



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)
GENERAL RATE APPLICATION
2016/17 INSURANCE YEAR

Before Board Panel:

Karen Botting - Board Chairperson
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

October 26, 2015

Pages 2009 to 2122

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TABLE OF CONTENTS

1		
2		Page No.
3		
4	Closing Comments by MPI	2012
5		
6	Certificate of Transcript	2122
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. Today we will be having the closing
5 argument by -- for -- from MPI for the 2016 GRA. Ms.
6 Kalinowsky of MPI will be making the presentation.

7 Ms. Kalinowsky, I'll turn it over to
8 you now.

9

10 CLOSING COMMENTS BY MPI:

11 MS. KATHY KALINOWSKY: Good morning.
12 We're finally coming to the closing argument -- the
13 end of closing argument because we already had the
14 other closing arguments last week. It's been a
15 lengthy process, and it starts actually when we
16 receive the Board order in December -- on or about
17 December 1st.

18 And it's a long period of time, an
19 awful lot of people working together to put together
20 what we consider to be a very, very good product for
21 the Board's consideration. A lot of input, especially
22 this year through the collaborative process with
23 others, and we think that it's been a positive hearing
24 in that regard. So that's one of the themes that we
25 want to talk about in this hearing.

1 I also want to say that this is the
2 first time we've done a PowerPoint presentation in
3 terms of closing argument, so you might just have to
4 bear with me a little bit until I get completely used
5 to it because it is a bit of a different format, but
6 hopefully it can assist the Board members in the
7 delivery and comprehension of an awful lot of
8 information that's going to be imparted over the next
9 couple of hours.

10 So with that I'll just start with:
11 What are the mutual objectives of rate setting? These
12 are pretty much tried and true. The first one is:
13 Provide Basic ratepayers with rate predictability and
14 stability; set rates that are just and reasonable;
15 offer amongst the lowest rates in Canada; ensure
16 sustainability and financial soundness of the Basic
17 program; achieve an actuarial opinion of being in a
18 satisfactory future financial condition; provide the
19 ratepayers value for their monies -- money paid in
20 rates; and have a clearly defined process for setting
21 rates publically.

22 This is something that's been around
23 for a few years, and we think it's very helpful and
24 will form the framework of my closing today. So MPI
25 was very pleased to hear the closing arguments of CAC,

1 of CMMG, and CAA, which had many complimentary things
2 to say about MPI.

3 There was a high -- a very high degree
4 of consensus amongst the Intervenor's about the rates.
5 In fact, two (2) of the Intervenor's, CAC and CAA,
6 supported the Corporation's overall Rate Application
7 for a zero percent rate change, and CAC counsel even
8 noted that. And I don't have the quotes on here but,
9 quote:

10 "A rate increase in the range of 1
11 percent would not be unreasonable."

12 Close quotes. And that's from
13 transcript page 1,949. There's also another quote:

14 "Our client is struggling with
15 whether to come in recommending zero
16 percent or 1.6 percent."

17 Close quotes, and that's from page
18 1,948. And another quote is:

19 "We're right on the bubble."

20 Close quotes. Transcript page 1,949.

21 So this unanimity is what I consider to be
22 unprecedented in the Rate Applications, and we believe
23 that this shows the strength of MPI's rate making
24 methodology. And this rate make -- making methodology
25 has been tested and it's been improved over twenty-

1 four (24) years of rate hearings through the public
2 process. And it's established a rate making and rate
3 setting on a consistent basis that's both actuarially
4 sound and statistically driven. And the consensus
5 between some of the Intervenor and the corporations,
6 I believe, should be commended by the Board.

7 So in this GRA, MPI has applied for
8 four (4) specific items. So the first is the premiums
9 charge with respect to compulsory driver and vehicle
10 insurance, so this is rates for service, and those are
11 effective March 1st, a zero percent overall Basic
12 insurance rate increase, so that's no change in rates,
13 and a minimum lower RSR target of 231 million in total
14 equity based on the 2015 DCAT and a maximum or upper
15 RSR target equal to the MCT ratio of a hundred
16 percent, which is currently equal to \$366 million in
17 total equity based on the 2014/'15 year-end financial
18 results.

19 So the rates. Well, that's what we're
20 here for at the end of the day. And the Corporation
21 is seeking zero percent change in rates effective
22 March 1st. This has been determined by the
23 longstanding PUB-approved rate-making methodology.
24 And the goal accepted by all the parties, including
25 the PUB, over the past has been for Basic to break

1 even financially.

2 So breaking even financially means
3 averaging out the two (2) years of net income for
4 2016/'17 and 2017/'18, recognizing the effect of
5 staggered renewals. This has been the practice since
6 the 1998 GRA, and that was submitted in Exhibit number
7 55.

8 But let's talk about some context
9 around the rate increase. And that was provided at
10 the outset of the hearing back on the first day. But
11 this is the twelfth time in fifteen (15) years that
12 MPI is not applying for a rate increase. Rates have
13 cumulate -- cumulatively decreased by 9.7 percent over
14 the past fifteen (15) years. And during that period
15 of time there's -- almost \$600 million has been
16 rebated to customers in that period of time.

17 This is the rate distribution -- or
18 rate change distribution in dollars. So the blue line
19 shows that there's no change for those customers, and
20 there's about seventy-five thousand (75,000) customers
21 there. And the green line shows the decreasing, which
22 is 50 percent. And the increasing is 42.8 percent.
23 So that's on an individual customer-by-customer basis
24 there. So you see a strong cluster right around the
25 zero there. In particular, the largest is over two

1 hundred thousand (200,000) customers will receive a
2 rate decrease which amounts to one (1) to ten (10) --
3 or 1 to \$9, so fairly minimal there. That really is
4 no change there.

5 During this period, MPI is projected to
6 have a net loss of \$10.8 million but a \$12.8 million
7 net income in the following year, so we consider that
8 to break even. We have this waterfall graph, and it
9 shows the impact of the various components comprising
10 the zero percent rate indication filed for the
11 upcoming year as compared to last year's GRA.

12 And so you can see there the vehicle
13 and driver premiums plus .75 percent, the net impact
14 of interest rates, that's the big red block there, of
15 2.22 percent. So that's the big driver in the rate
16 indication for this year. Plus 1 percent is the
17 equities and alternative assets, so that's on the way
18 going up. And then the way going down is the claims
19 forecast minus one point zero six (1.06). The
20 internal loss adjustment expense is zero point eight
21 (0.8). And then net claims and operating expenses,
22 very minimal there of .13 percent. And then all other
23 changes .51 percent, so that balances out to that
24 zero.

25 So we figured that's a really helpful

1 picture to explain to the Board members all the
2 different component parts because everything is
3 moving. Things are going up. Things are going down.
4 And that's a snapshot of what exists.

5 We also think that the Corporation
6 continues to demonstrate its commitment to stability
7 throughout the past decade, keeping rates consistently
8 amongst the lowest in Canada for comparable coverage
9 and service. So there we have the history of the
10 rebates and rate changes over the last fifteen (15)
11 years. And note that there have been four (4) times
12 in the past fifteen (15) years that PUB has ordered a
13 rate that's lower than applied for.

14 When comparing the auto insurance rate
15 increases in every other province, Manitoba has
16 maintained the lowest automobile growth in rates in
17 Canada. And that's demonstrated in this slide number
18 10. So that's provincial premium growth comparison.
19 So the red line is the -- the Canadian average, and
20 that's the median of Canada. The light teal-coloured
21 blue line is not MPI. That's the higher -- the
22 highest one (1) there, and that is Alberta. You can
23 see the Alberta rate increases. You can what the SGI
24 rate increases are, which is the green line.

25 And then the royal blue line at the

1 very bottom is Manitoba. So also figure that's a good
2 visual in terms of the increase in rates over time,
3 and can also give you the statistic that had MPI rates
4 increased at the same rate as the Canadian line, which
5 is that red line, then Manitoba ratepayers would be
6 paying 58.5 percent more than they are currently
7 paying today. So we think that's a great achievement
8 and success of the public auto insurance, and
9 Manitoba, and how MPI is also operating that and
10 administering it on behalf of the government.

11

12 (BRIEF PAUSE)

13

14 MS. KATHY KALINOWSKY: I want to talk
15 about the financial condition of Basic for a brief
16 moment here and the highlighted continued
17 vulnerability. And that's the description used by Mr.
18 Guimond to describe the financial condition of Basic
19 following the second quarter results. And that's on
20 transcript page 53. The precarious condition of Basic
21 is continuing. Basic has experienced two (2) years of
22 losses, \$69 million and 63 million, followed by a year
23 of \$2.4 million in income.

24 The Corporation just posted its second
25 quarter financial results, and we shared those I

1 believe the first day of the hearing. And that was \$5
2 million net, which although that's a positive net
3 income, is in fact \$33 million worse than the budget.
4 And, of course, Q3 and Q4, those quarters are of
5 concern due to the upcoming winter months, which
6 typically experience a much higher claims frequency
7 because of the winter with then accompanying poor
8 financial results.

9 So as at August 31st the RSR is at 128
10 million. So that's a \$49 million shortfall from the
11 \$231 million target, and those are rounded numbers.
12 Just six (6) months after the board of directors
13 transferred 75.5 million to replenish its previous
14 target of \$213 million. So you can see how quickly
15 things change in this corporation.

16 The purpose of the RSR, we've dealt
17 with that. It's been a accepted purpose since its
18 inception following Kopstein's report. In the GRA the
19 Corporation forecast what its income and expenses will
20 be in the future. And, likewise, the Corporation also
21 forecasts its income for those years. As has been
22 stated in many of these hearings, the Corporation does
23 not knowingly budget for a loss. The Corporation
24 budgets to break even. Based upon what is expected to
25 happen in the upcoming year, the Corporation's income

1 and its expenses should be equal.

2 Based upon these forecasts and
3 assumptions the appropriate rates are approved by the
4 Board, so the Corporation will ba -- break even over
5 the rating years. In reality, the forecasting of
6 income and expenses will never be a hundred percent
7 accurate. And as a result, in any given year the
8 Corporation will end up with either more or less money
9 than it had forecast.

10 When unexpected events or losses occur
11 the Corporation uses the RSR to pay for those
12 expenses, as the Corporation does not generate in that
13 year the money it requires to meet the li --
14 liabilities that occurred in that year. As such the
15 Corporation is required to spend money that it did not
16 bring in during that fiscal year. And the Corporation
17 has, consistently since the inception of the RSR, used
18 it to pay for those expenses.

19 This chart shows forecasted income and
20 expenses as compared to actual income and expenses
21 over the past seventeen (17) years. So the blue line
22 is the forecast, and that pink line is the actual, and
23 you can see the variation in the past few years and
24 variation over time.

25 There were only four (4) years during

1 this time frame that the actual and forecast amounts
2 were within \$10 million. And keep in mind that, in
3 recent years, MPI's assets have been around \$3
4 billion, and the revenue for Basic around \$850
5 million.

6 So having a variance of only 10
7 million, only 20 million, or only 30 million, though a
8 large number, of course, is extremely good for an
9 insurer of our size.

10

11 (BRIEF PAUSE)

12

13 MS. KATHY KALINOWSKY: I had passed
14 out copies of a quote, and rather than me reading it
15 in, I believe that Mr. Christle has passed it out to
16 the Board members. But it should be the quote that
17 begins on page 194.

18 So I'll just pause for a minute. And
19 rather than me reading it in, I'll just let the
20 individuals read it themselves.

21

22 (BRIEF PAUSE)

23

24 MS. KATHY KALINOWSKY: And then I've
25 also provided another quote at length. And I only

1 have three (3) of these, so bear with me on this, but
2 it's much better than me reading them into the record.
3 And the other one should start at one forty-eight
4 (148), and it's just two (2) -- two and a quarter (2
5 1/4) pages there. So if you could read that one, too.
6 Thank you.

7

8

(BRIEF PAUSE)

9

10 MS. KATHY KALINOWSKY: So I just
11 thought it was helpful to actually read what Ms.
12 Reichert had been -- and had said in both of those
13 instances, because I thought it was very thought --
14 well put, certainly better than the condensed version
15 on this slide, which is the accounting treatment of
16 the RSR, and the next slide, which is about the
17 PricewaterhouseCoopers's review there. So I don't
18 intend to go into those.

19

But I just did want to clarify that
20 it's MPI's position that expected events and losses
21 are those which are forecast, whereas unexpected
22 events and losses are not forecasted and therefore can
23 draw down or replenish the RSR within the minimum DCAT
24 and maximum MCT levels.

25

So with respect to the range, the

1 Corporation has applied for a range minimum and
2 maximum there. Two (2) objectives of any rate
3 application, pulling out objectives that I've reviewed
4 before, is ensure the sustainability and financial
5 soundness of Basic, and achieve an actuarial opinion
6 of having satisfactory future financial condition. So
7 MPI believes that all ratepayers will benefit when
8 those two (2) objectives are reached.

9 The PUB is aware that total equity --
10 equity needs to be in excess of \$231 million for the
11 chief actuary, Mr. Johnston, to state in his opinion
12 that MPI is in a satisfactory financial condition.
13 And in 2014/'15, the chief -- chief actuary, for the
14 first time in many years, provided such an opil --
15 opinion following the transfer of \$75.5 million.

16 However, with the currently diminished
17 RSR of \$182 million, unless something changes, the
18 chief actuary will be required to issue the opinion
19 that the future financial condition of Basic is not
20 satisfactory because there are indeed plausible
21 adverse scenarios that caused the statement value of
22 assets to fall below the statement value of
23 liabilities over the forecast period.

24 So the RSR and capital adequacy. Since
25 the depletion of the RSR in the 1990s, MPI and the PUB

1 and Intervenors have spent almost two (2) decades
2 trying to determine the methodology to calculate the
3 level of capital adequacy and the range for the
4 rebates.

5 There's a whole list of different
6 approaches that were reviewed, debated, adopted,
7 improved upon, rejected, and considered, and those go
8 from percentage of premiums, risk analysis, risk
9 analysis with the value at risk, the minimum capital
10 test, the dynamic capital adequacy test, and finally
11 back to the percentage of premiums. And next year,
12 we're hoping to add on there DCAT in terms of the
13 final determination.

14 This year, the -- MPI has great hopes
15 on the issue of the RSR is finalized for the
16 foreseeable future, and was greatly heartened to hear
17 Mr. Williams's desire of his client for, and then
18 quote, "putting the RSR issue to bed." Close quote,
19 transcript page 2,006.

20

21 (BRIEF PAUSE)

22

23 MS. KATHY KALINOWSKY: MPI has
24 recommended the DCAT since 2009 because it explicitly
25 measures the potential financial impact for the

1 Corporation's key risk factors, and produces an RSR
2 target that's directly related to the Corporation's
3 risk level. The DCAT is a process of analyzing, and
4 it's projecting the trends of an insurer's capital
5 position given its current circumstances, its recent
6 past, and its intended business plan under future
7 variety of scenarios.

8 It allows MPI to determine the
9 implications that its business plan has on capital,
10 and to identify the significant risks to which it is
11 exposed. For the first time ever, CAC recommended
12 that the DCAT be used provided that the combined
13 scenarios assume correlation is eliminated, and that's
14 from CAC's slide 138.

15 The Board in 2012 concluded, and I've
16 highlighted a couple of things there in bold that it -
17 - the DCAT methodology is an improved approach for
18 determining the target for the RSR over the current
19 methodology, however, some work is still required.
20 And the Board is pleased that the Corporation is
21 willing to be a more consensus-based in preparing the
22 DCAT, and that is receptive to aspects of the adverse
23 scenarios being discussed and revised. So that was
24 from the Board Order 157/'12.

25 And then the Board in 2014 concluded,

1 and I'll just read in the highlighted parts there, but
2 accepts that the DCAT methodology in principle, but on
3 a preliminary basis for the purposes of establishing
4 the RSR target range for Basic. And it accepts that
5 one (1) in forty (40) pro -- scenario probability
6 level. And it accepted the minimum RSR target should
7 be based on total equity, so that includes the AOCI.

8 So what's the role of DCAT, then, in
9 achieving rate predictability and stability? Well, at
10 the end of the day, when unexpected events and losses
11 do occur, those costs have to be paid by Manitoba
12 ratepayers. The question is: When and how much do
13 they pay? And we spent a lot of time at that hearing,
14 this hearing and past hearings working on that
15 question and working on that answer.

16 So the Corporation has emphasized the
17 importance of rate predictability and stability. This
18 occurs when the RSR is of sufficient size. If the
19 corporation -- Corporation operated in the absence of
20 an RSR, the unexpected losses of, for instance, \$132
21 million in the past two (2) out of three (3) years
22 would have -- have to be required in a very short
23 period of time.

24 So assuming the ballpark number is
25 around \$8 million is generated from each 1 percent

1 increase. So a rate shocking tree -- increase of 16.9
2 percent would have been required to recover those
3 losses. That certainly doesn't assist in the
4 objective of rate predictability or stability.

5 So an RSR range has to be established
6 to address those risks and those losses that occur
7 from those risks, and it has to be able to absorb.
8 And the RSR range also has to be able to be built over
9 a longer period of time because there is not the same
10 necessity to replace the losses quite as quickly. So
11 this removes rate shock and contributes to better rate
12 predictability and stability.

13 I wanted to spend a brief moment just
14 talking about the joint actuarial testimony. And it
15 worked fairly well with Mr. Johnston and Ms. Sherry,
16 especially considering as a first time anything like
17 that had been tried by the PUB or by MPI.

18 Both testified in a forthright and
19 professional manner. And I believe the Board was able
20 to hear directly from the actuaries any concerns and
21 recommendations that they had with each other's
22 positions.

23 MPI believes the Board was very well
24 served by this active exchange of dialogue between the
25 two (2) actuaries. And the Board was provided with

1 the best information upon which to make its decision,
2 and that's the importance for that type of testimony.

3 In the future, if this process were to
4 be utilized again, a possible revision may be to add
5 in the Board's actuarial advisor, although maybe in a
6 slightly different role and capacity yet to be
7 determined. But it might be helpful to have the
8 Board's actuarial advisor be able to directly question
9 both the chief actuary and the actuarial witness from
10 CAC.

11 So perhaps the Board actuarial advisor
12 would be exempt from answering questions and providing
13 evidence to preserve the independence of the Board,
14 but that might be something that we might want to
15 think about if we do something like this in the
16 future.

17 As part of the joint actuarial
18 testimony, Ms. Sherry put forward a very thought
19 provoking concept, and the quote is there.

20 "Our point is that it is not
21 immediately obvious that an RSR is
22 in the best interest of the
23 ratepayers."

24 From PUB/CAC-1-8. She then continued
25 to state that the RSR should not be so large as to

1 create a disadvantage to the economy and ratepayers
2 and at the ply -- applied-for \$231 million level, the
3 RSR was too large. Ms. Sherry reiterated that the
4 DCAT and MCT tests should not be used for the RSR,
5 since these are private sector tests for solvency,
6 which is not a risk for MPI.

7 A recurring theme throughout her
8 evidence was that anything a private insurer does to
9 determine its capital and levels under the DCAT and
10 the MCT seems to be inapplicable to MPI. However, the
11 Board in its past rulings has accepted the DCAT as an
12 appropriate test for MPI.

13 When pressed for details of what
14 assumptions her insurer includes in the DCAT, the
15 adverse scenarios chosen were very significantly more
16 adverse than anything that MPI uses, and thus yields a
17 much lower DCAT result for MPI and a higher DCAT
18 result for her insurance company. For instance, she
19 uses a one (1) year equity decline time horizon and a
20 hundred and fifty (150) basis points change in
21 interest rates.

22 So this glimpse into the realm of Ms.
23 Sherry's DCAT is not to negatively point out the
24 disparity between what she does at her insurer and
25 what she recommends, on the other hand, for MPI. Nor

1 is it in any way to cast aspersions upon her integrity
2 as a witness. Instead, the point of this is to show
3 how the DCAT has been tailored for MPI to reflect its
4 monopoly public auto insurance status. The point is
5 also to demonstrate to the PUB Board members that the
6 assumptions in the MPI DCAT are much, much more
7 aggressive than those used by the private insurer,
8 thereby yielding a much lower minimum amount compared
9 to a private insurer.

10 It should be noted that MPI faces the
11 same risks as private insurers from the equity market,
12 from inflation, and from inflation rates. As Mr.
13 Johnston at one (1) point stated:

14 "Just because we're a monopoly
15 doesn't mean we don't have esc --
16 equity risks or claims liabilities
17 risk, right?"

18 And that's at transcript page 165. By
19 using the CAC recommended four (4) year time horizon
20 for equity declines, there's a rebound in that period.
21 And, therefore, spread out over this period the risk
22 of equities is diminished. However, in the meantime,
23 the RSR might be depleted, and the Corporation during
24 that period of time is in an unsatisfactory financial
25 condi -- condition. And other adverse scenarios may

1 arise which may hinder the regrowth of the RSR, or
2 indeed contribute to further losses within the RSR.

3 So it's perplexing for us to see how
4 that recommendation can be in the best interest of
5 Manitobans. For purposes of the DCAT, the equity
6 decline sce -- scenario only factors into the combined
7 scenario, not as a stand-alone adverse scenario.
8 Furthermore, Mr. Johnston noted that to obtain the
9 opinion of satisfactory financial condition, the
10 question has to be asked, and quote:

11 "Does our forecast, with the
12 scenarios, stay above zero total
13 equity over the whole forecast
14 period at any point in the forecast
15 period, not just at the end?"

16 And that's transcript page 163. So at
17 any one (1) time the forecast cannot dip down to below
18 zero. For these reasons, MPI asks the PUB to reject
19 the CAC's recommendation that the four (4) year equity
20 return time horizon be utilized. And CAC's
21 recommendation was found at slide 141.

22

23 (BRIEF PAUSE)

24

25 MS. KATHY KALINOWSKY: On the adverse

1 scenario of interest rates, Ms. Sherry acknowledged
2 that, quote, "She feels Luke's pain." End quote.
3 Another quote, "It's a tough environment to forecast
4 interest rates in." Close quotes. And, the final
5 quote, "That's a tough one (1) to get around." Close
6 quotes. Those are from transcript page 1344 in
7 regards to interest rate forecasting.

8 She also then rather remarkably stated
9 that, and then quote -- this is from her testimony --
10 or from her recommendations of both herself and
11 Professor Simpson's evidence. The quote:

12 "The interest rate decline scenario,
13 and its contributions to the
14 combined scenario, should be heavily
15 discounted as it is not credible on
16 the basis of the evidence available.
17 We would suggest that it be given a
18 weight of zero and eliminated from
19 the consideration of the RSR
20 target."

21 Close quotes. So even though Ms.
22 Sherry acknowledged that interest rate risk is still
23 indeed one (1) of the major risks for MPI, and she
24 knows of no insurer that eliminates this risk in their
25 DCAT, she still criticizes the scenario used in the

1 DCAT, though was unable to provide any concrete
2 examples or suggestions that could be done for this
3 scenario. And that's from transcript page 1569.

4 So we -- MPI would very strongly urge
5 the PUB to ignore this recommendation. And indeed,
6 MPI was unable to determine, upon review of the CAC
7 closing argument, whether CAC also did in fact endorse
8 this recommendation of Ms. Sherry and Professor
9 Simpson.

10 This is simply not possible for either
11 MPI or for the PUB to assign zero credibility to one
12 (1) of the Corporation's major risks. In fact, to do
13 so would be irresponsible, I would argue. One simply
14 can't say that a major risk is too difficult to model,
15 and therefore just disregard it.

16 The purpose of the DCAT instead is to
17 assess and to model the risks. And if interest rate
18 risks are indeed a risk, then it can't be merely
19 ignored and it can't be merely eliminated.

20 So regarding the DCAT and the
21 collaborative approach that occurred over the past
22 year from -- following the issuance of Board Order
23 135/'14, Ms. Sherry acknowledged not participating in
24 it. She acknowledged not raising any DCAT issues with
25 Mr. Johnston nor contacting Mr. Johnston with

1 questions or concerns. And those were from transcript
2 pages 1572 to 1575.

3 It was also established that,
4 throughout the eight (8) months of collaboration, Ms.
5 Sherry never mentioned the one (1) in twenty (20)
6 probabilities are -- area once, although it forms the
7 cornerstone of her recommendation. It was further
8 established that neither she nor Professor Simpson
9 attended the live demonstration of the DCAT model,
10 though it was requested by CAC.

11 So in summary, MPI would have liked to
12 have seen much more involvement of CAC in the
13 collaborative process. It was a good opportunity for
14 robust discussions on various points of view and
15 assumptions.

16

17 (BRIEF PAUSE)

18

19 MS. KATHY KALINOWSKY: Need for a
20 range and forecasting risk. So the DCAT shows the
21 combined scenario resouts -- results for retained
22 earnings before management and before regulatory
23 action. So changes in retained earnings reflect
24 changes in net income, excluding AOCI.

25 Board members are aware that the DCAT

1 results are based on the collaboratively developed
2 risk models for claims incurred, for equities, and
3 interest rates. Variability in the DCAT modelled
4 results reflects the natural, random variability in
5 these risk factors. This random variation does not --
6 and I'll repeat, does not -- reflect poor forecasting
7 by the Corporation.

8 So as shown below, a single year net
9 income would be expected to dev -- deviate from budget
10 by \$102 million. So that's where you take the
11 difference between 108 and \$210 million in the final
12 column there. And that's every forty (40) years due -
13 - purely due to chance.

14 These figures exclude any other risk
15 factors not fully contemplated in the DCAT analysis.
16 Example is risk factors not reflected in the
17 historical period, abnormal one (1) time risks like
18 the 10 percent increase in collision severity
19 experienced in 2013/'14.

20 But other less probable but adverse
21 events would fall somewhere in the spectrum of a
22 single loss of zero to 102 million from the net income
23 budget.

24 If we look at the risk factors before
25 management and before regulatory action on a two (2)

1 year basis, the results are even magnified. For the
2 table that's actually on the next page here, the two
3 (2) year net income, as measured by changes in
4 retained earnings excluding management and regulatory
5 action, would be expected to deviate by 188 million.

6 So just flip forward to this. There's
7 the table there. So you see the two twenty-seven
8 (227) minus the \$39 million. And I'll flip back, so
9 that the two (2) years, when you do a two (2) year
10 running of net income, and that's excluding management
11 and regulatory action, so it would be expected to
12 deviate by \$188 million every forty (40) years purely
13 due to chance once again.

14 So other less probable but adverse
15 events would fall somewhere in the spectrum of two (2)
16 year loss of zero to \$188 million from the net income
17 budget. For instance, like the two (2) years of
18 losses experienced by MPI back-to-back totalling \$132
19 million.

20 So this random variability creates the
21 need for an adequate range for the RSR. Furthermore,
22 to achieve the mutual objectives of rate
23 predictability and stability, and having Basic in a
24 financially -- a satisfactory financial condition, an
25 adequate RSR range is required. This can be

1 accomplished by using the DCAT at the lower level, and
2 the MCT at the higher level.

3 I want to spend a moment talking about
4 correlation. So the issue of correlation was raised
5 during the closing comments by CAC regarding the
6 results and discussions around MPI Undertakings 38 and
7 39. So the Corporation did not dispute Mr. Williams,
8 that a reasonable actuary or statistician may conclude
9 that the ozerve -- observed correlations between
10 equity returns and changes in interest rates are not
11 statistically different than zero or, in other words,
12 a reasonable person might conclude that the two (2)
13 risk factors are indeed independent.

14 So it was Mr. Johnston's understanding
15 from the collaborative discussions that the historical
16 data, including correlations, should be considered in
17 the development of the combined scenario, and that's
18 what he did.

19 If the issue of correlation was raised
20 prior to the completion of the DCAT technical report,
21 and there was agreement from Mr. Johnston and from Mr.
22 Pelly in regards to this assumption, it's reasonable
23 to think that Mr. Johnston would have made this
24 adjustment to his report.

25 So per the CAC final arguments on

1 transcript page 1,985, it appears from our reading of
2 it that CAC considers itself willing to accept the
3 2015 DCAT report for the GRA with some future
4 considerations noted, and with the exception of the
5 correlation issue. So Mr. Johnston is willing to
6 revisit this assumption in next year's DCAT report.

7 However, if the Board considers the
8 correlation issue to be a key decision in the
9 acceptance of the lower RSR target, and Mr. Pelly is
10 in agreement with the need to assume independence
11 between equities and interest rates, then the
12 Corporation would be willing to accept a lower minimum
13 RSR target, and that target would be \$210 million.
14 And that's calculated as the difference between the
15 231 million proposed and the \$21 million reduction for
16 -- due to corr -- no correlation, and that is shown in
17 Undertaking number 38. And that's the table there
18 from Undertaking 38, which is MPI Exhibit number 61.

19 And I did want to say that -- note that
20 some of the tables, the -- they might not add up
21 perfectly, and that's because of rounding. So some of
22 the numbers may not add perfectly in all instances. I
23 mention that it's noted in this table, and it's in
24 other tables throughout the -- the presentation and
25 some of the exhibits that were filed throughout the

1 hearing.

2 So let's move towards risk tolerance
3 probability level, which is another aspect that the
4 Board heard a lot about in this hearing. So with
5 regard to the position of Ms. Sherry and CAC, that a
6 one (1) in twenty (20) year risk tolerance be -- level
7 be utilized, MPI notes that the risk tolerance had
8 already been adjusted down from one (1) in a hundred
9 initially, and then down to one (1) in forty (40) on
10 the discussions at previous hearings and technical
11 conferences.

12 This move is consistent with past Board
13 Order 135/'14, and the quote is there. MPI continues
14 to support this probability level as the minimum
15 target, being one (1) in forty (40), and the selection
16 of a risk tolerance level is largely a judgment call.
17 And MPI believes that PUB has already made that call,
18 and that call is one (1) in forty (40).

19 Ms. Sherry provided the following
20 rationale for a diminished RSR, and it's based on a
21 policy rationale rather than an actuarial rationale.
22 And I note that Mr. Gosselin asked a number of
23 questions, and she seemed to be wearing two (2) hats
24 at different times, once as on policy and once as an
25 actuary, and when was she wearing both? And she

1 acknowledged some difficulties with that, of -- of
2 course.

3

4 (BRIEF PAUSE)

5

6 MS. KATHY KALINOWSKY: The quote is --
7 is there. You can read that in. So the position of
8 the CAC actuary, and consistent with the CAC position
9 since approximately the 1990s, is that it's better for
10 the consumers to keep the money in their pockets
11 rather than MPI hold it in reserve for them.

12 So in other words, in the balance
13 between intergenerational inequity and predictable and
14 stable rates, for CAC, the weight is tipped
15 significant towards intergenerational inequity. It's
16 tipped the other way for MPI.

17 So for CAC, having reserve fund for
18 future unforeseen and adverse events violates
19 intergenerational inequity, so that's even though
20 every insurer has a reserve fund, OSFI requires one
21 (1). ICBC and SGI have reserve fund. And since
22 Kopstein's recommendation, both the Corporation and
23 the PUB have been fine with having a rever -- a
24 reserve fund.

25 So while intergenerational inequity is

1 important within the rate-making methodology, the
2 unique aspects of PIPP span multi-generations, and
3 we've got a whole list of bullet points there. And
4 you can recall perhaps Mr. Guimond speaking to those
5 bullet points, about the unique coverage of PIPP.

6 So at the end of the day, it's the PUB
7 which was going to have to decide the appropriate
8 balance between intergenerational inequity and
9 predictable stable rates, and flowing from that, the
10 magnitude of the RSR. This is a big job you guys
11 have.

12

13 (BRIEF PAUSE)

14

15 MS. KATHY KALINOWSKY: So we're here
16 for the final approval of DCAT as the minimum level of
17 the RSR at \$231 million. So we believe the time is
18 now to approve it. We've got bullet points there.
19 Its method is based on MPI-specific risks. It assists
20 management and the PUB in identifying -- in
21 identifying, measuring and mitigating key risks. It's
22 a clear linkage between the required RSR and the
23 amount of risk faced by MPI. The range will change
24 when MPI's risk profile changes. So every year that
25 number is going to change, because every year MPI's

1 risk profile will change.

2 The recent losses totalling \$132
3 million in two (2) consecutive years dramatically
4 demonstrates the need for a DCAT-based minimum. It's
5 a clearly documented process. It's peer reviewed by
6 the appointed actuary, Mr. Cheng. And it's reviewed
7 in detail at these hearings and through the PUB's
8 actuarial advisor and through a collaborative process.
9 And the direct input into the adverse scenarios and
10 assumptions was provided by the PUB's actuarial
11 advisor to the chief actuary throughout the
12 collaborative process.

13 So through two (2) technical
14 conferences, there were almost a dozen areas of
15 agreement between the parties, and much consensus was
16 achieved. And a further lengthy and intensive
17 collaborative process undertaking by email and some
18 telephone conversations between the Corporation's
19 chief actuary and the PUB's actuarial advisor has
20 resulted in a DCAT that is greatly improved and is
21 prepared by Mr. Johnston.

22 Furthermore, following the PUB's
23 advisor's direct input into the adverse scenarios and
24 assumptions, Mr. Johnston is able to opine on a DCAT
25 that will ensure Basic is in a satisfactory financial

1 condition.

2 So MPI respectfully submits that by
3 now, the PUB has enough evidence on and confidence
4 with the DCAT to determine an adequately funded RSR
5 lower level of \$231 million, or indeed lower if the
6 PUB goes for the independent rather than the
7 correlation in the combined scenario assumptions.

8 So I figured I'd continue here until
9 the end of the RSR section, and then we could take a
10 break if that's all right?

11 THE CHAIRPERSON: That would be fine.
12 Thank you.

13 MS. KATHY KALINOWSKY: I'm going to
14 talk briefly about the MCT as the upper range. So if
15 the Board wishes to protect ratepayers from the rate
16 increases made necessary by these unexpected events
17 and losses arising from non-recurring events or
18 factors -- that's the purpose of the DCAT, of course -
19 - the Board must establish an RSR range that is
20 adequate to meet the costs of those risks. So MPI has
21 applied for an upper range to the RSR to be a hundred
22 percent.

23 In making its application, the
24 Corporation notes that the MCT is being used for MPI
25 as a maximum level for capital adequacy, not as the

1 bare minimum as per OSFI, and a comparison to two (2)
2 of its sister Crown corporation insurers is important.
3 The other two (2) public auto insurers, SGI and ICBC,
4 use MCT as the minimum, whereas in Manitoba, we're
5 requesting to use it as the maximum for capital
6 adequacy.

7 So the benefits of the MCT test have
8 been before this Board in the past, and they were
9 reiterated again. So though it's a minimum, we're
10 actually using as a max -- a maximum. It assesses the
11 key risks by the insurance industry, and most of those
12 risks are relevant to MPI. It's used by all other
13 insurers, SGI and ICBC. It assesses the riskiness of
14 assets, policies, policy liabilities, and off-balance
15 sheet exposures by applying a consistent set of
16 factors. And those factors were developed by a task
17 force of insurance experts.

18 Measure the risk on MPI's current
19 financial statements or its current risk profile. The
20 calculation of the MP -- MCT score is completely
21 objective. No judgment required. It's running the
22 numbers. It's running a model. And the MCT score is
23 relatively easy to calculate. So given that MPI is
24 proposing to use it as a maximum, rather than the
25 industry minimum, and is proposing a hundred percent,

1 which is way, way, way lower than any private insurer
2 has for its capital adequacy, MPI considers the
3 hundred percent MCT to be a reasonable methodology to
4 calculate the top range of the RSR. Mr. Guimond, in
5 his testimony, also suggested that MPI would be
6 willing to revisit the level of the MCT to use as the
7 upper limit in four (4) years.

8 So as stated in the hearings and
9 several instances by Mr. Johnston, for instance, at --
10 at transcript page 154, the DCAT has been developed in
11 collaboration with the PUB advisors, and with CAC
12 stakeholders. So the DCAT is a key -- or sorry. The
13 key reason MPI proposes to use the hundred percent
14 DCAT -- or the hundred percent MCT is because it's an
15 objective measure of risk, and that it's independent
16 of an internal DCAT analysis.

17 So if we use the internal DCAT to
18 determine the MCT upper target, then we have
19 eliminated the benefit of independence between these
20 two (2) tests. The Corporation believes that the
21 hundred percent MCT target should be used as a
22 completely independent test relative to the DCAT, and
23 that this independent yardstick will be of benefit
24 both to the Corporation and the Board in assessing the
25 appropriateness of the DCAT results.

1 So when you look at the DCAT and
2 compare it to the MCT, the DCAT has many compromises
3 that have been made to certain assumptions in the
4 analysis, such as equities, such as inflation. And
5 Mr. Johnston mentioned those at transcript page 419.
6 There's other risks in the DCAT that are difficult to
7 quantify, for examp -- instance, policy liabilities.
8 It's -- that's transcript page 419. And the
9 assessment of any risk factor beyond the one (1) in
10 forty (40) year events is never going to be perfect,
11 as indicated by Mr. Johnston in -- at transcript page
12 420.

13 So the DCAT is a difficult tool, and
14 that contrasts with the simplicity of the MCT, which
15 is just running a number, so to speak. So the
16 independence of the test of MCT can be contrasted in -
17 - with the DCAT, and that the independence of that
18 yardstick can be of benefit both to MPI and the PUB in
19 assessing the appropriateness of the DCAT results
20 relative to that industry baseline.

21 So MPI doesn't have the benefit of
22 comparing our DCAT to other DCAT reports as these
23 reports are proprietary. The MCT is utilized by
24 virtually every other P&C insurer in Canada, and as
25 there are minimum capital requirements, it's 150

1 percent minimum for private insurers and 100 percent
2 minimum for SGI and ICBC.

3 So MPI is not proposing that it ever
4 holds capital in excess of the 100 percent MCT. That
5 would be time to discuss rebates. But it's simply an
6 independent -- it's an industry-accepted yardstick
7 that MPI encourages the Board to utilize to establish
8 the upper target.

9 Mr. Johnston candidly asked at one (1)
10 point, What's wrong with accepting the MCT as the
11 upper range? And that's transcript page 1320.

12 And we believe it's eminently
13 reasonable for MPI to use it, and this approach has
14 been endorsed by the MPI board of directors, by Crown
15 Corporation's counsel, and by the Government of
16 Manitoba through the minister responsible for
17 administering MPI. So the time is now.

18 Predictable and stable rates are
19 important to Manitobans as, presumably, is having MPI
20 -- or Basic in a satisfactory financial condition.
21 The purpose of the RSR, we've dealt with that. The
22 purpose has not changed since its inception, and
23 there's no reason to change that purpose now.

24 The RSR protects ratepayers from the
25 rate -- from the risks of rate instability. The

1 Kopstein Report and the PUB recognize that the RSR
2 should be expressed in terms of a range.

3 The Kopstein Report in its time
4 considered the best available options of the day to
5 establish a reserve that ensured predictable and
6 stable rates. So it used the percentage of premiums.

7 Similarly, we would submit to this
8 Board that the PUB should use the best available
9 modern financial tools that exist today to continue to
10 maintain predictable and stable rates in the future.
11 We don't think that it's appropriate to use outmoded
12 calculations based on arbitrary numbers that are
13 indeed unrelated to the plausible risks facing MPI.

14 So the Corporation has recommended the
15 DCAT at a one (1) in forty (40) year risk tolerance
16 level and for the lower level, and the MCT at a ratio
17 of 100 percent to be used for the upper level.

18 Following several years of refinement
19 of the DCAT in extensive collaborative exercises with
20 the PUB and Intervenor, the Corporation believes the
21 PUB now has the information to rule upon the range of
22 the RSR. So public auto insurance benefits
23 ratepayers, and it also ben -- benefits the Government
24 of Manitoba, and you heard Mr. Guimond speak to that.

25 So a cornerstone of the success of

1 public auto insurance is predictable and stable rates.
2 An appropriately sized RSR contributes significantly
3 to the long-term success of public auto insurance in
4 Manitoba. And it's within the Board's jurisdiction to
5 approve what Manitoba ratepayers want, which is
6 predictable, stable rates.

7 An RSR range established using the 2015
8 DCAT as a minimum and a hundred (100) MCT as the upper
9 limit will go a long, long way to ensuring predictable
10 and stable rates. Ultimately, we believe that
11 Manitobans deserve to have a public auto insurer that
12 is in a satisfactory financial condition. And we urge
13 the Board to make a ruling now for this to occur.

14 I'm going to talk just briefly before
15 the break about transfers from the competitive lines.
16 The Corporation's board of directors, based upon the
17 spirit -- and that was a word used by Mr. Guimond in
18 his testimony -- based upon the spirit of last year's
19 order, were willing to replenish the Basic RSR to
20 ensure the satisfactory financial condition of Basic.

21 And, as at February 28th, 2015, \$75
22 million was transferred to the Basic RSR from the
23 Extension line of business. The specific amount of
24 \$75.5 million was chosen as that brought the RSR into
25 the minimum target as prescribed by the 2014 DCAT,

1 which at that time was 213 million. Had the financial
2 results been worse from that year, a larger sum of
3 money would have been transferred to ensure that Basic
4 was in a satisfactory financial condition, and that's
5 at transcript pages 292 to 297.

6 So this \$75.5 million transfer of
7 excess retained earnings from the competitive lines to
8 replenish the Basic RSR is really quite extraordinary,
9 and it's a reflection of the concern regarding the
10 current financial vulnerability of Basic.

11 The Corporation has committed to fund
12 any shortfall in the Basic RSR from the competitive
13 lines of business if the conditions listed in the
14 CEO's presentation are satisfied. And those
15 conditions are contained in slides 12 -- or 11 and 12
16 of his presentation that he went through the first two
17 (2) days -- or the first day of the -- of the hearing.

18 Mr. Guimond also noted that with the
19 recent financial results, the Corporation may be in a
20 similar position this year, and provided a commitment
21 to fund any shortfall in the Basic RSR from the
22 competitive line of business. There's a quote there:

23 "If we continue down this path, that
24 the Corporation is willing to
25 transfer another \$50 million if it

1 has to depending upon what happens
2 at the end of the fiscal year. It
3 might be less, or more, but we will
4 make sure that the minimum amount is
5 there."

6 Close quote, transcript page 297. So
7 if the RSR were to stay at the same level as its
8 current \$182 million at the end of the second quarter,
9 then the Corporation will transfer almost \$50 million
10 to ensure the satisfactory financial condition of
11 Basic as set by the lower level of the RSR. The
12 phrasing used was that, "We would cover the gap," and
13 that's from transcript page 214 of Mr. Guimond's
14 quote.

15 So if the DCAT is approved, and we note
16 that Board counsel specifically asked a question on
17 that, but the response is, is that whatever the gap is
18 between the financial results and the DCAT result, MPI
19 would transfer that amount of money to cover the gap,
20 assuming of course there's sufficient excess capital
21 in the extension line of business to do so.

22 And then there's the quote from Mr.
23 Guimond:

24 "The idea is to immunize Manitobans
25 from ever having to have a

1 rebuilding fee for the RSR."

2 And I just wanted to end here on the
3 RSR section by providing a lengthy quote from Mr.
4 Guimond, and it's the one that starts at page 757.
5 And it encompasses so much about the RSR, and I've
6 provided it to you. It's about -- it's five (5) or
7 six (6) pages, but there are some parts blacked out to
8 try and focus you in on this. But Mr. Guimond spoke
9 with great passion at that time about the importance
10 of the RSR and what it means for public auto
11 insurance. So I'll urge you to read it right now.

12

13 (BRIEF PAUSE)

14

15 MS. KATHY KALINOWSKY: I think that
16 summarizes it for the RSR. So at this point, I'd like
17 to take a break, so I'll move into another area.

18 THE CHAIRPERSON: Just before we
19 leave, Ms. Kalinowsky, Mr. Gosselin has a question for
20 you.

21 MR. REGIS GOSSELIN: The -- you didn't
22 address the argument that was made by CAC to the
23 effect that the MCT was primarily a solvency test. Do
24 you have any views about that?

25

1 (BRIEF PAUSE)

2

3 MS. KATHY KALINOWSKY: In his
4 testimony, Mr. Johnston, this year and a number of
5 years, has always agreed that MCT is a solvency test.
6 I didn't specifically address it in terms of its
7 relevance in terms of solvency, but, of course, what
8 we did mention is that the MCT measures risks just
9 like the DCAT measures risks.

10 So the MCT groups together, bundles
11 together, puts into a bucket the risks and comes up
12 with a risk margin that is set by OSFI. So I spoke
13 about OSFI uses the MCT as a solvency test. But OSFI
14 -- really what we are trying to do with the MCT is use
15 it as an independent -- independent measuring stick.
16 So, yes, we're using a solvency test. We've got it at
17 a different level. We're using it for upper level.
18 But it's a good yardstick to measure against the DCAT.

19 The DCAT has been tailored. The DCAT
20 has been consistently chipped away at. There are very
21 aggressive assumptions within the DCAT. So we thought
22 that -- let's do two (2) different tests rather than
23 just using one (1) test, and within those two (2)
24 tests, we can find an acceptable range.

25 MR. REGIS GOSSELIN: You say a

1 companion piece through that argument from CAC was the
2 notion that one should use DCAT at a higher
3 probability level to establish the upper end of that
4 range. So, you know, I think you made a convincing
5 argument that we should use DCAT for the lower end.
6 CAC then says, Why don't we use the same test, higher
7 probability, at the upper end?

8

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(BRIEF PAUSE)

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MS. KATHY KALINOWSKY: Lots of people
eager to jump in with things to say, and impart to all
of the -- the knowledge of everybody here. But CAC,
yes, did ask for the DCAT at the higher level arguing,
Well, if you're going to use it for the lower, just
change the probability levels one (1) to twenty (20)
to one (1) to forty (40) there. So if the DCAT
determines the MCT target, however, then the two (2)
tests are no longer independent of each other.

So the DCAT might yield the wrong
answer at the higher end, just by looking at the
probability levels. But what about looking at the
equity scenarios, the interest rates? All those have
been tailored so much, and the assumptions hammered
and hammered repeatedly over a number of years through

1 these hearings and the collaborative process. So
2 looking at why just change the probability level when,
3 in fact, some of the assumptions have been so tailored
4 down and whittled away?

5 So we want to use the MCT as a check on
6 the DCAT. So the MCT is there. It's ready to measure
7 the risks. We think it very strongly that it should
8 be used as an independent test of -- separately from
9 the DCAT. And we also acknowledge that the DCAT, of
10 course, is a solvency test in its own regard.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: Okay. Thank you
15 very much. We'll take a fifteen (15) minute break,
16 and we'll return at 10:30.

17

18 --- Upon recessing at 10:14 a.m.

19 --- Upon resuming at 10:31 a.m.

20

21 THE CHAIRPERSON: Thank you very much.
22 We'll continue with the proceedings, and I'll invite
23 Ms. Kalinowsky to continue her closing arguments.

24 MS. KATHY KALINOWSKY: Thank you. I
25 want to take another attempt at answering Mr.

1 Gosselin's two (2) answer -- or two (2) questions
2 there. But I did want to say that yes, both the MCT
3 and the DCAT are solvency tests. But it's MCT still
4 that measures plausible risks.

5 So just because we're a Crown
6 corporation the public may think we can't be
7 insolvent. But it would still be viewed by many that
8 we were not managing appropriately if we did not show
9 results that would make any private insurer insolvent
10 (sic).

11 That's kind of the higher level of
12 terms of policy. And I've got a technical response
13 that I partially put in the record, and I'll put a
14 larger technical response in.

15 But it's -- as we stated in the
16 hearings at several instances, and Mr. Johnston did
17 this at transcript page 1000 -- or, sorry, transcript
18 page 154, the DCAT has been developed in collaboration
19 with the PUB and CAC. The DCAT is a professional risk
20 analysis that follows actuarial standards of practice,
21 and the report has been reviewed by multiple
22 actuaries.

23 That said, there have been compromises
24 made to certain assumptions, that whittling away that
25 I referred to. So compromises made to certain

1 assumptions in the analysis, so that is such as the
2 equities and such as inflation. And there are other
3 risks that are very difficult to quantify such as the
4 policy liabilities for unpaid claims.

5 And the assessment of any risk factor
6 beyond one (1) in forty (40) events is never going to
7 be perfect, as mentioned by Mr. Johnston. So one (1)
8 of the key reasons that MPI proposes a hundred (100)
9 MCT is that, because it's an objective, it's that
10 objectivity, it's the objective measure of risk that
11 is independent of the internal DCAT results and the
12 internal DCAT analysis.

13 So if we use the internal DCAT to
14 determine the MCT upper target, then we have
15 eliminated the benefit of the independence between
16 these two (2) tests.

17 So MPI believes that the upper 100
18 percent MCT target should be used as a completely
19 independent test relative to the DCAT, and that this
20 independent yardstick will be of benefit to both the
21 Corporation and the Board in assessing the
22 appropriateness of the DCAT results relative to the
23 independent industry baseline.

24 So we don't have the benefit of
25 comparing our DCAT to other DCAT reports. But again,

1 the MCT is utilized by virtually every other P&C
2 insurer in Canada as their minimum capital
3 requirement. And that's 150 percent level for other
4 private insurers, and it's 100 percent minimum for SGI
5 and ICBC.

6 So hopefully that provides a bit better
7 of a response to add on to the elements that I
8 provided earlier.

9 I did want to speak now about interest
10 rates. So interest rates, we talked lots about them.
11 It's the risk of economic loss resulting from market
12 changes and interest rates and the impact on interest
13 rate-sensitive assets and liabilities.

14 So interest rate risk arises due to the
15 volatility and uncertainty of future interest rates.
16 So, in general, when interest rates increase, MPI will
17 see favourable financial results. It's not been the
18 case recently.

19 The higher the interest rates, the less
20 money that has to be set aside to pay out long-term
21 claims. When interest rates increase, then claims
22 liability decrease. However, when interest rates
23 increase, the value of the marketable bond portfolio
24 increases -- or, sorry, decreases historically. And
25 remember that the basic bond portfolio is

1 approximately \$1.3 billion, out of which 800 million
2 is marketable.

3 So historically, small changes in
4 interest rates can therefore have a very significant
5 effect and impact on interest investment income, but
6 this has been managed better by the move last year to
7 plus or minus one (1) year duration matching and a
8 move this year to full matching.

9 So the forecast of MPI for interest
10 rates. Consistently over the past, we've used five
11 (5) major banks and Global Insight. And generally, in
12 each of those years, the forecast has been for
13 interest rates to increase about three hundred (300)
14 basis points over the five (5) year period.

15 Consistently, however, the forecasts
16 have been much higher than what the actual interest
17 rates were. And interest rates in fact declined even
18 further. So since last year, unfortunately, interest
19 rates decreased even further, hitting floors that are
20 indeed unprecedented and even negative in European
21 jurisdictions. So MPI continues to use the interest
22 rate forecasts of the five (5) major banks and Global
23 Insight.

24 So in her opening comments, Ms.
25 Reichert provided an update of the interest rate

1 forecasts to September 30th, 2015, and we've got that
2 chart. That should be familiar to all the Board
3 members. It's been presented a number of years in a
4 row.

5 And the red thick line is the GRA
6 forecast, and that was based on the March forecast at
7 the time, and then the purple line at the bottom is
8 the September 2015 forecast. But what is remarkable
9 is every one of those years, it just keeps going down,
10 down, down, down, down. And the impact upon the GRA,
11 as mentioned earlier, is that if we use the September
12 30th, 2015, interest rate forecast, then a 1.6 percent
13 rate increase would have been requested.

14 So last year, the PUB approved an
15 additional 1 percent beyond the 2.4 percent applied-
16 for rate, reflecting, amongst other things, the
17 October 2014 interest rate forecast. And that's PUB
18 Order 135/'14, page 16. So in doing so, MPI avoided a
19 deficiency in premiums for the upcoming year.

20 Investment income fluctuates, and we
21 have there a -- the historical and what the forecast
22 is. And it's -- the blue line is the overall Basic
23 investment income, and the green line is excluding the
24 marketable bonds. And you can see there -- the
25 dramatic difference there in terms of the smoothing,

1 that's the -- when you exclude the marketable bonds.

2

3

(BRIEF PAUSE)

4

5

MS. KATHY KALINOWSKY: So over the
6 rating years, and the -- so the two (2) years there,
7 the average Basic invests -- investment income is
8 forecast for \$12.9 million. This relatively low
9 investment income is negatively impacted by the \$75.9
10 million losses averaged on the marketable bond
11 portfolio. So if the total losses on marketable bonds
12 from the rising interest rate were excluded, then the
13 Basic investment income would be \$88.8 million on
14 average over this time.

15

So when looking at the investments,
16 it's always important to note that the marketable bond
17 losses from the rising interest rate forecast,
18 however, are offset by a corresponding decrease in
19 claims due to the Corporation's duration matching
20 policy. So with full duration matching of bonds and
21 claims liabilities now in place, the impact of
22 interest rate changes have been significantly
23 mitigated.

24

Last year, the total income allocated
25 to Basic was \$188 million. That was an absolute

1 record. This year, it's forecasted to be a loss of
2 \$10.8 million. The negative investment forecast is
3 due to projected losses of \$90 million in the
4 marketable bond portfolio. These marketable bond
5 losses are primarily driven by the external forecast
6 for the government of Canada ten (10) year bond rate,
7 which is forecasted to increase by seventy-four (74)
8 basis points.

9 But if the impact of changing interest
10 rates was excluded, i.e., total losses on marketable
11 bonds was zero, then Basic investment income would
12 have been \$104 million in 2014/'15, and a more
13 comparable \$79.8 million in 2015/'16. And that's from
14 MPI Exhibit number 51.

15 The Canadian equity portfolio would
16 include some publically traded common stocks and
17 preferred shares listed on Canadian stock exchanges.
18 It's managed by three (3) active managers, and they
19 are under contract from the Department of Finance.
20 Realized gains or losses in dividend income flow
21 through the profit and loss statement. So unrealized
22 gains and losses are reflected in other comprehensive
23 income.

24 The forecast rate of return for
25 Canadian equities is based upon the 5th percentile

1 twenty (20) year annualized return as per Board Order
2 157/'12. Using this formula, the forecast return is
3 7.4 percent using an index data back to 1956. So
4 MPI's previously used forecasted returns of 6.1 and
5 6.2 percent in the 2012 and 2013 GRAs, that was the
6 amount.

7 So this is a more aggressive forecast
8 methodology which results in a higher forecasted
9 investment income from equity returns. Well, in the
10 first six (6) months of this year, the overall
11 corporate investment income is a \$15.5 million loss to
12 date. And the Canadian equities are budget to achieve
13 a \$9.7 million return in the current fiscal year.

14 So given the current state of the
15 Canadian equity market, the forecast \$9.7 million
16 return may be doubtful, barring a very quick rebound
17 in the markets in the next four (4) months, so we
18 maybe -- might have to brace ourselves for that.

19 The volatility is demonstrated by that
20 graph of equities. And again, in reviewing this
21 chart, you have to remember that equities are held for
22 the long-term and have indeed added value.

23 The Board members questioned the value
24 of the Canadian equity managers. And we filed MPI
25 Exhibit number 52. And that demonstrates the return

1 net of fees since inception, net current equity
2 managers have added, and that's \$90.7 million. And
3 you have a quote from Ms. Reichert there. We've done
4 very well with the equity managers. They've in fact
5 added and continue to add value. It's a long-term
6 view. Even though equities right now are in a bit of
7 a slump, you can see from inception they have managed
8 to do quite a bit better than what the index would
9 indicate.

10 So there you can see the difference
11 between the net index return and the net value added
12 since inception of the Canadian equities managers that
13 we currently have. And, of course, the -- the full
14 exhibit was filed, which included managers which had
15 been terminated, but on an overall basis, the return
16 was -- still added significant value to the
17 Corporation.

18 Ms. Reichert also pointed out that if
19 the Department of Finance were to choose to use
20 exchange traded funds, then the net value added would
21 be very, very close to the index as it is, in essence,
22 a matching of the index. So it's highly unlikely that
23 there would be any net value added anywhere close to
24 what is delivered by the current value equity managers
25 now or since inception. And that's from transcript

1 pages 875 to 877.

2 So there's differences in the 2014/'15
3 forecast to the actual. And there's the amount, \$34
4 million versus \$226 million. Overall Basic shares
5 \$188 million there. So this variance, which is
6 positive, \$191 million, is attributed to interest
7 rates falling instead of increasing as forecast and
8 from the higher income due to the strong performance
9 of the Canadian equities.

10 So the total gains for marketable bonds
11 were higher than forecast by \$164 million. In last
12 year's submission, interest rates were forecast to
13 increase by .71 percent by the end of the year to 3.14
14 percent. The Canadian -- the Government of Canada ten
15 (10) year bond rate, however, actually decreased by
16 1.13 percent to 1.30 at the year's end.

17 Canadian investment -- equity
18 investment income from dividends and realized gains
19 was \$26.8 million higher than forecasted. Canadian
20 dividends were a hundred -- were \$14.3 million higher
21 due to the capital dividend payout when the index pool
22 fund was liquidated. Realized gains were \$12.2
23 million higher due to strong returns of the Canadian
24 market. And actual marketable bon -- gon -- bonds
25 gained due to decreasing interest rates, and higher

1 than forecasted equities explained the \$191 million.

2 So in the first six (6) months of this
3 year versus the six (6) -- first six (6) months of
4 last year, we're looking at something very, very
5 different -- different in investment income. So we
6 see this year a decline in the investment income of
7 almost a hundred million dollars in six (6) months
8 from the foreca -- from what occurred last year. So
9 it's the \$96 million decrease in unrealized gains is
10 the key driver there.

11

12 (BRIEF PAUSE)

13

14 MS. KATHY KALINOWSKY: The Corporation
15 has worked very significantly with the Department of
16 Finance on the asset and liability duration matching.
17 Board members have heard a lot about this, and we have
18 a duration matching program that offsets the impacts
19 of changes in interest rates on marketable bonds and
20 claims incurred. So we first began forecasting the
21 impact of interest rates on fixed income assets and
22 claims liabilities in 2013/'14 years. At that time,
23 the duration of fixed income assets were within two
24 (2) years less than the duration of claims
25 liabilities.

1 We then reduced it to one (1) year.
2 And this step was taken to mitigate the negative
3 impact that changing interest rates could have on net
4 income. And throughout this year MPI, with the
5 Department of Finance, tendered for a full asset
6 liability management study to be conducted, and Aon
7 Hewitt was the successful proponent.

8 So the Ao -- Aon Hewitt study was
9 conducted in phases. Final recommendations are
10 adopting a new asset allocation with no recommendation
11 to add new or remove existing classes. And, two (2),
12 tightening the current duration matching strategy to
13 better mitigate the Corporation's interest rate risk.
14 So those are the two (2) main outcomes from the ALM
15 study.

16 So with respect to the recommendation
17 of adopting no new asset allocation and no
18 recommendation to add new or remove existing classes,
19 the old targets and the new targets were altered
20 there. And MPI is currently underway in doing that.
21 And by doing so, this will reduce the overall risk to
22 the portfolio.

23 Then the second recommendation is
24 tightening the duration matching strategy to better
25 mitigate the Corporation's interest rate risk. So to

1 implement this strategy, the difference between the
2 duration of the assets and the duration of the claims
3 liabilities are reduced from plus or minus one (1)
4 year duration gap to full duration matching including
5 the actuarial provisions. This tighter heading --
6 hedging strategy will improve the effectiveness of
7 interest rate risk management strategy, and it's much
8 more cost-effective than a cla -- cash flow matching
9 strategy or the hybrid approach.

10 So there are a lengthy list of
11 approvals and processes that are required to go
12 through in something of -- of this. And you can see
13 what occurred. And ultimately the matching -- the
14 management guideline for perfect duration matching was
15 determined to be plus or minus twenty-five (25) years.
16 Point -- plus or minus point twenty-five (.25) years.
17 So a quarter.

18

19 (BRIEF PAUSE)

20

21 MS. KATHY KALINOWSKY: As can be seen
22 from this exhibit, and this is Exhibit number 51 that
23 was filed in the hearing, the last five (5) years
24 shows significant volatility in actual results, and
25 compared to budget for the last two (2) years in

1 particular. The forecast for the next five (5) years,
2 with perfect duration matching, is much less volatile.
3 This means if the forecasted interest rates do not
4 occur, the variances will not be as significant. The
5 impact to retained earnings will be less significant,
6 and rates will be more stable and more predictable.

7 By implementing the new asset
8 allocation, and assuming a full duration matching,
9 Basic net income is reduced by \$7 million in one (1)
10 year and by \$1.2 million on average over the rating
11 years. And we mentioned that in this year's
12 application the fixed income portfolio duration is to
13 be fully matched to the corporate claims liability
14 duration.

15 Moving into motorcycle rates.
16 Motorcycles have experienced a decline in loss costs
17 for the last several years. MPI has applied for an
18 8.2 percent decrease in motorcycle rates. Unlike
19 other vehicle types, motorcycle claims do not vary
20 greatly relative to the value of the motorcycle.

21 There is significant variability in the
22 historical loss ratios for the motorcycle major class
23 given that approximately 85 percent of claims costs
24 are for injury claims. And more than half of these
25 costs are from a very small number of very serious

1 loss incidents.

2 The volatile claims experience of a
3 motorcyclists class is evidenced in this chart. And
4 so the blue shaded area there is the loss costs per
5 year. And you can see the variability from the 4
6 million to the 6 million, up to 13 million and then
7 down to 8, 8, 8 million, up to \$13 million, down to
8 six (6), down to five (5), up to twelve (12), and down
9 to eight (8).

10 That's an enormous amount of
11 volatility, and that compares to the premiums. And
12 the premiums are, in the past several years, much more
13 stable.

14 So contrary to Mr. Oakes, MPI believes
15 that it would be remiss to think about this 2006 year
16 as an outlier. In fact, claims experience -- when you
17 go back, claims experience for 2006, 2010, and 2013
18 remain very, very similar.

19 If it were not for this continued up
20 and down of claims experience, especially as recently
21 of -- as 2013, the Corporation could think large and
22 hard about removing the 2006 data as Mr. Oakes
23 suggested. But motorcycles have experienced a decline
24 in loss costs for the past several years.

25 The CMMG disappointment in seeing their

1 rates decrease at a slower rate of decline than the
2 past year's claims experience is indeed
3 understandable. Their unease is easily observed in
4 that table in the difference between the premiums
5 collected versus the claims experience or in the
6 actual loss ratios.

7 However, for stability purposes, all
8 motorcycle claims are averaged out over ten (10)
9 years' duration. So even that past year has seen
10 favourable loss experience for this class, given the
11 small number of unit holders accompanied by the
12 volatility in that claims history, MPI strongly
13 believes that a ten (10) year historical period
14 continues to be used for rate setting.

15 Furthermore, the ten (10) year loss
16 averages also assist if the claims experience were to
17 go the other way and increase in a spike. So we'll
18 smooth on the way up also. This smoothing has been
19 consistent with the ten (10) year consistent rule, and
20 it goes both ways, on the way up and the way down, for
21 claims experience.

22 Mr. Oakes has done an excellent job in
23 advocating for lower motorcycle rates on behalf of
24 CMMG. However, the claims experience and the
25 volatility speaks for itself.

1 (BRIEF PAUSE)

2

3 MS. KATHY KALINOWSKY: Operating
4 expenses. Demonstrated quite vividly in the following
5 chart, it shows the overall forecasted Basic expenses
6 in this year's rate application are favourable when
7 compared to last year.

8 Forecasted expenses are lower than the
9 prior year, primarily as a result of enhanced
10 corporate cost-containment measures, and these have
11 been implemented throughout this year.

12 One (1) of the largest contributors to
13 reduced expenses in this year's application is the
14 reduction of thirty (30) FTE positions. And that's
15 included in the 2015/'16 budget.

16 Other areas of cost containment include
17 building expenses, data processes expense categories.
18 This pie chart shows the composition of the expense
19 categories. You can note there that compensation, the
20 blue, forms 58 percent of the corporate expenses.

21 Within compensation, there's four (4)
22 key drivers, and Ms. Reichert spent a lot of time
23 speaking to this -- these four (4) drivers. The first
24 driver is the economic increases, and that represents
25 the contractual wage increases as specified within the

1 collective agreement. And you can see what we've put
2 in there, and that has been explained on the record in
3 terms of the forecast amount.

4 Have steps in scale increases. The
5 forecast used is 1.75 percent which is consistent with
6 the prior years and that, in and of itself, is
7 adjustment to the steps in scales, results in an
8 estimated reduction of \$2.4 million in 2015/'16 and
9 '17 together.

10 And the FTE counts. That table, five
11 (5) year historical and five (5) year forecast of
12 actual, and the budgeted staff levels. And you can
13 see the budgeted staff levels have remained fixed.

14 The variance to budgeted FTEs is a
15 reflection of the Corporation's vacancy management
16 program, and this also shows the thirty (30) FTE
17 budgeted positions that have been eliminated. And
18 that, in and of itself, is a \$1.5 million reduction.

19 Finally, the vacancy allowance. It's
20 currently budgeted at \$6 million. Not all FTE
21 positions will be filled. This explains how that
22 works. Salary dollars are not paid which reduces
23 salary expense, and it's forecasted to grow in
24 lockstep with the others.

25 So the table below shows the year-over-

1 year forecasting methodology using all the expense
2 drivers together, and you can see the changes of -- in
3 the red, and we -- we tried to make this table
4 perfectly legible, and we just couldn't in terms of
5 how it was transferred from one exhibit into the
6 PowerPoint presentation, so it is slightly blurred,
7 and I apologize for that but it still is legible
8 there. But you can see the 1.09 percent increase in
9 red with three point seven four (3.74) in -- percent
10 increase, and the 3.35 percent increase there.

11 So further to this, corporate expenses
12 we presented via three (3) magic -- major categories,
13 and one of them is normal operating expenses. And you
14 can see there, that's the green which is the lion's
15 share at 96 percent of operating expenses versus the
16 improvement initiatives and ongoing improvement
17 initiatives, which are 4 percent.

18 So with this chart, it just shows
19 Basic's normal operating expense for 2015/'16
20 decreased by 0.9 percent from the previous year, and
21 increases only 1.2 percent for the upcoming year and
22 2.5 percent in the second rating year 2017/'18. And
23 this chart was in the evidence as Exhibit number 8 at
24 page 30, which was Ms. Reichert's presentation at the
25 beginning.

1 We did want to mention that there are
2 fluctuations in other years where there is higher
3 dollar amounts per -- because there is projects --
4 higher dollar value projects completed compared to
5 other years, and this creates large fluctuations in
6 the amortization and depreciation line items.

7 So last year we said it, and we'll say
8 it again, that the normal operating expenses are not
9 the key driver of the zero percent rate change this
10 year. These 1.2 percent and 2.5 percent increases
11 incorporate mandatory economic and steps in scale
12 increases. That's at 3.9 percent and 3.4 percent.
13 And those are still in line with the forecasted CPI.

14 And we do have upcoming negotiations
15 with the auto body repair industry. And those results
16 are included in the claims incurred costs, not in the
17 operating costs. And that was from transcript page
18 102 but we just want to really clarify that if there
19 are concerns in that regard.

20 MR. REGIS GOSSELIN: Why -- why
21 despite CPI? I'm -- I'm a bit confused by that term.
22 That -- this is slide 85.

23 MS. KATHY KALINOWSKY: Sorry, this
24 slide?

25 MR. REGIS GOSSELIN: Eighty-five (85).

1

2

(BRIEF PAUSE)

3

4

MS. KATHY KALINOWSKY: The 1.2 and 2.5 percent, those increases are what we forecast are expenses to go up by. That compares to CPI, which is 1.8 and 2 point something in those years. Sorry if I misspoke.

9

10

(BRIEF PAUSE)

11

12

MS. KATHY KALINOWSKY: This year at the hearing, there was a significant amount of questioning by the Board members, by counsel and by Intervenors on the use of consultants. There was also criticism from Intervenors in their closing arguments. Mr. Guimond fielded most of those questions pointing out the following reasons for using consultants. They're listed there.

20

Mr. Guimond also noted that it's not MPI's preferred practice to hire IT consultants and that indeed, MPI could be further ahead on corporate initiatives at a lower cost if more IT workers were employees than consultants. And that's from transcript page 912.

25

1 CAC has asked for a plan to reduce the
2 external staff in a cost-effective manner and for MPI
3 to justify whether the level of consultants is indeed
4 justified. MPI can provide such a review.

5 It's in the interest of ratepayers, we
6 believe, to proceed with initiatives such as PDR to
7 update software and to maintain current IT
8 infrastructure, and -- and consultants are and will be
9 used to do so. These initiatives are undertaken for
10 the benefit of ratepayers to continue to provide
11 adequate service and adequate coverage. The sole way
12 MPI is able to accomplish these undertakings is by
13 resorting to the use of IT consultants.

14 However, with the current conditions,
15 it's the only route available to ensure that MPI meets
16 its business objectives on the corporate initiatives
17 and continues operating its IT systems.

18

19 (BRIEF PAUSE)

20

21 MS. KATHY KALINOWSKY: IT
22 expenditures. Board counsel in her closing comments
23 pointed out that IT costs have compounded increases of
24 12.3 percent over time. As has been addressed several
25 times in recent hearings, this is due to a history of

1 underspending on IT and a nede -- necessity to embark
2 upon what is termed 'repair-the-roof-type-
3 maintenance'.

4 And maybe the Board members will recall
5 -- or some of the Board members will recall when we
6 brought Mr. Geffen here, from the Gartner Group, to
7 explain that. The forecasted spending on IT operating
8 expenses is starting to level off at a 2.5 percent
9 compounded growth rate over the next five (5) years,
10 as indicated in that chart. And that's from Volume II
11 expenses, Appendix 14, page 35.

12 We believe that all IT expenditures
13 have been necessary, prudent and reasonable on behalf
14 of Manitoba ratepayers. So let's talk about cost
15 containment. The Cost Containment Committee has terms
16 of reference, and the objectives are set out there.

17

18 (BRIEF PAUSE)

19

20 MS. KATHY KALINOWSKY: I can indicate
21 that the Corporation takes very seriously its
22 responsibility to provide excellent service to its
23 customers while controlling operating costs, and also
24 implementing the various cost containment initiatives.
25 And the reason MPI is not seeking a 1 percent increase

1 in rates this year is because of the \$8.5 million save
2 through cost containment. So we listened.

3 There was a Board order two (2) years
4 ago critical of MPI's operating costs, put together a
5 cost containment committee, and here are the results.
6 The Corporation continuously manages its expenditures,
7 and we believe that we've made the case that these
8 expenditures are with the appropriate degree of fiscal
9 prudence.

10 Physical damage re-engineering is an
11 enormous transformative program. This major
12 initiative, over the next few years, will deliver and
13 orchestrate the improvement of a full cycle of
14 physical damage claims management services, and it's
15 being done in conjunction with the auto body repair
16 industry. And it's going to meet the evolving needs
17 for quality, safety, cost control, and service. The
18 claims administration pro -- process will strive for a
19 seamless interplay with the various incidence touch
20 points. And it's doing this by leveraging technology
21 and staying abreast of new and emerging technologies
22 and processes, and implementing these where
23 appropriate.

24 Once completely implemented in 2019,
25 PDR is going to have a \$13 million reduction in costs,

1 including \$10 million directly related to reducing
2 claims costs. MPI agrees with CAC's characterization
3 of PDR as an ambitious and potentially transformative
4 vision. And so accordingly, MPI is taking a measured
5 approach, and given the scope and duration of this
6 project, will take the necessary time to replan, as
7 appropriate, to mitigate risks. MPI has every
8 intention of mitigating -- mitigating these risks.

9 So, so far in PDR, we've completed
10 collaborative estimating. And that's to ensure that
11 all three hundred (300) auto body shops have the
12 common technology platform with MPI. That was an
13 enormous amount of work. There's over three hundred
14 (300) repair shop. They have thousands of employees
15 of body shops. And those employees have varying
16 levels of IT readiness, as you could imagine. And
17 they also have -- it involves changing their work flow
18 processes. So we finished that. It's been
19 successful.

20 We're embarking now on distribute
21 estimating. And that will allow auto body repair
22 shops to complete the first estimate, so the estimate.
23 Thereby, the customers don't have to come in to the
24 service centre for their first estimate. And they
25 instead bring their vehicles directly to a -- a auto

1 body repair shop. This is a really, really big change
2 in how MPI operates. And we're doing a lengthy pilot
3 with various types of shops, and that is underway
4 right now. And there will probably be several pilots.
5 And pilots, like all pilots, have success points and
6 have points that are room for improvement. That's the
7 purpose of having it as a pilot.

8 So we believe that it's necessary to
9 address the point made by Mr. Williams regarding the
10 original PDR schedule compared to the original
11 schedule. And a transformative project unfolds as
12 it's worked on. So, yes, and these are quotes:

13 "We never thought that the
14 structural change in the auto
15 industry would be as significant as
16 it would be. We never thought that
17 the investment level would be as
18 significant as it was. This is a
19 game changer. We didn't realize how
20 fast the changes in the auto repair
21 industry would go."

22 All these quotes are from Mr. Guimond
23 on pages 975 to 982. And they go to demonstrating the
24 complex, transforming nature of the PDR project. And
25 a recognition and the aggressive handling of these

1 challenges are going to lead to the successful
2 outcome. So it's important to note the significant
3 structural changes occurring in the industry, some of
4 which even have occurred after the initiation of PDR.
5 So when things are changing, because the industry is
6 always changing, you have to recalibrate PDR all the
7 time.

8 We want to assure the PUB that although
9 the schedule has been adjusted, MPI is still on track
10 from a budget and from a cost savings. We want to
11 assure the PUB that many of the scheduled changes were
12 to accommodate business partners in the auto body
13 repair industry. It's imperative to have the data to
14 negotiate for the upcoming contract negotiations in
15 2016. Thus, the reason for the additional pilots.

16 MPI needs to execute PDR in a manner
17 that ensures the support of the auto body repair
18 industry and, most importantly, the customers. We've
19 got to get this right, and we are going to get it
20 right. There's simply no basis that PDR expenditures
21 are either imprudent or unreasonable.

22 Mr. Williams asked for a in-camera
23 briefing on the results of the distributed estimating
24 process. And we can say that we'll keep the Board and
25 we'll keep Intervenors -- Intervenors informed of this

1 MS. KATHY KALINOWSKY: Road safety and
2 loss prevention. I just want to take an opportunity
3 to clarify something that, even though Ms. Reichert
4 put this into the record, I just wanted to clarify it
5 again.

6 So while it may appear that the road
7 safety budget had decreased, this is only due to the
8 fewer number of immobilizers required as that program
9 nears completion.

10 In addition, the road safety operating
11 budget does not include the approximately \$4 million
12 that is being spent on the initiative to improve high
13 school driver education. That money, that \$4 million,
14 is in the improvement initiative bund -- budget under
15 Corporate Initiatives, and that's from transcript page
16 647.

17 Furthermore, comparisons on road safety
18 spend with SGI and ICBC are not necessarily accurate
19 because their programs are so different. For
20 instance, ICBC undertakes infrastructure improvements,
21 and SGI includes in their road safety budget entire
22 departments that MPI operates under the DVA line of
23 business. So it really is apples and oranges in terms
24 of the spend there.

25 The Board for a number of years has

1 find the exact chart in the Rate Application, and I'll
2 get back to you on that, Ms. Neville. Right now we
3 can say that it does include the ongoing high school
4 driver ed program. That's a large portion of it. It
5 does include the Immobilizer Program, which is
6 tapering off. It does include our advertising, and
7 the advertising is largely in the three (3) areas of
8 impaired driving, seat belt usage, and distracted
9 driving. And it also includes signage for that
10 intersection initiative that Mr. Guimond spoke to.

11 There's a number of other items, too.
12 We can just get to it in a -- in a moment, but it did
13 not include that high school driver ed corporate
14 initiative of redoing the whole corporate -- of
15 redoing all of high school driver ed, and that's that
16 \$4 million. So it has the regular operating expenses
17 but not the corporate initiative of redoing high
18 school driver ed.

19 MS. ANITA NEVILLE: Thank you.

20

21 (BRIEF PAUSE)

22

23 MS. KATHY KALINOWSKY: Last year there
24 were sixteen thousand one hundred and ninety-three
25 (16,193) bodily injury claims. That's an average of

1 forty-four (44) Manitobans each and every day were
2 injured. So each and every day, our staff is there
3 for those Manitobans. Our staff is acutely aware of
4 the human cost experienced by these Manitobans
5 involved in motor vehicle accidents.

6 At these hearings, so much is presented
7 as numbers. Numbers are required because the Board is
8 approving a rate. The rate is a number. The rate
9 will generate revenue expressed as a number, part of
10 which will pay the costs, again expressed as a number,
11 associated with the road safety program. That is why
12 at this hearing we discuss matters in terms of numbers
13 on spreadsheets.

14 For our staff, it's not about num --
15 numbers, however. Our staff work and live with the
16 human costs of these accidents every day. They're
17 caring Manitobans. They're public servants, proud,
18 who work on a daily basis with fellow Manitobans whose
19 lives are tragically transformed by motor vehicle
20 accidents.

21 MPI staff understand better than anyone
22 in these proceedings the human and societal costs of
23 motor vehicle accidents. They know the people, and
24 the lives of the people who are presented to this
25 Board in this rate setting forum as a number on a

1 spreadsheet.

2 So although the Corporation speaks of
3 numbers in this rate setting forum, the work of the
4 Corporation is done in other forums where numbers are
5 secondary to the primary function of fulfilling MPI's
6 mission of working with Manitobans to reduce risk on
7 the road.

8

9 (BRIEF PAUSE)

10

11 MS. KATHY KALINOWSKY: Okay. I can
12 mention that the entire road safety financial
13 breakdown by program area Basic's share is contained
14 in a table, and we can get a copy to you later on, but
15 it's in the Rate Application in Volume I under loss
16 prevention and road safety, and it's Attachment A.
17 And we'll just ensure that a copy is made for you, Ms.
18 Neville, so you can see it at your convenience.

19

20 (BRIEF PAUSE)

21

22 MS. KATHY KALINOWSKY: On the issue of
23 numbers and road safety, there's been a lot of
24 discussion about the need to quantify the societal
25 costs of motor vehicle accidents as compared to claims

1 costs.

2 Each accident causes damages, and there
3 are costs associated with those damages. Whether the
4 costs of any given accident are high or low, they're
5 often determined by fortuitous events occurring in
6 fractions of a second. And that's from transcript
7 page 1,680 to 81.

8 The goal is to prevent the accidents in
9 the first place. Every accident that is prevented by
10 a road safety measure has a cost savings.
11 Unfortunately, there's no way of measuring accidents
12 that did not happen because of a road safety measure.

13 For many years, we presented evidence
14 regarding the nature and scope of the various
15 components. The Board's been informed about details
16 of high school driver ed, cooperation with law
17 enforcement, advertising campaigns, education. The
18 Corporation has kept the Board apprised of these
19 activities.

20 Nevertheless, the Corp -- the Board,
21 the PUB, had concerns about road safety program, not
22 the activities themselves, but whether there was a
23 strategy around these activities and whether the
24 spending on road safety programs was being optimized.

25 So in the Board Order 135/'14, you

1 asked for an independent review. And so is the road
2 safety budget appropriate and being optimally used?
3 So we have three (3) bullet points there that are
4 taken verbatim from the serious strategic solutions
5 conclusion there. And I'll just let you take a quick
6 look at those.

7

8 (BRIEF PAUSE)

9

10 MS. KATHY KALINOWSKY: And then the
11 next slide, 101, is also a direct quote from the
12 serious strategic solutions review.

13

14 (BRIEF PAUSE)

15

16 MS. KATHY KALINOWSKY: So we like the
17 conclusions of this independent review. We think the
18 key takeaway for the PUB is to -- is that the
19 Corporation has developed a framework based upon best
20 practices for road safety prioritization and for
21 evaluating road safety and for decision making and
22 road safety.

23 There is an effective strategy in place
24 for improving road safety. The Board should be
25 pleased with this information. Its concerns have been

1 addressed by this report.

2 So the Corporation's road safety
3 program is rooted on a clear understanding of its role
4 in road safety within the Province. So improving road
5 safety in Manitoba will be achieved by a number of
6 stakeholders working together collaboratively.
7 Ultimate responsibility for improving road safety
8 rests with the Government of Manitoba, and this is
9 different than SGI.

10 So MPI has indicated that societal
11 costs are considered at the pris -- at the provincial
12 level, and that's transcript page 1,682. So the
13 government has established the Provincial Road Safety
14 Committee, and that's co-chaired by MPI. The
15 objective, to enhance road safety and reduce the
16 number and severity of the collisions, as well as the
17 number of collision injuries and fatalities, by
18 synthesizing efforts in those areas and fostering
19 coordination, collaboration between the departments
20 and stakeholders.

21 And these are the other objectives and
22 purpose of the Provincial Road Safety Committee. So
23 the purpose of the committee isn't going to redefine
24 the legislative mandate for participating
25 organizations, including MPI, and the logical areas of

1 accountability stemming from these mandates. Rather,
2 the committee will guide a more strategic and much
3 more holistic approach to addressing road safety in
4 Manitoba through stakeholder engagement, through
5 cooperation, and through collaboration. For us, it's
6 important to note that at this cid -- committee,
7 that's the appropriate forum to address societal
8 costs.

9 The Corporation's role in road safety
10 does not end, of course, with that provincial
11 committee. The Corporation has set out its strategy
12 for road safety and its loss prevention and road
13 safety framework. And that's provided in Volume I.

14 The Corporation's strategy includes an
15 operational plan and framework for its road safety.
16 The Corporation has redefined how it establishes its
17 priorities. It's redefined how it evaluates programs,
18 and redefined how it engages stakeholders. So this
19 robust analysis and evidence-based decision making
20 will be the key towards the future success of this
21 Road Staf -- Safety Program.

22 So MPI recognizes that working with
23 stakeholders is crucial for the success of road
24 safety. This ongoing collaboration has been
25 intentionally woven through the entire loss prevention

1 framework and through the road safety frameworks that
2 have been developed. It's an important work that has,
3 and it's going to continue to happen throughout the
4 year outside of this hearing process for those
5 stakeholders and -- such as CAA, CAC, and CMMG that
6 are interested in working together towards the common
7 objectives of road safety.

8 The Corporation was pleased with the
9 CAA closing comments about improvements they've seen
10 in the Corporation's Road Safety Program, and how it
11 aligns to priorities. And don't have the quote here,
12 but I can mention that Mr. Williams says at transcript
13 page 1,977:

14 "I've complimented MPI enough on
15 road safety. Here's some of the
16 stuff that our client likes. Makes
17 me uncomfortable complimenting them
18 so much, so I'm just going to move
19 on, here."

20 But I put the quote in. We believe
21 that Ms. Johnston (sic), that was their witness, was
22 heard, and we see some progress and we want to
23 acknowledge it.

24

25

(BRIEF PAUSE)

1 MS. KATHY KALINOWSKY: On the other
2 hand, Bike Winnipeg attacked the Corporation's Road
3 Safety Program, but -- by stating, "We don't know what
4 the program is." We find that perplexing given that
5 Bike Winnipeg is participating in the external
6 stakeholders committee on loss prevention.

7 And MPI filed about ten (10) reports in
8 its application on road safety. That includes the
9 loss prevention strategy and framework, IBM's report
10 on MPI loss prevention strategy and framework. It
11 filed the graduated licence -- graduated driver's
12 licensing program analysis. It filed the Driver
13 Education Program, the analysis of driver testing,
14 collision, and conviction. It filed the High School
15 Driver Education Program redevelopment project. It
16 filed the operational plan and framework for road
17 safety programming. It filed the 2015 Manitoba
18 awareness and enforcement integrated calendar. It
19 filed numerous maps on road safety accidents, and it
20 filed the review of MPI Road Safety Program matters.

21

22 (BRIEF PAUSE)

23

24 MS. KATHY KALINOWSKY: MPI has an
25 external stakeholders committee on loss prevention.

1 The terms of reference have been filed, and the
2 purpose of the committee is outlined in there. Bike
3 Winnipeg is a member of that committee and would have
4 participated in the drafting of the terms of
5 reference. But importantly, as the -- the takeaway on
6 road safety, the common theme of the road -- the
7 Corporation's Road Safety Programs is one (1) of
8 collaboration with others.

9 We've got to work with the other
10 stakeholders. They have a lot to bring to the table.
11 The Corporation can't change road safety in the
12 province, and can't change Manitobans' road safety
13 behaviour on its own. This success will, however,
14 occur when MPI and its external stakeholders work
15 together to achieve their common goal.

16

17 (BRIEF PAUSE)

18

19 MS. KATHY KALINOWSKY: Moving towards
20 the end, I wanted to state that we have a number of
21 comments on Intervenors' arguments. And as stated
22 earlier, we were very pleased to hear some of the
23 closing arguments of CAC, CMMG, and CAA, which had
24 many complimentary things to say about MPI. And we
25 were particularly pleased in this hearing to hear of

1 the fairly high degree of consensus amongst those
2 intervenors regarding the rates.

3 CMMG, of course, has issues with the
4 motorcycle rates, but overall, you know. And, in --
5 in fact, two (2) of the intervenors, CAC and CAA,
6 supported the Corporation's overall rate appl --
7 application for a zero percent rate change. And CAC
8 counsel even noted that a 1 perc -- 1.6 percent
9 increase would be reasonable. I think that's
10 unprecedented in the MPI hearings that I've attended
11 over the years.

12 And I think what this goes to is it
13 really shows the strength of MPI's rate-making
14 methodology that's been tested and improved upon so
15 many times through this hearing process of -- in the
16 public rate hearings. So the consensus, we believe,
17 between some of the intervenors and the Corporation is
18 real positive.

19 There are a couple aspects on the
20 hearing process that MPI wishes to comment on. I've
21 already talked about the joint actuarial testimony,
22 which we believe worked very well. And we commented
23 favourably on working collaboratively with the PUB
24 actuarial advisor, and we believe that CAC could have
25 added much to that process.

1 The Corporation always tries to engage
2 at the operational level with its stakeholders
3 throughout the year. This can yield positive results.
4 And I'll use the example of CMMG as a positive result.
5 Mr. Houghton came in his -- and provided a
6 presentation. He's one of the Board members of CMMG.
7 And he noted that MPI introduced new motorcycle
8 insurance products. He noted that MPI funded
9 motorcycle charity rides. He noted that MPI funded
10 motorcycle safety courses.

11 And MPI's chief actuary attends
12 meetings with CMMG, including the CMMG annual general
13 meeting to explain motorcycle rates. That can
14 probably -- you can imagine that's a daunting process
15 for Mr. Johnston to attend that, and he has attended
16 that a number of years in a row.

17 And although CMMG does not always
18 achieve everything on its wish list, especially lower
19 motorcycle rates, there's a constructive relationship
20 that occurs outside of this hearing process with both
21 parties working together. Inside the PUB hearing
22 forum, CMMG counsel capably works through cross-
23 examination on rates, and he advances many arguments
24 for lower motorcycle rates, which is expected and
25 appropriate. And he wants us to take preventative

1 measures so we don't all have to underwrite undulating
2 ungulates, and the impact they have on the claims
3 costs.

4 CAC counsel also presents itself in a
5 very favourable manner, and we work collaboratively
6 with them also. Unfortunately, this is contrasted
7 with the position and the relationship with Bike
8 Winnipeg, which seemingly uses the PUB process to
9 advance its position on road safety and unfortunately
10 doesn't work actively as much with MPI, with the
11 government, and many other stakeholders, on the road
12 safety committees.

13 And, in fact, Bike Winnipeg does not
14 take a position on rates. We would strongly, strongly
15 urge Bike Winnipeg to work with MPI throughout the
16 year in the road safety forum, and we believe that
17 much can be accomplished. So three (3) of the
18 Intervenors, which are CAA, CMMG, and CAC, commented
19 favourably on road safety approaches taken by MPI, and
20 in particular, the road safety committees that they
21 participate on. This is to be commended. They are
22 to be thanked.

23 The Corporation will work diligently
24 with CAC, CMMG, and CAA, and others, on the road
25 safety committee to address all the matters that --

1 and try and reduce risk on the road. Con -- believe
2 that we can be successful in working together, and MPI
3 strongly encourages Bike Winnipeg to avail itself of
4 those opportunities.

5 With that, I'd like to move to the
6 conclusion. And the theme in the conclusion, and
7 throughout this closing submission, has been one of
8 consensus.

9

10 (BRIEF PAUSE)

11

12 MS. KATHY KALINOWSKY: And often we
13 here at MPI feel that sometimes the Corporation isn't
14 given a fair opportunity in the sense of putting
15 forward everything good that happens, because the
16 nature of cross-examination, particularly by the
17 Intervenors, is often in the sense of trying to show
18 some of the areas that MPI needs to improve upon.

19 So it doesn't take into -- into account
20 all of the good things that have happened. And
21 instead, they're looking at what we consider to be
22 some of the outstanding items that we haven't achieved
23 consensus on.

24 So we don't want the Board in any way
25 to mistakenly conclude that exploring and challenging

1 of the Corporation's position is in evidence on lack
2 of consensus between the Corporation and the
3 Intervenors. It'd be mistaken to come to this
4 conclusion if the Board members were to focus on some
5 of the smaller aspects of these differences and ignore
6 a lot of the very large areas where we have achieved
7 consensus, and particularly the goal of rate setting.
8 There's an exceptional amount of consensus on that.

9 So we started off talking in the
10 closing argument, mentioning these goals for rate-
11 setting process. And I said that they're pretty good
12 in terms of trying to use that as a format for the
13 Board's decision. And the Board may want to use these
14 as a basis for its findings when making its rate
15 order.

16 So I thought I'd go through each one
17 (1) of those goals. So the goal is listed at the top
18 there to provide Basic ratepayers with rate
19 predictability and stability.

20 And, look, there's a -- there's a
21 consensus that DCAT is the appropriate tool for
22 determining the lower level of the RSR. And we
23 believe that the Board should use this consensus as
24 part of the basis for making its findings.

25 Although there was consensus on this

1 point, there was no consensus on the detail, and it is
2 a detail, on whether the lower level of the RSR should
3 be set by one (1) in forty (40) probability or one (1)
4 in twenty (20) year scenario.

5 The Board's going to have to make a
6 decision on that point, and for reasons previous
7 stated, should make a finding in favour of the one (1)
8 in forty (40) probability level scenario.

9 And in recent years, there seems to be
10 consensus amongst the Corporation and the Intervenors
11 that the ALM deratch -- duration matching has assisted
12 in contributing to rate stability. And the applied-
13 for zero percent rate increase is clearly a stable
14 rate when compared with previous years.

15 So CAC came what I think is as close as
16 possible to stating that a principled approach to
17 rate-setting process would see an overall 1.6 percent
18 rate increase. And a 1.6 percent overall rate
19 increase would fall within the definition of rate
20 stability, should the Board choose to do that.

21

22 (BRIEF PAUSE)

23

24 MS. KATHY KALINOWSKY: I must be
25 getting tired, because I keep hitting the on/off

1 button instead of the advance on the computer. So
2 sorry, I'm getting tired in that regard, I guess, so.

3 Another item that the -- or one (1) of
4 the mutual objectives is set rates that are just and
5 reasonable. Argue that a -- and I think the con --
6 Intervenors very much ad idem with the Corporation on
7 this of a zero percent increase. CAC even thought a
8 1.6 percent increase would produce just and reasonable
9 rates.

10 And whichever these rate increases or
11 somewhere in between that the Board may ultimately
12 decide is the appropriate overall rate increase should
13 be satisfied that the parties to the hearing believe
14 that the result is going to be just and reasonable.

15 Offer amongst the lowest rates in
16 Canada. We've previously submitted evidence that
17 Manitoba ratepayers amongst -- pay amongst the lowest
18 rates in all of Canada. This was not challenged, and
19 the Board can assume that there's a consensus amongst
20 the Corporation and Intervenors that a zero percent
21 overall rate increase or even a 1.6 percent overall
22 rate increase would continue to -- to position
23 Manitoba as having amongst the lowest rates in Canada.

24 I can say with respect to CMMG,
25 obviously there's a difference there. And we would

1 say that with respect to the rate that CMMG pays and
2 their membership pays for motorcycle rates, it's
3 extremely, extremely hard to compare, because the
4 coverage is so dramatically different to other
5 insurers there.

6 So, yes, though the motorcycle rates
7 in, let's say Alberta, just to use an example, for
8 motorcycle rates are significantly less than in
9 Manitoba, the coverage that one has with that
10 motorcycle is dramatically, dramatically less than
11 what MPI offers.

12 MPI has a number of cases in which some
13 of the individuals with motorcycle injuries are --
14 each one is well over a million -- several million
15 dollars at times. Places like Alberta, it's capped at
16 -- is it under a hundred -- a hundred -- medical is
17 capped at a hundred thousand dollars, so it's
18 dramatically different there.

19 And you can understand some of the
20 differences that people might have when they're
21 comparing it to their friends there in Alberta and
22 they're paying a much cheaper rate. Well, yes, you
23 are paying a cheaper rate, but what you're paying for
24 is in no way, shape or form similar.

25 I think I just mentioned it -- this

1 already.

2

3

(BRIEF PAUSE)

4

5

MS. KATHY KALINOWSKY: Both the
6 Corporation and CMMG agree that motorcycle rates
7 should go down significantly to reflect claims
8 experience. Maybe it's the speed at which this has
9 happened, that we're saying 8.2 percent when you use
10 the ten (10) years. CMMG wants to cut off that 2006
11 year and have it a shorter smoothing period and,
12 therefore, a 12 percent decrease is appropriate.

13

So the difference in the two (2)
14 proposals is based upon the number of years of claims
15 experience considered. CMMG wants the shorter period,
16 and that emphasizes recent claims experience, but the
17 Corporation wants to caution the Board on that.

18

If CMMG's proposal is adopted and let's
19 say it's shrunk down to five (5) years or -- instead
20 of ten (10) years, then one (1) bad year of claims
21 experience in the future will have a greatly much more
22 negative impact in the Corporation's model because
23 right now it's smoothing it out over a longer period
24 of time.

25

So what's good on the up has to be good

1 on the down is what MPI is saying. Let's use a longer
2 period, ten (10) years, that's what we use throughout
3 the claims forecast, and deal with it that way.

4 I want to talk about one (1) of the
5 other objectives, ensuring the sustainability and
6 financial soundness. The consensus is for DCAT in
7 that regard, and lack of consensus is based on what
8 the Corporation characterizes as a difference between
9 ideology and the practical reality. I -- I addressed
10 that and said that the Board is likely going to have
11 to decide between the principles of intergenerational
12 inequity versus predictable stable rates, and therein
13 will lie the -- the Board's judgment as to what the
14 Corporation should do in that regard.

15 We believe the sustainability and
16 financial soundness of Basic is insured through the
17 appropriately sized RSR. The Intervenors, on the
18 other hand, seem to accept that if the RSR depleted,
19 then ratepayers can pay higher rates at that time or
20 the government can perhaps transfer money to MPI.

21 The Corporation is, just as a reminder,
22 not seeking an RSR that approximates capital levels of
23 ICBC or SGI. And, you know, CAC publically stated
24 public automobile insurance is highly valued by
25 Manitobans. And let's not put this at risk because of

1 a difference in the ideology between these approaches.

2 We need very much an actuarial opinion
3 that has to be provided to ensure there are sufficient
4 reserves to meet the risks facing the Corporation.
5 Consensus on the DCAT, as a mentioned earlier. And
6 it's very important for this actuarial opinion to --
7 to be there for the Corporation.

8 CAC only recently proposed the one (1)
9 in twenty (20) year scenario. That seems to be
10 inconsistent with what the Board has historically
11 considered appropriate. And we argue that the CAC
12 proposal is not reasonable for that lower threshold of
13 one (1) in twenty (20) and would subject the
14 Corporation and its ratepayers to undue risk and
15 ultimately to greatly fluctuating rates that could be
16 very, very large increases.

17

18 (BRIEF PAUSE)

19

20 MS. KATHY KALINOWSKY: I mentioned
21 this briefly, but last year we submitted to evidence a
22 document entitled, "Value for Manitobans," and that
23 was to provide value for the ratepayers for what
24 they're paid in rates.

25 With respect to the clearly defined

1 processes, the last one of the objectives, at past
2 hearings some of the Intervenors have raised concerns
3 about the lack of transparency.

4 Over the past few years the Corporation
5 has continuously tried to improve its application to
6 be better organized, to be better focussed, and to
7 more clearly address the issues of concern for the
8 Board and for the Intervenors. The filing has been
9 expanded greatly in detail, and MPI worked with the
10 Board advisors on the minimum filing requirements.
11 The Corporation likes to believe that in doing so it's
12 greatly improved the public rate-setting process.

13 There doesn't seem to be concerns
14 raised this year about lack of transparency about how
15 rates are set. And we appreciate that this year the
16 number of Information Requests were reduced from
17 previous years, as has the number of hearing days. So
18 to sum up then, the consensus that exists on having a
19 clearly defined process for setting rates publicly was
20 probably best expressed by the CAA in this transcript
21 here.

22

23 (BRIEF PAUSE)

24

25 MS. KATHY KALINOWSKY: So the

1 Corporation would like to urge the Board, in making
2 its decision on the order, to achieve those seven (7)
3 objectives of the rate-setting process. And
4 accordingly, the Corporation stands by its
5 application. And we believe that the DCAT is indeed
6 ready to be adopted by the PUB to establish the
7 minimum level of total equity. We believe that the
8 MCT a hundred percent is a very conservative maximum
9 level for the RSR. And MPI is willing to review the
10 use of the MCT for the maximum in four (4) years, and
11 provide the PUB with comfort that this upper limit is
12 still appropriate.

13 So in closing, we'd submit that we
14 believe we -- the Corporation has satisfied the onus
15 as applied for them. And we've placed sufficient
16 evidence on the record to approve the rates as applied
17 for. It is critical for the Corporation to achieve
18 the order by December 1st, 2015. And we do note that
19 this hearing is ending a little bit earlier than some
20 of the other in previous years, so that should assist
21 the Board.

22 But it really is important to have the
23 Board order on or about December fif -- 1st, 2015,
24 because of the large system changes that are required.
25 You can imagine, there's a million insured units, and

1 each one (1) of those has to be run in terms of their
2 rates. We have to draft a new regulation by
3 legislative counsel. The certificates in rates
4 regulation is in excess of nine hundred (900) pages,
5 and has to be drafted for that. And there has to be
6 approval by cabinet for that. And that's in keeping
7 with mind that these are for rates March 1st, but we
8 send out the notices forty-five (45) days in advance
9 for payment. So it's a very tight framework of -- or
10 timeline that we have to work together.

11 So with that I'd like to thank the
12 Board members and wish them the best of luck in their
13 deliberations. I want to thank the Board secretary,
14 and Mr. Christle, and Diana. She does a absolutely
15 tremendous job of working with this system.

16 I'd like to commend the Board on
17 getting this online system. It has facilitated the
18 hearing process immeasurably. Last year I had the
19 lawyers from the legal department come and watch, and
20 just see how an online, interactive system works. And
21 they were very impressed, and wish the court system
22 could have something like this, too. But I just want
23 to thank everybody, thank the Intervenors, and thank
24 the Board counsel and their advisors. And, of course,
25 the court reporter. Thank you very much.

1 THE CHAIRPERSON: Thank -- thank you,
2 Ms. Kalinowsky. We just have one (1) or two (2)
3 questions, if you'll abide by that.

4 Mr. Gosselin...?

5 MR. REGIS GOSSELIN: Okay. I have a
6 few -- a few questions for clarification. You will
7 recall a discussion between M. Guimond and Mr.
8 Williams regarding the issue of benchmarking. And
9 specifically the discussion was around the notion of a
10 working group to further refine the benchmarks that
11 are currently in place. And you didn't comment on the
12 -- on that in your closing comments.

13 And was that just an oversight, or
14 could you -- do you wish to comment at all -- at all?

15

16 (BRIEF PAUSE)

17

18 MS. KATHY KALINOWSKY: Yes, we stand
19 by what Mr. Guimond has said previously on
20 benchmarking when he spoke I believe questions to Mr.
21 Williams, but I believe also one of the Board members
22 also asked some questions on benchmarking, too.

23 So we would be willing to look at it,
24 however, within the confines of the precondition that
25 any of the benchmarking framework and numbers that are

1 ultimately derived aren't in conflict with what the
2 government of Manitoba has set up for the
3 Corporation's benchmark.

4 MR. REGIS GOSSELIN: Now, the other --
5 the other issue that you didn't comment upon has to do
6 with wildlife collisions, and this is something that
7 has been a -- has been a sore point with CMMG over the
8 years, as you -- as you well know.

9 Do you wish to comment further on that
10 beyond what's already on the record?

11

12 (BRIEF PAUSE)

13

14 MS. KATHY KALINOWSKY: In this
15 Application, in the road safety area there is a map
16 that shows wildlife car collisions. And it shows
17 complete kind of all across the -- all across the
18 Province as the distribution. Having said that, there
19 are a couple of areas where there were more
20 collisions, and that's been fairly consistent in the
21 last number of years, and that would be kind of in the
22 Charleswood corridor, and Birds Hill Park.

23 I'm thinking maybe four (4) years ago
24 we provided a study in this forum whereby the
25 Corporation investigated, Could we use wildlife --

1 like a wildlife corridor and fencing to try and
2 prevent any type of claims that would occur in that
3 area. And looked at -- it would be similar to what's
4 involved in Banff with, you know, the animals go over
5 the top of it and -- of -- of the highway on these
6 natural looking corridors that they have, and the
7 whole park is fenced off on the Trans-Canada Highway.

8 So we looked at that, and the study at
9 that time showed that fencing was not feasible, large
10 cost, no evidence to show that claims would
11 necessarily go down. As part of the external
12 stakeholder's road safety group, we would be willing
13 to meet with CMMG representatives. We would be
14 willing to update the numbers in that regard, and try
15 and determine whether it is indeed feasible.

16 If something like that is feasible,
17 it's in Manitobans and MPI's best interest to do
18 something like that. So we can work with CMMG in that
19 regard.

20 MR. REGIS GOSSELIN: I just want to,
21 you know, highlight the fact that -- or just mention
22 the fact that I -- I think the Application is much
23 better than -- you know, it's been constantly
24 improved, and I -- I certainly appreciate that because
25 it's much -- much more easy to -- to find the

1 information, and -- and get the information that you
2 need. So congratulations on that process.

3 I would observe that, in -- in respect
4 of value for money, I mean, we -- we do a good -- I
5 mean, you're describing in qualitative terms how you
6 provide value for Manitobans. I believe that it could
7 be improved by having more quantitative indicators of
8 what you're delivering as value for money.

9 An example would be -- for me, what I
10 have in mind would be something such as, you know, we
11 know the deductible in Manitoba is five hundred
12 dollars (\$500), a Basic deductible. In Saskatchewan,
13 it's seven hundred dollars (\$700).

14 So, you know, there's a saving there to
15 Manitobans representing a certain amount of dollars.
16 I mean, there's a value to that that you're delivering
17 as part of the premium that Saskatchewan doesn't
18 deliver. And that for me is a -- represents value for
19 money.

20 So I know it's a challenge, but I think
21 that the challenge is to be able to describe in more
22 specific terms how it is you're delivering value for
23 money to Manitobans.

24 And, you know, you just talked about,
25 for example, the motorcycle experience. I mean,

1 people don't know that -- that you only get 100
2 percent accident coverage in Alberta, as an example.
3 I mean, you give far more coverage. There's value
4 there. Can we quantify that?

5 So it's a challenge, but it's a
6 challenge I think that would demonstrate, in
7 quantitative terms, how it is that you provide better
8 service for Manitobans.

9 Another observation would be in
10 relation to -- to a topic that's near and dear to me,
11 which is, because you're a monopoly, you're not
12 subject to competition as would be the case for a
13 private insurer in other jurisdictions, I believe it's
14 important for you to show as an organization how it is
15 that you have moved the hard -- the yardsticks from
16 year to year.

17 So an example would be -- of how you
18 have moved the yardsticks would be you are going to
19 installing signage for unsafe intersections. That
20 information is contained in your application, but it's
21 hard to -- you know, it's at different locations in
22 the application.

23 There are many instances in which you
24 have moved the yardsticks. So I think that
25 demonstrating in a succinct fashion how it is that you

1 have -- organizationally have moved the yardstick
2 forward over the past year.

3 And I think that would be useful for --
4 for me to understand that, no, you're not standing
5 still. You are moving the organization forward. And
6 even though you're a monopoly service provider, you
7 are demonstrating your flexibility to adapt to the
8 needs of Manitobans.

9 So I think that would be something and
10 a way in which you might consider modifying your
11 application. It's not a must have, but it's something
12 I think would improve the -- would improve the
13 application.

14 So, and finally, I just want to
15 comment. You know, this -- this is -- a couple of
16 things that you haven't talked about which I think
17 merits mentioning, which I -- which I think is
18 important, is the extent to which you have
19 demonstrated your willingness to work with the parties
20 in developing a road safety framework and working --
21 IBAM, who are not present in this room this year, but
22 obviously you've been talking to them.

23 And I think those initiatives are I
24 think worthy of mention because, you know, for -- I
25 think it's important that we hear from the Applicant

1 that your willingness to work with parties to achieve
2 ends so the problems don't end up in this hearing
3 room, which is not the best venue for solving
4 problems.

5 And finally, I want to thank you
6 personally and -- and as Chair of the Board on those
7 initiatives that you have taken to address the
8 security of the hearing room during this process
9 because it was an issue. And your staff provided help
10 and, you know, physical help and also financial help.
11 So thank you for supporting the Board during -- during
12 the hearing process on the security side. Thank you
13 very much for that.

14 MS. ANITA NEVILLE: Thank you. Is
15 this on? I just want to focus, Ms. Kalinowsky, on
16 what you referred to as one (1) of the smaller aspects
17 of these differences that we have. And I'm going back
18 to the issues of road safety and Bike Winnipeg.

19 In your comments, you were obviously
20 very critical of what Bike Winnipeg does or doesn't
21 do. And it concerns me given the obvious increase in
22 the use of -- or the apparent use of bicycles now.

23 I would appreciate if you could outline
24 or clarify specific asks that you would have of that
25 organization.

1 (BRIEF PAUSE)

2

3 MS. KATHY KALINOWSKY: There's three
4 (3) -- three (3) key things that we would like to see
5 from Bike Winnipeg is, 1) For them to very actively
6 participate on the committees, for the External
7 Stakeholder Committee, on road safety. Another item
8 would be to -- when MPI invests in one (1) of the
9 programs, and it's called the Bike Champions or
10 Bicycle Champions, and it's something that MPI spent a
11 fair bit of time with Bike Winnipeg working on Bike
12 Winnipeg indicated, according to Mr. Guimond in his
13 testimony, that they would be working on and -- on
14 that and expanding it with MPI, so we spent some money
15 on it, trying to improve upon it.

16 And then Bike Winnipeg decided not to
17 pursue that. So -- and we've made that investment.
18 We think it's fine, continue with it and expand upon
19 that investment so that we get a return on -- in that
20 regard.

21 And finally, we'd like to see that
22 there's an acknowledgement that the social costs,
23 extremely, extremely, extremely important. Those are
24 within the framework of the wider provincial
25 committee. And within the rates framework, there

1 might be different costs, which are claims costs.
2 It's not that we're ignoring social costs. It's just
3 for calculating rates within this rate-setting forum,
4 we talk about different numbers.

5 MS. ANITA NEVILLE: Thank you. Okay.

6 MS. KATHY KALINOWSKY: We absolutely
7 encourage Bike Winnipeg to avail itself of all the
8 opportunities that the other Intervenors have availed
9 themselves of. As you indicated, lots more cycling
10 going on in the City. The City has made a tremendous
11 amount of improvements in its infrastructure for
12 cycling, and we have to share the roads between
13 cyclists, between pedestrians, between motor vehicles.
14 Everybody wants the same objective, which is decrease
15 the number of accidents.

16

17 (BRIEF PAUSE)

18

19 MR. REGIS GOSSELIN: I -- I would like
20 to get MPI's position again on the reason why MPI did
21 not seek a -- a rate increase given the work that were
22 done by Mr. Johnston showing an indicated rate higher
23 than what had been proposed for as a rate increase.

24 So could you comment on that again just
25 make sure I -- I'm clear in my own mind why it

1 shouldn't be a number higher than zero?

2

3

(BRIEF PAUSE)

4

5

MS. KATHY KALINOWSKY: Much discussion
6 on a very fundamental question there. But why not
7 seeking a 1.6 percent rate increase? And that amount
8 was derived, and it was mentioned by Ms. Reichert, and
9 it was based on September 30th, I believe, numbers.
10 And that would yield a 1.6 percent. If we probably
11 put it into October 30th it would probably yield
12 another number, which would be different than 1.6
13 percent. On or about November 30th, before you -- the
14 day before you issue the Board order it might yield a
15 number.

16

That interest rate volatility is so
17 volatile. Last year the Board saw fit to -- even
18 though MPI did not revise its application, the Board
19 saw fit to take into account the rising -- or say the
20 decreasing interest rates, which would increase the
21 amount of rate required. In that instance, that made
22 -- it ensured that the Corporation had sufficient
23 capital to meet its mandate. This year we're not
24 prepared to alter the financial -- or, sorry, the
25 applied for rate at the last minute for an interest

1 rate that is very, very volatile and which changes on
2 a daily basis.

3 THE CHAIRPERSON: This concludes the
4 2016 Manitoba Public Insurance Corporation general
5 rate application hearing. The Board panel appreciates
6 that the hearings require a lot of work from a lot of
7 people, but believes it is a very valuable process.
8 Thus, on behalf of the Board panel, I would like to
9 thank everyone for their cooperation throughout the
10 hearings.

11 This includes the MPI front row, excuse
12 me, Mr. Guimond, Ms. Reichert, Mr. Johnston, and Ms.
13 Kalinowsky. I'm just going to take a little sip of
14 water here. For some reason, I've got a...

15

16 (BRIEF PAUSE)

17

18 THE CHAIRPERSON: Thanks. The MPI
19 back row, including Mr. Triggs, Ms. Frazer, Mr.
20 Bundsten, Mr. Springer, and Ms. Key (phonetic), Mr.
21 Keith. The Intervenors and their respective counsel,
22 for CAC Mr. Williams and Mr. Nisbet. For CMMG, Mr.
23 Oakes. For Bike Winnipeg, Mr. Monnin, as well as CAA
24 and IBAM. The presenters who made submissions this
25 year, the secretary of the Board Mr. Darren Christle,

1 and our document manager Ms. Diana Villegas. Our
2 court reporters from Digi-Tran, including Mr. Bob
3 Keelaghan and Ms. Cheryl Lavigne. Our advisors Mr.
4 Cathcart and Mr. Pelly who is, I think, listening in.
5 Hello, Mr. Pelly. And our counsel Ms. Grammond, along
6 with Ms. McCandless.

7 The Board also appreciates the member
8 of the public who took time to sit in on the hearing
9 during the course of the hearings. The panel will be
10 meeting in the very near future to deliberate and make
11 its final determinations on the matters -- matters
12 before it.

13 Thus, that concludes our hearing.
14 Please, continue to enjoy the warm fall that we're
15 experiencing. Have a good day.

16

17 --- Upon adjourning at 12:12 p.m.

18

19 Certified correct,

20

21 _____

22 Cheryl Lavigne, Ms.

23

24

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