. If the Corporation breaks even or
6 losses money the RSR is not replenished by the
7 surcharge. But our client's perspective is that is
8 very different from the understanding of -- of
9 consumers and, frankly, of our client, I suspect.

10 So in our recommendations you'll see
11 reference to a question of whether -- you can just --
12 of whether to -- we need to think more carefully about
13 the RSR. And maybe we need to better articulate what
14 it's there for, what it's doing, how it can be used.
15 Maybe it just is a fancy name for retained earnings.
16 That's not our client's historic understanding, but
17 that's a discussion that -- we're not convinced that
18 there's the consensus in the room about the RSR, where
19 the understanding in the room about the RSR that --
20 that historically we've assumed there is.

21 I see a nice typo on slide 126. You
22 don't have to leave it in shame, Ms. Men -- Menzies. I
23 made that typo. Go back for a second, please.

24 The question we posed here is can we eli
25 -- or rely on the DCAT to set a reasonable RSR range at

1 the one (1) and twenty (20) and one (1) in forty (40)
2 confidence levels. And our client's advice to this
3 Board is not now.

4 And our particular focus is the interest
5 rate and combined scenarios, going to slide 127,
6 leaving my typo behind. And the Board has had the
7 benefit of hearing Dr. Simpson's evidence, and also the
8 rather muted re -- reply of Manitoba Public Insurance
9 to it yesterday. And so I'll try and flag at a high
10 level why our client has so many difficulties with the
11 interest rate and combined scenarios presented.

12 And I see the first bullet under, "Three
13 (3) Analytical Challenges," is worded a bit
14 imprecisely. But the point is that the zero lower bond
15 of nominal interest rate, and I'll come to it in a mi -
16 - minute, renders both the stagflation and related
17 decade's date and the distributions developed from that
18 dat -- data as a beam of little or no value.

19 And goodness knows there are better
20 people in this room to talk about stochastic modelling
21 than I am, probably about forty (40) of them or twenty
22 (20) of them. But if you recall my conversation with
23 Mr. Johnston, the stochastic modelling exercise
24 involves the creation of a probability distribution so
25 that a random varia -- variable can be put through the

1 simulations.

2 If the distribution that's going into
3 the simulations is tainted, then the output of the
4 simulations is tainted. And that's Dr. Simpson's
5 point, inelegantly made by me, in terms of stagflation.
6 And we'll come back to that.

7 And implicitly, MPI recognized this when
8 they set in the floor of 1.68 percent for their
9 interest rate scenario and their combined scenario. In
10 effect, an acknowledgement that there were challenges
11 with the data.

12 But Dr. Simpson's second point, which I
13 think he made much more eloquently on November the 5th,
14 he asked: Where did that floor come from? And we do
15 have some data challenges because I think MPI uses
16 Bloomberg data, and Dr. Simpson I think uses -- there --
17 - there are slight cha -- differences between the
18 Bloomberg data and the -- and the Bank of Canada data.

19 But Dr. Simpson tried to replicate the --
20 - that analysis and found that the floor was based upon
21 a bad month, not a one (1) year floor, not a four (4)
22 year floor. So using, in his analysis, a bad month to
23 set a four (4) year floor.

24 And on the record, although I don't --
25 didn't put it in here, there's actually a Public

1 Utilities Board IR that suggests that it's based upon
2 one (1) day of data.

3 So there you have it, that floor being
4 created on Dr. Simpson's evidence a month, or the PUB
5 IR, a day, one (1) day of bad data, adverse data, a
6 four (4) year floor. And that no doubt is enough to
7 raise Dr. Simpson's econometric hackles in the sense
8 that that's not solid analysis.

9 The third point that he makes is that
10 look at where that floor is. We've got the Bank of
11 Canada which since the early 1990s has set an interest
12 rate target, a band between 1 and 3 percent, with the
13 midpoint generally the target. We have MPI analysis in
14 its DCAT I believe at page 57 saying that inflation has
15 tracked really close to that band. I think an average
16 of 1.8 percent. But look where the MPI floor was: 1.68
17 percent, less than inflation. The fancy word I think
18 is a negative yield.

19 And Dr. Simpson's advice is that concept
20 of a negative yield is not sustainable for four (4)
21 years in the North American mar -- marketplace. And
22 MPI has kind of tried to run away from that 1.68
23 percent. It's gone up to 2 percent, a neutral yield
24 floor, similarly not sustainable for four (4) years in
25 the North American marketplace. And we'll actually

1 point you to some analysis from the duration matching
2 report of MPI which we think is supportive of -- of the
3 position of Dr. Simpson and of CAC (Manitoba).

4 One (1) other challenge -- so those are
5 analytical challenges our client has with the interest
6 rate and combined scenarios. Here's a contextual
7 challenge: A four (4) year floor, in our client's
8 submission, at negative real yields is inconsistent
9 with developments in North America, including the end
10 to quantitative easing in the US and the re -- the
11 recovery of the American marketplace.

12 Others can explain the zero lower bound
13 better than I; basically, that there is, in terms of
14 interest rates, a lower bound of zero or slightly more
15 than zero. And that's because, if interest rates were
16 in fact at zero, everyone would hold cash and no one
17 would buy bonds and no one would issue bonds. So, as
18 Dr. Simpson's gib -- succinctly said at page 1,640 of
19 the transcript, If cash gets you zero you're not going
20 to take minus 1 percent to hold bonds.

21 So here you run into this huge data
22 challenge that MPI experienced, particular in the '76
23 to '85 period, but if you look in the adjoining decades
24 you still see those precipitous declines in interest
25 rates, or changes in interest rates, certainly out into

1 1995 or so.

2 And that was the data problem they had
3 right off the bat, because applying that data would
4 take you to the zero lower bound. It would take you
5 below zero. And Dr. Simpson expresses this more
6 articulately than I can at page 130. To get to the
7 bottom line, slide 131, the reliance on this data
8 exaggerates the kind of interest rate declines that we
9 might see.

10 And if we can go to slide 133; 132 is
11 not really relevant for this discussion. And I don't
12 think Dr. Simpson's point on this is in dispute. Here
13 you see my cross-examination with Mr. Johnston where he
14 in effect agrees with the zero lower bound, and I'll
15 leave that to your reading pleasure. It's no doubt
16 rivetting reading.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: Here's Dr.
21 Simpson's second fundamental quidal -- quibble --
22 'quibble' is the wrong word -- fundamental issue with
23 the methodology employed in the DCAT. And I've
24 articulated it before. To set the four (4) year floor,
25 he suggests they use one (1) month of data. They don't

1 look at the one (1) year floor or the four (4) year
2 floor, and he sees that as analytically unsound.

3 And here's the idea of negative yield.
4 And the idea that these are not sustainable because if
5 all -- if a lender -- all they are getting is less than
6 the rate of inflation, they're going to look elsewhere
7 to invest their money. That's the -- the point of
8 negative yields, and Dr. Simpson uses that to criticize
9 both the one point six-eight (1.68) floor and
10 implicitly the 2 percent flat rate for four (4) years,
11 which he considers similarly unlikely.

12 And if you get a moment, I'd urge you to
13 read the duration matching report of MPI, especially
14 page 6, because they in essence have a similar negative
15 yield discussion using a similar analogy; a 1.7 percent
16 bond, and pointing out negative yield.

17 And up, slide 137, what I put to Mr.
18 Johnston on a couple of occasions, I put this explicit
19 wording to him. And I put it to him because that was
20 the exact language of the MPI's own duration matching
21 paper. And so certainly our client sees in the
22 duration matching paper support for Dr. Simpson's
23 contention that a four (4) year floor at less than
24 inflation is not a plausible scenario.

25 The Board chair had a question for Dr.

1 Simpson late on November the 5th, and I'm not sure Dr.
2 Simpson, given the hour, answered it to the panel's
3 satisfaction. But we do have on the record of this
4 hearing CAC Exhibit 19, which is the Bank of Canada
5 monthly report for October.

6 And I think the question from the panel
7 was: Is there something about North America? Is there
8 something going on in North America that would explain
9 why an interest rate below inflation would seem
10 implausible for a four (4) year floor -- at least
11 that's now I understood the question -- and contrasting
12 it to the experience of Japan or the experience in --
13 in Germany?

14 And certainly we would recommend for the
15 panel's reading this report. Page 4 in particular and
16 chart 6 are very instructive, and they talk about the
17 difference in the global experience.

18 You see the discussion of the US Federal
19 Reserve committing to the end of quantitative easing or
20 asset purchases. Then you see the material
21 interference in the marketplace taking place in Japan
22 or in Europe. And that's the -- when the Bank of
23 Canada seeks to explain the dramatically different
24 interest rate expectations, that's the analysis that it
25 relies upon.

1 So, Mr. (sic) Chair, I -- I hope that
2 assists. I could really torture you and go through it,
3 but I think those -- those are particularly helpful
4 references that -- that I hope will assist at least
5 somewhat.

6 Slide 139. Dr. Simpson's point is that
7 the combined scenario flounders under the -- the same
8 situations: poor data and the flaws in selecting the
9 floor.

10 And just a final note in terms of the
11 CAC (Manitoba) witnesses. Dr. Simpson's been here a
12 few times on -- whether it's payday lending, hydro, or
13 Manitoba Public Insurance. I -- I noted the effort by
14 My Learned Friend, Ms. Kalinowsky, to -- to portray
15 him, I assumed, as someone not committed to principle,
16 only to a number. Anyone who's sat in a room with Dr.
17 Simpson for these many hearings will be aware that his
18 focus is on evidence; good, modern risk assessment.
19 And that's an expertise he's developed, whether with
20 the Bank of Canada, the Economic Council of Canada, and
21 certainly in his appearances before the Public
22 Utilities Board. His advice to this Board has been
23 about good, modern risk assessment principles.

24 At slide 141, we just bring to you
25 attention because sometimes it's forgotten, Ms. Sherry

1 was asked her opinion of -- of the DCAT as compared to
2 Kopstein. And while it wasn't really within -- she --
3 because she had not prepared Dr. Simpson's evidence, we
4 thought it would assist the Board, she did provide this
5 response, articulating support for Dr. Simpson and
6 saying that the DCAT needs a bit of work yet. And I --
7 I highlight that.

8 Mr. Chair and -- or, excuse me, Madam
9 Chair and members of the panel, as you no doubt
10 gathered from our -- from our title for this paper, our
11 client struggled with this application. Essentially,
12 the analytic -- in terms of the rate application, the
13 analytic process my client walked through on her
14 lawyer's eccentric journey, if not the client's, was
15 she recognized that it was appropriate to use a more
16 current interest rate forecast rather than the old one.

17 So that moved the MPI rate indicator up
18 to roughly 3.5 percent assuming its -- its expenditures
19 were prudent and reasonable, that its forecasts were
20 reasonably reliable. Then our client backed away from
21 the application and said, Has MPI satisfied its onus to
22 demonstrate its expe -- expenditures are prudent and
23 reasonable. And our client flagged the significant
24 pressures on operating costs associated with
25 information technology. Our client flagged the failure

1 of Manitoba Public Insurance to demonstrate that its
2 BI3 initiative was actually assisting in reducing
3 claims costs. Indeed evidence from MPI suggests that,
4 at least in the short-term, there has been a
5 deterioration in results.

6 Our client looked at an investment
7 income forecast that did just not pass the eyeball
8 test. And our client looked at the challenges and the
9 lack of confidence that she held in the PIPP forecast.
10 And then our client took a further step back and -- and
11 considered MPI's lost money a couple years in a row.
12 Their forecast for 2014/'15, notwithstanding
13 unrealized gains, is -- is not robust.

14 She balanced that against her very real
15 and enduring concerns that this is a corporation that's
16 not listening to the Public Utilities Board when it
17 comes to benchmarking claims, con -- cost control, when
18 it's not -- when it comes to -- to operating cost
19 control, and -- and worried about the type of message
20 that would be sent to MPI.

21 And certainly our client concluded that
22 a rate increase bigger than what was initially applied
23 for but significantly less than MPI seeks was
24 appropriate, especially given her concern that the
25 Corporation was not minimizing its risks in terms of

1 interest rates and managing its costs.

2 Our client believes that the DCAT is not
3 ready for prime time in terms of setting reserves --
4 the rate stabilization reserve, so employing the
5 Kopstein methodology considered Manitoba Public
6 Insurance to be within the appropriate range.

7 In addition, our client asked herself in
8 tough times what would a consumer do. In tough times,
9 would a consumer look at those \$30 million in
10 expenditures for external consultants and say it will
11 not change? She considered MPI's behaviour
12 inconsistent with that type of cost-effective
13 behaviour, and that was another aggravating factor, in
14 her view.

15 Madam Chair and members of the panel, I
16 am -- I -- I certainly would be more than prepared to
17 just highlight some of the recommendations of our
18 client. I leave that -- if you would like me to spend
19 a few minutes and walk through them...

20

21 (BRIEF PAUSE)

22

23 THE CHAIRPERSON: Okay, we would like
24 to go through them all.

25 MR. BYRON WILLIAMS: And if we could

1 just stand down for...

2 THE CHAIRPERSON: Sure. That would be
3 fine.

4

5 --- Upon recessing at 3:06 p.m.

6 --- Upon resuming at 3:12 p.m.

7

8 THE CHAIRPERSON: I think we're all
9 back in the room. So if you'd like to continue, Mr.
10 Williams.

11 MR. BYRON WILLIAMS: Just referring you
12 to the page number 2 in the -- the document. On pages
13 2 and 3, these are just the recommendations of CAC
14 (Manitoba) with regard to both interest rate
15 forecasting and investment income forecasting. We've
16 already gone through the first bullet, which is to
17 employ the most current consensus forecast.

18 In the second bullet we're recommending
19 rejecting the risk averse scenario on the same grounds
20 as -- as last year. And if -- if we weren't clear, I
21 can't say our client is -- going to the third bullet, I
22 can't say our client is particularly attracted to this
23 approach. But since 2009/2010, CAC (Manitoba) has been
24 urging some caution in terms of a potential upward bias
25 in interest rate forecasting. And what CAC (Manitoba)

1 has consistently recognized and recommended is if you
2 want to propose a methodology, support it. Support it
3 with back testing.

4 And certainly if MPI is coming back in
5 with the risk averse scenario, we would certainly
6 recommend running it and similar ver -- versions
7 against a consensus forecast or current consensus
8 forecast approach and doing a -- a fairly substantial
9 period of back testing. And that might give comfort to
10 parties trying to assess the merits of these different
11 approaches. Because, of course, we're looking for an
12 approach that will stand the test of time. And -- and
13 certainly to date the risk averse scenario has -- has
14 not demonstrated that it's the best estimate available.

15 Turning to slide 3, or page 3, again
16 this reiterates our overall concern with the
17 variability in the overall investment income forecast.
18 You've seen the sharp changes and -- and certainly from
19 our client's perspective that raises some, at least
20 pink flags, perhaps red flags, in terms of its
21 reliability. And certainly that's our proposal there.

22 Going to page 4, the preamble you've
23 heard in my oral submissions. What this is really
24 about is BI3. And now that we at least have pre-BI3
25 benchmarks we're recommending that MPI report back on

1 whether those are being achieved and when the higher
2 post-BI3 benchmarks, the ones we were promised, will be
3 implemented.

4 And, Madam Chair, members of the panel,
5 when you look at our recommendations -- my client noted
6 this this morning -- we're suggesting a fair bit of
7 work for MPI. It's certainly open to you to pick and
8 choose which of these report backs you consider most
9 germane. But from our client's perspective, these are
10 important issues that need to be flagged.

11 And on page 5, our client certainly
12 would not object to an external, independent review of
13 the management and oversight of PIPP claims in the wake
14 of the BI3 initiative and the considerable stresses it
15 has exhibited. So that's that recommendation.

16 Going to slide 6, this relates to the
17 PDR and our concern with the apparent disinclination of
18 MPI to accept Meyers Norris Penny's advice to go back
19 and develop baselines in terms of -- of certain
20 metrics, and certainly -- and our overarching concern
21 with the need to get in front of the
22 benchmarks/performance indicator issues sooner than it
23 was with BI3. So that -- that's what that
24 recommendation is aimed at.

25 At slide 7, I adverted to this point

1 fairly extensively in our oral submissions. We've
2 noted, perhaps correctly, perhaps not, MPI with its
3 collision initiatives seems to be drifting or moving
4 actually sharply away over time from the kind of
5 service ses -- centre control of the estimating process
6 and to management by exception.

7 And certainly, we think the Board might
8 wish to consider getting additional information and
9 empirical support assessing this approach. Presumably,
10 MPI has already undertaken that analysis.

11 Slide 8 really -- and this follows up on
12 conversations that panel members, whether it's panel
13 member Neville or Proven or others, have raised about
14 the state of training in the collision repair industry,
15 especially including going back to the community
16 colleges, especially at a time when there's a purported
17 dramatic or rapidly evolving marketplace.

18 And we heard Mr. Guimond actually speak
19 pretty eloquently, not about -- about the need to get
20 on top of training. And certainly the thrust of this
21 recommendation is to have MPI come back and give advice
22 to the Board on how barriers, including training to
23 cost-effective estimating and collision repair, are
24 being addressed.

25 And MPI spoke a lot about this, and --

1 and certainly from our client's perspective in terms of
2 risk mitigation, this is an important risk.

3 Like Bike Winnipeg, we acknowledge the
4 expanded mandate, going to slide 9, in terms of road
5 safety set on the legislation. Our client still is
6 consistently conscious of the need for cost-effective
7 investments and also always to be mindful of what's the
8 proper role for the public auto insurer versus
9 government and the need for integrated planning.

10 Our client, like Bike Winnipeg, notes
11 the failure to justify expenditures on road safety at a
12 portfolio level and highlights again the message of Ms.
13 Johnson last year that this can be done and must be
14 done at the program level, the portfolio level, and
15 within an integrated road safety approach.

16 Like Bike Winnipeg, our client does have
17 some concern. We -- our client can't admit to
18 carefully studying MPI Undertaking 6 in terms of the
19 scorecard. Our client does have concerns about
20 legitimate road safety programming being lost or
21 excluded, or missed in the -- the scorecard proposed
22 for next year. And also has concerns in the sense that
23 the road safety budget, consistent with the advice of
24 Ms. Johnson in our client's view, should be able to
25 stand on its own two (2) feet, and to be justifying

1 those expenditures.

2 There's been some new initiatives by the
3 Corporation, going to the last point on page 9, in
4 terms of driver's education. There's been a recent AAA
5 study, so this isn't an urgent update. It's something
6 that our client just wants to keep track of in terms of
7 the follow-up to the 2014 AAA study. We're certainly
8 not recommending that for the next year but it's
9 something that our client will bring forward in the --
10 in the next couple of years.

11 Slide 10. Our client listened with
12 considerable interest to the discussion between Board
13 advisors and MPI in terms of the deductible, and
14 understands the complexity of these issues. There's
15 rate impacts. Over -- overall there's impacts on
16 individual consumers, whether they have to buy down
17 their deductibles or otherwise. There's implications
18 for vehicle safety and impacts upon the repair
19 industry.

20 The client is not taking a position on
21 this, but would certainly think there's value in
22 reporting to the province and the PUB a more nuanced
23 assessment of the tradeoffs.

24

25

(BRIEF PAUSE)

1 MR. BYRON WILLIAMS: Slide 11 is -- is
2 one we mentioned in terms of the duration mismatch, and
3 certainly we flagged a concern that MPI has not always
4 adhered on a quarterly basis to its targeted bandwidth,
5 and we think that's an important issue to monitor in
6 terms of reporting back to the Board, and a fairly
7 simple one, as well.

8 Slide 12. This is an important one from
9 our client's perspective, and it -- whether it's CAA
10 echoing our client, or our client echoing CAA, the --
11 those consumer voices are -- are united in flagging the
12 risk of a lack of clarity about the RSR, how it's to be
13 used.

14 If you go to the -- the fifth indented
15 paragraph, "Even how we treat its investment income,"
16 and our client is confident that there's substantial
17 misunderstanding in the general public. And our client
18 is not taking a position quite yet, but certainly in
19 the next general rate application our client will be
20 considering whether the RSR needs to be more expressly
21 segregated from retained earnings, or whether a more
22 expressed segregation would result in undue rate
23 volatility.

24 So that's something the client, after
25 being on my case for at least five (5) years on this

1 issue, is -- assured me she will pursue with a
2 vengeance with this lawyer, or -- or with his
3 replacement.

4 Slide 13 really highlights the thrust of
5 the evidence of Dr. Simpson that our corporate -- our -
6 - our client believes MPI should be relied up -- should
7 give weight to and rely upon. And that focusses on the
8 interest rate scenario and the combined scenario.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: In slide 14, we've
13 provided some recommendations about DCAT interest rate
14 scenarios, and talking about a one (1) in twenty (20)
15 and one (1) in forty (40) confidence level.

16 Slide 15 is an interesting one. And our
17 understanding of the DCAT is evolving. You may or may
18 not have picked up on Dr. Simpson's increasing interest
19 in the combined scenario, is a potentially useful
20 mechanism for setting an RSR range. He did indicate in
21 his evidence of -- and -- November 5th that perhaps a
22 more robust combination of variables might be
23 considered for that combined scenario.

24 We are recommending to the Board and to
25 MPI that MPI consult about this. We're not thinking a

1 technical conference. Our client was thinking of
2 something -- if -- if MPI's looking for feedback on
3 this, something as informal as correspondence with
4 follow-up phone calls if necessary. We think it's --
5 from our client's perspective, this is a scenario that
6 has at least some interesting potential and that it
7 would be of interest to work on it sooner rather than
8 later with my recommendation that you should call Ms.
9 Menzies rather than myself if you want a prompt return
10 of your call. And our recommendation on slide 16 is to
11 a similar effect.

12 Slide 17. I have inadvertently put
13 words in my client's mouth, so I want to amend the
14 wording a little bit on line 2, to just change that to
15 say CAC (Manitoba) is still considering the philoso --
16 sific -- philosophical arguments. So I'm just changing
17 that language a little bit. I prejudged her opinion.

18 For what it's worth, slide 18, there was
19 an extensive discussion led by Board counsel in terms
20 of whether MPI's current rates are calculated using
21 accepted actuarial practice. There was an extensive
22 discussion, I believe, on October 29th. And for what
23 it's worth, our client has shared their experience with
24 another jurisdiction, and whether that is an acceptable
25 approach or not we offered up to the Board advisors and

1 MT -- MPI for their consideration.

2 Slide 19 is -- is -- you've -- you've
3 heard me talk significantly about that. My client
4 reminds me that the only point that I -- well, perhaps
5 not the only point, but the point that I did not well
6 express is that common sense for consumers, that when
7 you're facing a tough year you have to make changes,
8 you have to make hard decisions. Our client has not
9 seen evidence of that from Manitoba Public Insurance.
10 Not to say that there haven't been some token efforts
11 or some efforts, but our client has not seen the
12 assertion on this issue that they -- they would
13 recommend.

14 And just finally, our client -- it's
15 been a difficult few weeks for our legal team, and so
16 we'll simply say thank you for -- all in the room for
17 their consideration. Thank you.

18 THE CHAIRPERSON: Thank you very much,
19 Mr. Williams. I'm going to check if any of our panel
20 members would like to ask some questions.

21 MR. REGIS GOSSELIN: Mr. Williams,
22 you've been associated with these hearings for a number
23 of years. And could you explain to me why the MCT was
24 not adopted as a test to establish reserve levels? You
25 know, what -- what is it along the history of the

1 evolution of the -- the DCAT process that caused the
2 parties to go in another direction than using the MCT?

3 Let me perhaps give a bit more detail
4 about my thinking here. MCT is already a test that's
5 used extensively within Canada. It's the litmus test
6 used by regulators. You know, for example, how we
7 establish the reserve levels for -- the retained levels
8 for Hydro and Centra. So a rather arbitrary decision
9 made that we're going to achieve 'X' in terms of
10 reserve levels. So we have the MCT. It's an
11 established test, robust inasmuch as many eyes have
12 examined that test.

13 So why not use the MCT and say 50
14 percent of MCT, 75 percent of MCT as the basis for
15 setting reserve levels? What happened along the way
16 that caused us -- the parties to go in the different
17 direction?

18 MR. BYRON WILLIAMS: The -- well, there
19 was a -- a lot of winding roads there. I think the MCT
20 was only really prominent in -- in one (1) hearing, and
21 I may be subject to correction. It might have been two
22 (2). But one (1) -- one (1) is kind of the roots of --
23 the MCT was rooted, as our client understands it, in --
24 in private industry and as -- in -- as an assessment of
25 -- of whether the Corporation -- just to back up.

1 In an adverse effect from Manitoba
2 Public Insurance it has the option, of course, whether
3 it's palatable to ratepayers or not, of raising --
4 raising rates. Customers have no other choice. They
5 can't flee to the competition. As we understand at
6 least some of the historic roots of the MCT, it was
7 developed for a very diff -- different purpose; rooted
8 in the private insurance experience and designed at
9 that point in time to ensure sufficient financial
10 reserves. So that if there was a traumatic event that
11 the Corporation, you know, couldn't recover from by
12 raising rates because its customers would disappear.
13 That was kind of the roots of where the MCT came from.

14 It was -- so -- so that was one (1)
15 element that its -- its roots didn't seem to be
16 particularly applicable for a -- a very different
17 purpose. A second element was just the pure certainly
18 from our client's perspective, arbitrariness of it.
19 Where did -- how did you decide a hundred percent
20 versus, you know, 50 percent, versus whatever? That
21 was a -- a second issue that I -- I believe as I search
22 my memory was an issue.

23 And the third is, at least -- modern
24 risk assessment with modern computers and modern
25 techniques, I think, has evolved quite rapidly over the

1 last period of time. And I think the MCT was seen as
2 kind of a more antiquated approach that wasn't really
3 targeted on the risk that we were trying to protect
4 against. So that's -- you know, I'm -- I'm digging
5 back in my memories a fair bit. And -- and frankly our
6 -- our -- I probably should have had more submissions
7 on the MCT. We just haven't treated that hundred
8 percent figure very seriously for the purpose of this -
9 - this hearing, rooted in that -- in that discussion.

10 I believe the GRA in question -- was it
11 the 2009 GRA that it was brought up? 2006. So -- so -
12 - and it was kind of we had the risk approach and then,
13 you know, we -- we had a variety of -- of mechanisms.
14 So I think it was felt that the DCAT was an evolution
15 from that, in that it was more robust and more
16 consistent with modern risk practice. That's my
17 memory.

18 MR. REGIS GOSSELIN: Thank you for that
19 history. I -- you know, what I'm struggling with in my
20 own mind is the fact that we've been working on the
21 DCAT for a number of years now without actually
22 achieving the goal. You know, the brass ring is just
23 beyond our reach. And in the meantime, we have a
24 decision to make in respect of what would represent
25 suitable reserve levels for -- for MPI in the context

1 of successive years of losses.

2 And so, you know, I'm very reluctant to
3 say, Let's engage in more discussion around this,
4 personally. Let's engage in more discussion around
5 this issue, and next year we -- we arrive again, well,
6 you know, quibbling around one (1) in twenty (20), one
7 (1) in thirty (30), one (1) in fifteen (15).

8 It seems to me that at the heart of this
9 has got be an acceptance that there should be adequate
10 reserves within MPI to protect us against rate
11 volatility starting from the premise that it's an
12 insurer. They have to have reserves to be able to
13 address events as they occur, wherever the -- you know,
14 what represents a plausible scenario.

15 So I'm really struggling with this
16 notion of let's go back and spend some more time with
17 this -- this formula and without ever getting some
18 closure around what represents a suitable level.

19 And -- and perhaps you could enlighten
20 me why you believe that, by further discussion, we can
21 -- we can ultimately achieve success here.

22 MR. BYRON WILLIAMS: If I could share a
23 privilege, our client and I had this same discussion
24 last night and perhaps at 7:30 this morning. She
25 wasn't leaning towards the MCT. She was asking, you

1 know -- you know, What about Kopstein, you know? So
2 there's that -- there is that fatigue in -- and we
3 acknowledge that.

4 I'm -- I'm not absolutely certain that
5 there's -- that there's a magic solution at the end of
6 more discussion. On the other hand, I certainly felt
7 that the -- the first technical conference that I
8 participated in made a -- a major positive change. I
9 think they -- I've heard some relatively positive
10 feedback about the second one.

11 I'm -- we're certainly not proposing
12 another round of technical conferences. One (1) of our
13 vows at the start of this hearing was to try and get in
14 with MPI, at least on some of these issues, and -- and
15 have a chat. And certainly we would do the same with
16 the Board.

17 And my advice to our client, and for
18 what it's worth, my advice to you is: It's worth, from
19 our perspective, one (1) last shot. But that's --
20 that's ultimately your -- your call.

21 The fatigue that -- or the -- you know,
22 and the use of hearing time is -- is an important
23 issue. On the other hand, I think what MPI has now
24 with their DCAT is a materially improved product from
25 where it was a few years ago.

1 Our client is definitely not satisfied
2 with it, but you can see some interesting developments.
3 And I think there's been some utility, you know, in and
4 of -- in and of itself just from that type of
5 discussion.

6 So while it may feel -- it feels
7 frustrating to all of us, that's -- I guess my judgment
8 to my client is I think that we're -- it's worth one
9 (1) more shot.

10 MR. REGIS GOSSELIN: Now, I think in
11 your development of your arguments, the closing
12 arguments, you indicated that -- that perhaps we've
13 been using the wrong descriptor for what's going on
14 here.

15 In other words, we're talking about a
16 Rate Stabiliz -- Stabil -- we call it a Rate
17 Stabilization Reserve. In reality, we're treating it
18 as retained earnings and, you know, ebbing and flowing
19 as the fortunes of the Company ebb and flow.

20 And so you -- you took us to that -- to
21 that conclusion and then backed away from it. And --
22 and you're -- you described setting off an RSR from
23 retained earnings.

24 So could you -- I don't understand the -
25 - the -- how you would be able to insulate your RSR

1 from sort of the -- the retained earnings.

2 MR. BYRON WILLIAMS: That was another
3 discussion I had with --

4 MS. GLORIA DESORCY: Were you listening
5 in on that?

6 MR. BYRON WILLIAMS: If I might, we --
7 there was -- there was an -- there is an internal
8 discussion we've had, and it -- there's something set
9 out in writing that we have been discussing, so rather
10 than -- I'm not sure I could do the discussion justice
11 right now. I -- I could probably crank it out in half
12 an hour back at the -- the office. We'd be happy to
13 share that with you.

14 The -- it's -- we -- the reason I backed
15 away -- I think my client really liked the idea, and
16 ultimately she is the boss. The -- the -- kind of the
17 question mark that we put at the recommendation, I -- I
18 just caution that we had to think a little bit more
19 about rate volatility.

20 But our -- our client, and -- and
21 certainly in our -- the focus groups, or -- or
22 otherwise, we've really -- we've got a real -- there --
23 there's not a common understanding of what this means.

24 I think what we were -- what the
25 proposal I saw was talking about is -- is keeping the

1 income related to the RSR -- you know, I'm not saying
2 this was our client's recommendation. It's just -- but
3 was really segregating it.

4 It would -- Mr. Chair, I -- I'm probably
5 better off writing -- writing it down to you, and --

6 MR. REGIS GOSSELIN: Okay.

7 MR. BYRON WILLIAMS: -- and with the
8 understanding that it's not our client's position,
9 unless she change -- unless she tells me it is in the
10 next half an hour. But it's just -- we were kind of
11 playing around with the concept over the last couple
12 days.

13 MR. REGIS GOSSELIN: I -- I guess --
14 you know, your recommendation regarding the appropriate
15 rate level at the end of the day was based on a 2.5 --
16 2.75 percent rate increase, and as I understand it
17 founded on your concern that -- that MPI needs to pull
18 on these horns, and use expenditures and so on.

19 The difficulty that -- that I have with
20 that is that, you know, in the face of -- of a couple
21 of years of losses it seems to me that now has come the
22 time to shore up -- shore up the foundation to make
23 sure that MPI has the wherewithal to withstand another
24 bad winter, or to withstand some other event that could
25 -- could occur in the coming future.

1 And so you obviously have seen the same
2 data I have, and -- and so I'm wondering what -- what's
3 causing the recommendation beyond the -- the fact that
4 MPI needs to reduce its expenditures. They've already
5 indicated that they will be doing some of that over the
6 year.

7 And -- and I guess you're suggesting
8 that they should be doing even more?

9 MR. BYRON WILLIAMS: Yes, and -- and,
10 Mr. Chairman, and my client may have a note here for us
11 but that -- the -- near the start of our client's
12 submissions we talked about being puzzled, trying to
13 parcel out what's actually going on with this
14 Corporation.

15 Certainly from our perspective, one (1)
16 of the issues with this Corporation is a long-term
17 spending issue, and you can track back to the dramatic
18 growth in information technology from '09/'10. So we
19 understand certainly the Board's desire to buttress
20 Manitoba Public Insurance, and certainly that might
21 have moved my client's recommendation from 2.5 percent
22 to 2.75 percent.

23 But another way of looking at -- at what
24 the Board would be doing would be feeding the
25 addiction, the spending addiction of -- of Manitoba

1 Public Insurance. And especially when our client sees
2 these alliterative claims of -- of achievements in BI3,
3 looking at the cost with it, and then the real
4 challenges.

5 And -- and from our client's
6 perspective, they understand fully where the Board is
7 coming from but the message to MPI to slow down is also
8 a powerful message. And -- and our client's concern is
9 granting them what they ask will merely feed their
10 spending fervour.

11 So that's -- that's really where our --
12 our client -- I'll say it was a heated deliberation.
13 And the other thing that's there, Mr. Chairman, is a
14 total lack of comfort with that investment income
15 forecast. And that is gravely concerning.

16 And -- and one's antennae goes up when -
17 - when the MP -- MPI says, Don't worry about the 1
18 percent RSR surcharge, we'll -- we'll figure that out.
19 Well, maybe it's coming from elsewhere in the
20 Corporation or -- or maybe it's in unrealized gains.
21 So that's -- that's the other thing that's kind of
22 tempering our enthusiasm -- our client's enthusiasm.

23 THE CHAIRPERSON: Well, thank you very
24 much, Mr. Williams. I guess that would end our
25 deliberations for today. And we'll resume tomorrow at

1 one o'clock with closing arguments from Ms. Kalinowsky,
2 of MPI. So we'll see you tomorrow at 1:00 p.m. Have a
3 good evening.

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5 --- Upon adjourning at 3:46 p.m.

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8 Certified Correct,

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13 Cheryl Lavigne, Ms.

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