



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re:

MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2026/27 MPI GRA

Before Board Panel:

Irene Hamilton, K.C.- Panel Chairperson

Patrick Ireland - Board Member

Kim Sharman - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba

Oct 27, 2025

Pages 1695 to 1951

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1 --- Upon commencing at 8:58 a.m.

2

3 PANEL CHAIRPERSON: Good morning,
4 everyone. This morning, we will have a testimony of
5 the Consumers Coalition witnesses. Ms. Dilay, would
6 you please introduce your witnesses.

7 MS. KATRINE DILAY: Yes. Thank you,
8 Madam Chair, and good morning. The Consumers
9 Coalition would like to welcome Mr. Rajesh
10 Sahasrabuddhe and Mr. Felix Chan, of Oliver Wyman
11 Limited, to the MPI GRa hearing room. We thank the
12 Board for the opportunity to present the witnesses
13 today.

14 Before we get into qualifications of
15 the witnesses and their presentations, we would ask
16 that the witnesses be affirmed or sworn.

17

18 CC PANEL NO. 1:

19

20 FELIX CHAN, Affirmed

21 RAJESH SAHASRABUDDHE, Affirmed

22

23 EXAMINATION-IN-CHIEF BY MS. KATRINE DILAY:

24 MS. KATRINE DILAY: Thank you, Mr.
25 Christle. And, Madam Chair, we note that neither Mr.

1 Sahasrabuddhe nor Mr. Chan have been pre-qualified.
2 The Consumers Coalition proposes that both witnesses
3 be qualified to give evidence on actuarial analysis
4 with a particular focus on pricing, ratemaking, and
5 risk related to automobile insurers generally.

6 We will first speak to the
7 qualifications of Mr. Sahasrabuddhe. Then we will
8 speak to the qualifications of Mr. Chan. And we can
9 indicate our understanding, that our friends at MPI do
10 not intend to oppose the qualification of these
11 witnesses as proposed by the Coalition.

12 As it relates to Mr. -- Mr.
13 Sahasrabuddhe, he has been similarly qualified to give
14 expert evidence in four (4) prior GRA proceedings,
15 namely, in 2022, 2023, 2024, and 2025 GRAs. His CV is
16 on the record as an attachment to Coalition Exhibit 1.
17 And a brief biography is also appended to his report
18 at Coalition Exhibit 8.

19 If it would be of value to the Board,
20 we're happy to walk through a summary of Mr.
21 Sahasrabuddhe's qualifications. However, given our
22 understanding of the position of MPI and the Board's
23 familiarity with this witness, the Board may be
24 prepared to accept his qualifications on the basis of
25 materials already presented.

1 So, given this, Madam Chair, would the
2 Board like us to go through Mr. Sahasrabuddhe's
3 qualifications at a high level or move on to Mr. Chan?

4 PANEL CHAIRPERSON: Thank you, Ms.
5 Dilay. No, I don't think it's necessary. Certainly.
6 Welcome back, Mr. Sahasrabuddhe.

7 MS. KATRINE DILAY: Thank you. And we
8 note that it is the first time Mr. Felix Chan provides
9 expert testimony before the Public Utilities Board.
10 And as such, we propose to briefly highlight his
11 qualifications as well as his experience.

12 For this, we'd ask to please turn to
13 Exhibit Coalition 8 at page 65. Thanks very much, Ms.
14 -- Ms. Dweh.

15 Mr. Chan, you'll confirm that this is
16 your biography here?

17 MR. FELIX CHAN: Yes.

18 MS. KATRINE DILAY: Mr. Chan, you'll
19 confirm that you are currently a senior manager in the
20 Toronto office of Oliver Wyman Limited?

21 MR. FELIX CHAN: That's correct.

22 MS. KATRINE DILAY: And you have been
23 in this role since 2024, correct?

24 MR. FELIX CHAN: Correct. Yes.
25 Correct.

1 MS. KATRINE DILAY: You'll confirm
2 that you specialize in ratemaking for property and
3 casualty personal and commercial lines, correct?

4 MR. FELIX CHAN: Correct.

5 MS. KATRINE DILAY: And your primary
6 responsibilities in this role are to provide actuarial
7 consulting services to insurance regulatory
8 authorities, review insurance rate applications,
9 analyze insurance reform measures, and conduct
10 automobile insurance benchmark -- benchmark rate
11 studies, correct?

12 MR. FELIX CHAN: Correct.

13 MS. KATRINE DILAY: And in this role,
14 you work as part of a team that provides actuarial
15 consulting services related to automobile insurance
16 and auto insurance regulation throughout Canada,
17 correct?

18 MR. FELIX CHAN: Correct.

19 MS. KATRINE DILAY: And you will
20 confirm that you assisted Mr. Sahasrabuddhe last year
21 in the review of MPI's 2025 rate application?

22 MR. FELIX CHAN: Yes.

23 MS. KATRINE DILAY: Including jointly
24 preparing the report that was filed on the record of
25 the 2025 GRA?

1 MR. FELIX CHAN: Yes.

2 MS. KATRINE DILAY: And just looking
3 to your prior experience for a moment, if we could go
4 a bit lower on the page just for reference. And we're
5 looking on the left-hand side for a high level
6 overview of your prior experiences.

7 Would that be right?

8 MR. FELIX CHAN: Yes.

9 MS. KATRINE DILAY: And prior to your
10 role at Oliver Wyman, you worked at Wawanesa Mutual
11 Insurance Company, correct?

12 MR. FELIX CHAN: Correct.

13 MS. KATRINE DILAY: From 2021 to 2024?

14 MR. FELIX CHAN: Correct.

15 MS. KATRINE DILAY: And in your most
16 recent role at Wawanesa, you were the director
17 actuarial pricing.

18 Is that right?

19 MR. FELIX CHAN: Yes.

20 MS. KATRINE DILAY: And you'll confirm
21 that the role was more specifically director actuarial
22 pricing regulated auto?

23 MR. FELIX CHAN: Yes.

24 MS. KATRINE DILAY: And regulated auto
25 would refer to all automobile pricing and rate

1 regulated jurisdictions in Canada that Wawanesa
2 operates in, which would include Alberta, Ontario,
3 Quebec, and the Atlantic provinces, correct?

4 MR. FELIX CHAN: Correct.

5 MS. KATRINE DILAY: And you'll confirm
6 that in this role, one (1) of your major
7 responsibilities was overseeing pricing for automobile
8 insurance rate filings in these jurisdictions?

9 MR. FELIX CHAN: Correct.

10 MS. KATRINE DILAY: And prior to that,
11 you worked at Intact Financial Corporation from 2015
12 to 2021, correct?

13 MR. FELIX CHAN: Correct.

14 MS. KATRINE DILAY: And your most
15 recent role at Intact was as a senior actuarial
16 analyst?

17 MR. FELIX CHAN: Correct.

18 MS. KATRINE DILAY: And within your
19 roles at both Wawanesa and Intact, you'll confirm your
20 experience was primarily in relation to ratemaking,

21 MR. FELIX CHAN: Correct.

22 MS. KATRINE DILAY: Including as it
23 relates to automobile insurance?

24 MR. FELIX CHAN: Yeah. Yes.

25 MS. KATRINE DILAY: And your

1 experience also included reviewing insurance rate
2 applications, right?

3 MR. FELIX CHAN: Yes.

4 MS. KATRINE DILAY: Which included
5 looking at issues such as pricing and risk related to
6 automobile insurers?

7 MR. FELIX CHAN: Yes.

8 MS. KATRINE DILAY: And just briefly,
9 in addition to your actuarial experience, you've also
10 held roles as an insurance broker and as a workforce
11 analyst?

12 MR. FELIX CHAN: Correct.

13 MS. KATRINE DILAY: And you worked as
14 a business analyst for an insurance company, correct?

15 MR. FELIX CHAN: Correct.

16 MS. KATRINE DILAY: And you'll confirm
17 that you've been a fellow of the Canadian Institute of
18 Actuaries since 2023?

19 MR. FELIX CHAN: Correct.

20 MS. KATRINE DILAY: And a fellow of
21 the Casualty Actuarial Society since 2022?

22 MR. FELIX CHAN: Correct.

23 MS. KATRINE DILAY: And what we can
24 see on the screen kind of in the main part on the
25 right-hand side, outside of your professional

1 obligations, you're also currently a Board member for
2 York University's Actuarial Science Advisory Board?

3 MR. FELIX CHAN: Correct.

4 MS. KATRINE DILAY: And so, Madam
5 Chair and Board members, as previously indicated, we
6 proposed that Mr. Chan be qualified as an expert in
7 actuarial analysis with a particular focus on pricing,
8 ratemaking, and risk related to automobile insurers
9 generally.

10 PANEL CHAIRPERSON: Yes. Thank you.
11 Ms. Dilay.

12

13 CONTINUED BY MS. KATRINE DILAY:

14 MS. KATRINE DILAY: Thanks very much.
15 Before we let the -- the team from Oliver Wyman dive
16 into their presentation this morning, we'd just like
17 to confirm the materials that they have prepared. And
18 so, we'll pose these questions of Mr. Sahasrabuddhe on
19 behalf of the team.

20 Mr. Sahasrabuddhe, you prepared the
21 report which was filed as Exhibit CC-8 jointly with
22 Mr. Felix Chan, correct?

23 MR. RAJESH SAHASRABUDDHE: Yes, that's
24 correct.

25 MS. KATRINE DILAY: And you and Mr.

1 Chan also prepared the responses to Information
2 Requests from the PUB which were filed as PUB Exhibit
3 9 in this proceeding?

4 MR. RAJESH SAHASRABUDDHE: Yes, that's
5 correct.

6 MS. KATRINE DILAY: And you and Mr.
7 Chan also prepared the responses to Information
8 Requests from the MPI which are filed as MPI Exhibit
9 14 in this proceeding?

10 MR. RAJESH SAHASRABUDDHE: Yes, that's
11 correct.

12 MS. KATRINE DILAY: And you'll confirm
13 that the presentation to be given today was prepared
14 by -- jointly by you and Mr. Chan, correct?

15 MR. RAJESH SAHASRABUDDHE: Yes, that's
16 correct.

17 MS. KATRINE DILAY: And so, Madam
18 Chair, we'd like to file the presentation that will be
19 given by the Oliver Wyman team as Exhibit Coalition
20 10.

21

22 --- EXHIBIT NO. CC-10: Presentation given by
23 the Oliver Wyman

24

25 CONTINUED BY MS. KATRINE DILAY:

1 MS. KATRINE DILAY: And if we could
2 bring the presentation up on the screen, we will let
3 Mr. Sahasrabuddhe and Mr. Chan provide their direct --
4 or rather their presentation this morning. Thank you.

5 MR. RAJESH SAHASRABUDDHE: Okay.
6 Thank you very much. Again, we appreciate the
7 opportunity to present in front of this Board as we
8 have done for the past several years. If we could
9 move -- just skip two (2) slides, please.

10 The presentation in many ways is -- is
11 similar to -- to the approach that we've taken in past
12 years, but we have streamlined it a bit, hopefully to
13 a little bit more focused on the issues rather than --
14 than just going through each coverage.

15 I will be reviewing sections what we --
16 what we're are calling section zero here, the summary
17 section, the claims forecasting section, and the
18 section on merit rating. My colleague, Mr. Chan, will
19 review the sections on rate groups, prior period
20 runoff, and the -- and the rate indication. If we
21 could move to the next slide, please.

22 So, again, just to reemphasize or -- or
23 restate our responsibilities in this Hearing -- and we
24 understand that our primary obligation here is to the
25 Board and that our duty is to be fair, objective, and

1 nonpartisan, related only to matters that -- that are
2 within the scope of our expertise and provide any
3 additional assistance that -- that the Board may
4 require. If we could move to the next slide.

5 So, this slide presents a summary of
6 the 2025 and 2026 GRAs on which we'll be providing
7 evidence today. The overall rate indication requested
8 for 2026 is 2.07 percent, though we'll discuss that --
9 that rate indication in more detail throughout -- or
10 in Section 5 of the presentation.

11 The -- the indicated rate change in the
12 evidence is -- so, I'm sorry. The -- the indicated
13 rate change is -- is slightly lower -- or I'm sorry,
14 the filed indicated rate change is slightly lower than
15 the -- than the 3 percent sought by MPI last year.
16 And we'll review the basis of the -- of the rate
17 change this morning. If we could move to the next
18 slide, please.

19 So, our -- our goals in our review are
20 to -- are to provide information to support your
21 assessment of the GRA and, in particular, to make sure
22 that the forecasts are reasonably reliable, that the
23 rates are consistent with accepted actuarial practice,
24 and that -- that just in reasonable rates -- and that
25 MPI is proposing just and reasonable rates in

1 accordance with the statutory objectives.

2 We -- we focus on the overall claims
3 forecast, and then the merit rating and DSR -- DSR
4 programs. The other factors that influence
5 policyholder premiums include the class ratemaking,
6 including the large loss provision, the
7 appropriateness of expenses, and investment policy.

8 All of those other items actually have
9 a bearing on the overall rate charged by MPI as well;
10 however, we feel that they are somewhat outside the
11 scope of our expertise.

12 So, we're going to focus on -- on the
13 areas that are within the scope of our expertise as we
14 stated in -- in the prior slide in our duty. If we
15 could move to the next slide, please. Okay.

16 On this slide, we summarized the -- the
17 various issues that -- that were outlined in -- in the
18 -- in the order from the PUB and that we felt were --
19 were within the -- within the scope of our expertise.

20 Issues -- we're going to focus on
21 issues 1, 10, and 12, and then provide some commentary
22 on number 14. So, again, 1 is the requested vehicle
23 rate change -- or the requested rate and the changes
24 to other fees and discounts. Number 10 is the claims
25 forecasting. Number 12 is the -- the DSR Program.

1 And number 14 is the runoff of prior year claims.

2 You'll note that we are not going to
3 focus on -- on number 2 and number 4 we -- as we feel
4 that those are areas that are -- that are better
5 addressed by other Interveners, particularly the
6 ratemaking section. And -- and number 4, the
7 financial forecast, also, we -- we believe that other
8 Interveners are better positioned to address -- to
9 address the issues in the financial forecast. If we
10 could -- could move to the next slide, please.

11 So on -- on this slide, we reviewed
12 essentially the component -- the various components of
13 the rate charged by MPI and that the -- that the --
14 the rate is really the sum of the claims and expenses
15 offset by other income received.

16 So, the majority of those costs do
17 relate to claims and claims expenses, approximately 90
18 percent of those costs, when you include both the
19 direct claims costs and loss adjustment expenses.

20 The -- the claims experience that MPI
21 reviews includes allocated loss adjustment expenses.
22 So, there are two (2) types of loss adjustment
23 expenses. There's allocated expenses, which are
24 associated with individual claims and unallocated
25 expenses, which cannot be -- which -- which cannot be

1 assigned to individual claims, but taken together,
2 those three (3) components represent 90 percent of the
3 rate. Move to the next slide, please.

4 Within that claim cost category, most
5 of the claim costs relate to the collision coverage.
6 And, in general, most of the claim costs relate to --
7 if we take the -- the largest two (2) coverages, it's
8 collision and comprehensive.

9 Unlike other provinces, the bodily
10 injury coverage is quite small, of course. And that
11 really relates to the nature of the no-fault insurance
12 provided by MPI within the province. If we could move
13 to the next slide, please.

14 So, on this slide, we -- we outline the
15 -- the various issues that -- that we're going to
16 review in -- in the following sections. We are
17 focusing on issues related to trend. So, trend is,
18 again, how you adjust prior data to reflect changes
19 that have occurred, and then also how you adjust that
20 data for changes that will occur in the future.

21 So, we have -- we -- we list a number
22 of coverages for which we're going to describe our
23 concerns with the trend assumptions by MPI. However,
24 as -- as we go through the presentation, what we'll
25 try to convey is that there's a few common themes

1 across those coverages, and they're not necessarily --
2 the -- the issues are related between the coverages.

3 There's other -- two (2) -- two (2)
4 other assumptions that we have concerns with. So, the
5 first is the mobility parameter sometimes referred to
6 as the work-from-home adjustment. And the other --
7 the other item is the issue of accident year weights.
8 And that issue only affects one (1) coverage, which is
9 the accident benefits other index coverage.

10 As a result of -- of these items, MPI
11 has requested a rate change of 2.07 percent. But when
12 we incorporate our alternative assumptions that we
13 included in the evidence, the -- the indicated premium
14 change was 2.88 percent.

15 However, as we -- as I -- as I review
16 our -- our findings, we'll -- we'll talk a little bit
17 about the -- the -- in particular, the work-from-home
18 adjustment, where there may be an alternate view that
19 would result in a slightly different rate change. Go
20 to the next slide, please.

21 So, this slide presents -- presents the
22 change between the rates that were included in the
23 2025 GRA versus the rate development of the 2026 GRA.
24 So, you'll -- you'll see the 9.21 percent doesn't
25 align with -- with the adjustments that were -- that

1 we've discussed here, nor does it -- as we'll go
2 through in the -- in Section 5, it doesn't align with
3 the -- with rate change that we're going to review in
4 that section either.

5 And this is -- this -- this chart
6 really just presents GRA to GRA. And the approved
7 change for the '25 GRA differed from the -- from the
8 rate change that was sought, or indicated, in the '25
9 GRA, and that -- that difference is not reflected in
10 this chart.

11 So, this is more about rate development
12 and the components of the change that -- that result
13 in the -- in the increased rate level need. So, it's
14 not meant to be exactly prescriptive of -- of the --
15 of the difference between last year and this year, but
16 it is meant to really show how the indicated rate did
17 change.

18 And, again, the primary drivers of that
19 indicated rate change are the increase in the
20 collision claim costs, which we'd expect because that
21 is the largest component of the claim costs and the
22 accident benefits claim costs. If we could move to
23 the next slide, please.

24 So, as I mentioned, claims forecasting
25 is an area that -- that we focus on. And here we

1 present just a high-level view of -- of the MPI
2 process to -- to develop the -- to develop loss costs.
3 So, as with all actuarial analysis, it starts with the
4 data, and then it involves a series of modeling steps.
5 And I'm going to focus on this slide for the model
6 fitting section and, in particular, the last bullet
7 where we discuss the -- where we discuss the mobility
8 parameter.

9 So, regression models that are
10 described in -- in the first bullet are used to -- are
11 used to provide a statistical analysis of the drivers
12 of changes in costs. And as we know, we're -- we're
13 in a period -- or we're just coming out of the COVID
14 period, and during that period, there was a reduction
15 in traffic volumes, and that needs to be accounted for
16 in understanding how -- why costs were depressed in
17 2020/'21 and '21/'22 and maybe to a lesser degree in -
18 - in future years.

19 Separately, MPI selects loss costs from
20 the appointed actuaries report from March 2025, and
21 then adjusts those costs to levels that are expected
22 to prevail in the -- in -- for rating year '26/'27.

23 When we look at the experience period -
24 - this is part of number 3 on this slide -- we'll note
25 that now we're using the five (5) year -- the five (5)

1 years from accident year 2020 through 2024. And that
2 is -- that -- that's significant now in that we have
3 no pre-pandemic accident periods within -- within the
4 rating algorithm. So, it's in either an in pandemic
5 period or a post pandemic period.

6 And in -- in prior GRAs we had a
7 situation where we had pre-pandemic, in pandemic, and
8 post pandemic, but now it's only in pandemic and post
9 pandemic.

10 In item 4, we discussed the forward
11 projection. So, what MPI does is they adjust all
12 claims to an accident year 2024 cost level but, of
13 course, rating year '26/'27 is -- is past the 24 cost
14 level. So, we also need to understand how costs will
15 differ between accident year 2024 and rating year
16 '26/'27, and that's the purpose of the -- of the
17 future trend.

18 And, again, in that future trend,
19 typically -- and as MPI considers and -- and as most
20 actuaries will consider, it's a -- it's an analysis of
21 past trends. The expectation that those changes --
22 I'm sorry, that those past trends are -- will -- will
23 change and that -- and -- and other information that
24 may come through from -- from research and analysis.
25 The next slide, please.

1 In this slide, we -- we outline the --
2 the primary changes that we identified from the prior
3 GRA, again, in the -- in the areas that we focus on.
4 So, the comprehensive loss trends are -- are now
5 performed by peril. and you can see the perils that
6 are -- that are listed there.

7 And maybe the -- the bigger change is
8 that there is a new simplified -- simplified mobility
9 parameter. And we're going to focus on that a fair
10 bit during the course of our -- our testimony today.

11 So, in the prior -- in -- in the prior
12 GRAs, there was a combination of Google COVID-19
13 community mobility reports and the commuter behavior
14 survey to understand how the pandemic was affecting
15 commuter -- computing -- commuting and driving
16 patterns. But this year they removed -- they --
17 they've -- MPI no longer is using those data sources
18 and is using a much simpler -- much simpler approach
19 that we'll discuss in more detail in the following
20 sections.

21 And then as part of that, MPI has
22 removed the mobility parameter for accident year 2024.
23 And the implicit assumption is that frequency is
24 returned to pre-pandemic levels. Move to the next
25 slide, please.

1 So, that was a high-level summary of
2 the -- of the 2026 GRA. And now I'm going to review a
3 few -- review the issues that we've identified with
4 the MPI rate indication. And the first of those
5 issues is something that we refer to as accident year
6 weights.

7 In the slide that's -- that's on the
8 screen right now you'll see that MPI -- these are the
9 MPI accident year weights, that they assign an equal
10 weight of 20 percent to each year between 2020/'21 all
11 the way through 2024/'25, again, keeping in mind that
12 the first few years are more pandemic affected and the
13 last few years are -- are affected by our -- our post
14 pandemic years which may have reflected a different
15 environment than we had prior to the pandemic. If you
16 could move to the next slide, please.

17 So, we are only taking issues with the
18 accident year weights for one coverage, and that's the
19 accident benefits other index coverage. And in this -
20 - in this chart, we -- we present the -- the
21 indications and the 20 percent weights for the five
22 (5) years that -- that MPI uses as the baseline
23 forecast, the accident year 2024 forecast.

24 So, the red line -- the -- the red dash
25 line is the 2024 loss cost level. And that's

1 comprised -- or that's calculated as a weighted
2 average of the five (5) data points that have the 20
3 percent next to them.

4 What you'll notice is that there are
5 two (2) data points, the first two data points that
6 are significantly higher than -- than the -- the last
7 three (3) data points.

8 In addition to -- to those points being
9 higher, I think what you'll also notice is that the
10 length of the -- the adjustment lines, so the vertical
11 lines that go from the data point up to the -- sort of
12 the solid red dot, which is where the 20 percent is,
13 that reflects the adjustment for various factors such
14 as restating the claims cost to -- to remove the
15 effect of the pandemic.

16 All of those adjustments have
17 uncertainty to them. They're -- they're estimates of
18 what the factors should be. And our view is that
19 these two (2) -- these two (2) accident years have
20 indications that are outliers, that they don't really
21 fit with the evidence of the other accident years.

22 In particular, if you look at the --
23 just whether you look at the raw data or the adjusted
24 data for the years really starting with '18/'19 and
25 subsequent, that the loss costs are significantly

1 lower and that there are two (2) accident periods that
2 are receiving equal weight to the other three (3)
3 accident periods that are significantly higher and
4 that are pulling up the average, essentially pulling
5 up that red line.

6 And we felt that -- that the -- that
7 giving those two (2) outlying points equal weights in
8 determining the accident year 2024 forecast was -- was
9 inappropriate and that -- and that that created a --
10 kind of a bias in the estimates. So, if we could move
11 to the next slide, please. Thank you.

12 So, we recognize that in -- in the
13 decision in -- in the 2024 GRA, that the Board decided
14 that -- that applying 20 percent weights for five (5)
15 accident years, their most recent five (5) accident
16 years, was appropriate.

17 However, our view was that that was --
18 that Board decision was limited to the 2024 GRA and
19 not to the '25 or future GRA. And it's our view that
20 equal accident year weights, while representing a
21 reasonable baseline or starting point, aren't always
22 appropriate. And this is one of those cases where we
23 believe that they are not appropriate.

24 And, however, we don't want to ignore
25 the fact that 2020/2020 -- 2020/'21 and 2021/'22 do

1 represent loss experience. And so, it's not our --
2 our view that they should -- that they should be
3 excluded from the analysis. It's just our view that
4 given that they're outliers, they should perhaps be
5 down weighted, and not only because they're outliers,
6 but because they are outliers that -- that represent
7 experience from an extraordinary period, the --
8 essentially what we would -- what -- what we might
9 call the heart of the COVID-19 pandemic and the fact
10 that, as a result, that experience needed to be
11 adjusted, and adjusted in a significant way.

12 And -- and so -- so, they're both
13 outliers and subject to additional uncertainty with
14 respect to the predictive value of those two (2) years
15 for the future. So, on that basis, we believe that
16 those two (2) periods should be down weighted
17 slightly. And we're proposing to have the weight for
18 those two (2) periods, and then redistribute that
19 weight to the other three (3) -- other three (3)
20 insurance years.

21 So, again, that would involve reducing
22 the weight for those two (2) years from 25 percent to
23 12.5 percent for each of those two (2), and then
24 increasing the weight on the other three (3) points to
25 25 percent. If we could move to the next slide.

1 And this -- this slide presents really
2 the -- the schematic of -- of what that would look
3 like. Now, this -- this slide is not entirely
4 independent of other changes that we're proposing, but
5 -- but hopefully it -- it conveys the idea that --
6 that the -- that those two (2) higher data points
7 should receive, you know, less weight than the three
8 (3) data points that are -- that are more recent and
9 more consistent with each other and likely more
10 reflective of the current post pandemic environment.

11 MS. KATRINE DILAY: And Mr.
12 Sahasrabuddhe, should we be -- are you able to confirm
13 whether we should be looking at slide 20 with slide 18
14 and that that red line that represents, I believe, the
15 ultimate adjusted loss cost would be -- would be
16 different as a result of the different weights that
17 you're proposing?

18 MR. RAJESH SAHASRABUDDHE: Yes, that's
19 correct. So -- so, the red line would -- would be
20 different between the -- between the two (2) slides.
21 And, again, we're proposing that, again, there's --
22 there's still a weight to those last two (2) years.

23 So, you'll still observe that the red
24 line is still in slide 20. It's still above those
25 last three (3) years. So, it's not that we're

1 suggesting that they should be ignored, that those
2 types of outcomes are -- you -- there's -- there's no
3 chance they would occur, but that -- but they seem to
4 be relatively rare in the experience, and -- and
5 including them at -- at the full weight would result
6 in a conservative estimate of -- of loss costs for
7 rating year '26/'27.

8 Okay. So, now I'm going to shift to
9 the work-from-home adjustment, sometimes referred to
10 as the mobility parameter. If we could move forward
11 two (2) slides, please.

12 So, the -- so, this is one of the more
13 significant aspects -- or significant issues that we -
14 - that we identified with the MPI rate filing, so I
15 might go through it slightly more slowly.

16 But MPI decided that the -- that the --
17 to -- to shift to a simplified mobility parameter
18 which has parameter values of 4, 3, 2, 1 that are --
19 that are assigned to accident years 2020 -- I'm sorry,
20 there's a slight typo there. That should be 2020/'21
21 to 2023/'24.

22 And then what's implicit in that is
23 that the parameter value goes to zero for 2024/'25.
24 And -- and we will talk about that in -- in the
25 following slides.

1 So implicitly, MPI is assuming that
2 '23/'24 was the last year affected by the COVID-19
3 pandemic and that -- that there's a return to pre-
4 pandemic commuting patterns and, therefore, a future
5 work from home adjustment is no longer necessary.

6 So, that differs from the -- the past
7 work-from-home adjustment that was used in the prior
8 GRA. As we discussed -- or as I -- as I reviewed in -
9 - in my summary comments, that in the prior GRA, MPI
10 used data from the Google COVID-19 community mobility
11 reports, and then a -- which -- which Google collected
12 through October of 2022.

13 And then to forecast that -- well,
14 after October 2022, they used survey data from a
15 commuter behavior survey, so, again, quite a change
16 from the approach that -- that MPI used in -- in the
17 2025 GRA. If we could go to the next slide.

18 So, we tried to understand the -- the
19 reasons or the rationale for that change. And as we
20 try to think about models and how to interpret or --
21 or how to construct models, there's always a bit of a
22 balancing act between the fit of the model and the
23 interpretability and explainability of the model.

24 We believe that MPI has really -- has -
25 - has -- on -- on that balance, that they have --

1 they've given more weight to the model fit idea where
2 -- where we tend to believe that interpretability and
3 explainability is at least as important.

4 So, the goal of modeling is to explain
5 changes in the observed data, not to achieve the model
6 best fits statistics.

7 So, in a sense, that if you were -- if
8 you were allowed to just select parameters and their
9 parameter values, you could actually select values
10 that exactly replicate the data as long as you select
11 enough parameters.

12 And they've selected these four (4)
13 parameters here, essentially 4, 3, 2, 1. They could
14 have selected parameters that were exactly aligned
15 with the -- with the collision data, but that defeats
16 the purpose of modeling. The purpose of modeling is
17 to try to identify the basis for the change, and then
18 understand how -- how that basis explains the -- the
19 change in the loss statistics.

20 So, the -- in this case, you know, we
21 prefer to use objective data that can explain --
22 explain the changes in the collision -- collision
23 frequency, but really all accident frequency.

24 The model statistics, we also -- we
25 believe that they should be used, but really just to

1 evaluate the models and -- and to -- to help
2 understand which one might be better than another.
3 But in this case, that -- that the -- that without a
4 holdout dataset, that there's no way to really know
5 whether -- you know, how -- how -- there's no way to
6 measure the predictive value of the data.

7 And it's not reasonable to have a
8 holdout dataset in -- in this particular circumstance.
9 While we believe that -- that there might be a trade-
10 off between interpretability and explainability, here,
11 if you look at the -- if you look at balance and you
12 look at the items on the -- on the right side of the
13 balance, that's what we focus on, that we try to
14 identify external influences that are plausible
15 measures of behavior changes.

16 So, there was a lockdown and people
17 couldn't -- couldn't drive so -- or, you know, were --
18 were confined to stay at home, so they drove less.
19 That's -- that's sort of a very -- a way of looking at
20 an independent variable which is, essentially, the
21 presence of -- of lockdown and how that explains the
22 dependent variable, which is the amount that they
23 drove.

24 We like to use -- the explanatory
25 variables should be derived from trusted, unbiased

1 sources. In this case, we felt that the Google data
2 and the consumer behaviour data both aligned with --
3 with that -- with those goals and that the parameter
4 should correspond to known events.

5 So -- so, you'll see sort of on the
6 right side that our balance is on using data to
7 explain changes in -- in accident frequency, and on
8 the left side, there was -- there was a view that all
9 that matters is the parameter significance and how
10 well it explains the data.

11 And -- and as I said, you can always
12 pick parameter values to lead to a very good model
13 fit, but that's not -- we -- we don't view that as the
14 goal of modeling. We view the goal of modeling is to
15 help understand the -- the basis for changes in claims
16 data. So, if we could move to the next slide, please.
17 Thank you.

18 So, on this slide, we present
19 essentially the -- the parameter values that were used
20 in the 2025 GRA and the 2026 GRA. So, the -- those
21 parameter values essentially represent the effect of
22 the pandemic, and its highest in the 2020/2021 year,
23 and then it -- it decreases over time.

24 And I think importantly on this slide,
25 what you'll note is that, in the -- in the prior GRA,

1 there was an assumption that it decreased to a level
2 that was -- that was going to be the level going
3 forward. So that 14.79 percent decreased from the
4 pre-pandemic baseline is -- is where -- where the new
5 normal would be for 2024/'25, and subsequent.

6 In contrast, you'll notice that, in the
7 2026 GRA, the 2024/'25 level is -- that -- that's a
8 zero level. So essentially all of the pandemic
9 effects have washed away.

10 Now, if we compare this to what -- what
11 that implies from a baseline work-from-home
12 adjustment, I'll talk about the 2026 GRA because
13 that's quite easy to understand.

14 So, the four (4) represents, you know,
15 100 percent of the impact of the COVID level, three
16 (3) -- so three quarters (3/4) is 75 percent of the
17 impact. This is the last column, two (2) is 50
18 percent of the impact or two (2) out of four (4), and
19 then one and zero. So that's relatively easy to
20 understand.

21 I think the -- what we'll note is that
22 the -- the values, particularly for the first three
23 (3) accident years, aren't all that different between
24 the 2025 and 2026 GRAs.

25 So, you know, the -- the baseline is

1 always going to be the baseline, but then it drops by,
2 you know, roughly 25 percent, then drops by roughly
3 another 25 percent. And the real difference is how
4 you view where '23/'24 are and '24/'25 are. And
5 '24/'25 is important because that's the basis for
6 projecting -- projecting the future.

7 Okay. So, on slide 25, I'm going to
8 review sort of what we put forward in our actuarial
9 evidence and -- and the basis for why we put that
10 forward, and then the -- the PUB IR that -- that
11 responded to and -- and what that might indicate and
12 our view of that.

13 So -- so this is the collision claims
14 experience. And, so, I'm sorry, I'm starting with the
15 -- with the left side first. So, what you see, the --
16 sort of the solid blue line is our initial view of the
17 model that -- that we -- that we looked at, and the --
18 the dashed line that sort of extends out is -- has no
19 mobility effects.

20 So, if the mobility effect goes away,
21 you know, what would -- what would the prevailing pre-
22 pandemic trend look like?

23 So, what you'll see is that the solid
24 line and the dash line intersect at -- at the exact
25 same point because what we put forward in our initial

1 actuarial evidence was that -- that there was no
2 effect in the -- that there was no longer a COVID
3 effect in the -- in the claims experience.

4 Again, that's a position similar to
5 where MPI was. And the reason for our taking that
6 position is, if you look at the very last data point,
7 that -- that very last circle, the position of that
8 last circle is very close to where those two lines
9 intercept (sic).

10 So it was our view when we looked at
11 this and -- and reviewed what -- what MPI had done,
12 while we didn't -- while we didn't necessarily --
13 while we didn't agree with the use of an arbitrary --
14 arbitrary factor, this 4, 3, 2, 1 scheme, or I'll call
15 it the four (4), three (3), two (2), one(1) zero
16 scheme, we -- we didn't necessarily initially have an
17 objection to this idea of the -- the value going away,
18 I'm sorry, the effect of the pandemic going away
19 because our review of the data showed that the -- the
20 last accident year was relatively close to where --
21 where the experience would've been had there been no
22 COVID effect. So again, that last circle is very
23 close to the intersection of those -- of those two (2)
24 points.

25 In -- in the PUB IR -- so now I'm going

1 to transition over to -- to the -- to the right panel.
2 So, in the first of the PUB IRs to us, there was a
3 request for us to comment on -- on that conclusion in
4 light of the -- in light of the fact that the -- in
5 light of the uncertainty associated with the last data
6 point.

7 So that last data point, as was pointed
8 out in the IR, has -- it's -- it's an estimate. So
9 that's -- that's a data point that's based on six (6)
10 months' worth of data. So -- so that data point is
11 based on data as of September 30th, 2024, for the
12 '24/'25 accident period. So, it's -- it's six (6)
13 months in.

14 And then it's projected to ultimate,
15 and that projection factor is slightly over three (3).
16 And again, when projection factors are -- are that
17 high, they can be subject to more uncertainty and --
18 and, potentially, the estimate can be less reliable.

19 So, we acknowledged that wasn't -- that
20 wasn't a factor that we had previously considered in
21 developing our actuarial evidence, and -- and we felt
22 that that was a valid observation.

23 I think in our response to the IR, I
24 think we focused probably too much on the exclusion of
25 the 2024 data point as due to uncertainty and not what

1 the exclusion would've implied in terms of the
2 necessity for a -- for a continued pandemic effect in
3 the data.

4 So, what -- what's -- what we plotted
5 on the right side is -- is the -- again, the -- the
6 dashed line is the same dashed line, so it's -- it,
7 had things continued as they were prior to the
8 pandemic, where would we be? And then the solid line
9 is -- excludes the 2024 data point, so it's just model
10 fits through the next to the last -- the next to the
11 last point.

12 And what you'll see now is there's
13 quite a bit of a separation between the dashed line
14 and the solid line, indicating that there is still a
15 residual pandemic effect in driving patterns.

16 Now, that's not to say that -- that the
17 very last data point has no value at all, and we don't
18 mean to imply that, but it is to say that there's some
19 uncertainty in the data point and that -- that it's
20 not entirely clear whether -- whether there are
21 residual effects of the pandemic on commuting patterns
22 and -- and driving behaviour. So we go to the next
23 slide, please.

24 So, I'm going to -- just to -- just to
25 finish that point, I'm going to talk about the -- the

1 bottom part of this slide first, then come back to the
2 -- come back to the -- the top part of the slide.

3 So again, in our initial review of the
4 data, we didn't include a work-from-home adjustment
5 for '24/'25 and subsequent, and we developed that view
6 based on the -- the collision frequency as -- as we --
7 as was on the left side of the prior slide.

8 That PUB/CC-1 identified the
9 uncertainty in that '24/'25 frequency projection. As
10 I said, we inadvertently focused our response on the
11 sensitivity of our trend factor to the 2024 data
12 rather than the need for the work-from-home
13 adjustment.

14 So, we -- we sort of recognize that,
15 you know, a little bit later as we were putting
16 together this presentation, but that was -- we didn't
17 focus likely enough on the need for continued work-
18 from-home adjustment.

19 Although subject to considerable
20 uncertainty, as I said, that -- that data point has a
21 high projection factor and -- and the predictive value
22 of that data point, you know, may be lower than --
23 than other data points. Probably on balance, we
24 believe that in some adjustment it would be
25 appropriate.

1 Now, would it be that full adjustment?
2 That -- that's a -- I think that's a little bit harder
3 to determine and -- and understand, but it does --
4 just if we could go back to the slide 25, if we leave
5 aside that very last data point, we'll note that, you
6 know, the prior data point on the -- on the right-hand
7 side is -- is a bit lower.

8 And if -- if that -- if the '24/'25
9 data point was just a projection that -- that was
10 leveraged by some bad experience in the first six (6)
11 months or -- or just random chance, then I think the
12 view would be that -- that there is some -- there is
13 still a residual gap between the -- between where we
14 are now and where we would have been had -- had we not
15 had the pandemic.

16 In -- in an Information Request from
17 the PUB to MPI where, as I understand it, the -- the
18 Board asked MPI to calculate the rate level need
19 assuming the 2025 GRA work-from-home adjustments.

20 And that includes both the adjustments
21 to the prior data, but also this assumption that --
22 that there was a new normal experience. The -- the
23 calculated indicated rate change was plus 0.27
24 percent, so, roughly speaking, 1.8 percentage points
25 below the 2.07 percent that MPI has requested.

1 Now I'm going to just -- just briefly
2 restate concerns on -- on -- that -- that we outlined
3 on -- on the top part of -- part of the slide that --
4 that we don't -- we don't agree with the use of sort
5 of this arbitrary 4, 3, 2, 1, 0 scheme, that
6 independent variables should be metrics that explain
7 changes in the dependent variables -- variable, and we
8 think that the Google data and the consumer behaviour
9 data really are reasonably good -- are -- are metrics
10 that -- that should align with -- with driving
11 behaviour, and that selecting metrics absent
12 justification beyond model statistics increases the
13 risk of biased estimators and overfitting.

14 So, both of those really talk to -- if
15 you're able to just select the pattern, then you don't
16 really know where that pattern is going to go in the
17 future. And you could actually just be capturing the
18 noise in the data because you're essentially just --
19 just picking data -- picking -- I mean, it's not
20 really picking data, but picking a variable, this 4,
21 3, 2, 1, 0 that -- that mimics the data.

22 But -- but you could pick anything you
23 want and it could mimic the data exactly, but that
24 wouldn't be predictive of what's going to happen in
25 the future.

1 Okay. So that was -- again, as I said,
2 that -- that -- the work from home and the mobility
3 factor were, you know, a significant issue that --
4 that we identified in terms of MPI's modeling of
5 trend. Again, if we were to go -- I don't want to go
6 back to the project slide, but when we -- when we
7 talked about the claims forecasting process and that
8 step 2 related to trend is a pretty critical step.

9 And -- and we believe that the -- that
10 that was -- that -- that the way the mobility and the
11 impact of the COVID pandemic was considered in the --
12 in the modeling was not ideal.

13 So, I'm going to transition now to the
14 next issue, which is the alignment of frequency and
15 severity time periods. And we've presented on this
16 issue in the past to this Board, but our -- our -- and
17 our -- and our views really are essentially, you know,
18 restating evidence that we've provided in the past.

19 And our view is that frequency and
20 severity aren't entirely independent, that -- that
21 oftentimes if you have something affecting frequency,
22 it also has an effect on severity, and that if you use
23 different time periods to estimate frequency trend
24 relative to severity trend, you could have a bias in
25 the loss cost trend assumptions because you're

1 capturing the effect in one of the metrics, but not
2 capturing the effect of -- of an external variable in
3 the other metric.

4 So there -- there may be times where
5 that's okay, you know, if there's an outlier data
6 point or there's other compelling -- other compelling
7 evidence. But without that, we really believe it's
8 important to have alignment of both the frequency and
9 -- and severity trend. If we could move to the next
10 slide.

11 So, it's not -- it's not always clear
12 as to -- as to why the -- the two (2) metrics -- why -
13 - why they -- why they don't -- you know, the -- the
14 commonalities that -- that drive both metrics.

15 But some examples could be, you know,
16 hailstorm increases comprehensive frequency but a
17 decrease in comprehensive severity. So, if you have a
18 hailstorm that -- that damages a lot of vehicles but
19 it's -- those are relatively low-value claims, you
20 know, you could see a situation where the severity is
21 down but the frequency is up.

22 Population shift between urban and
23 rural environments. So, as people move -- as there's
24 a shift into an urban environment, you might get more
25 low-speed, low-value accidents as opposed to rural

1 environments which may have fewer accidents but those
2 accidents occur at a higher speed. The severity of
3 winter weather also might affect accident events.

4 So, as I said, while it's not always
5 well understood, it's -- it's relatively evident in
6 the data, and -- and we'll go through a few examples
7 that -- that frequency and severity, you know, are
8 not always -- are not always independent, and that, to
9 the extent that -- that there's not a basis for
10 picking different time periods, that -- that we
11 believe the modeling should -- should use the same
12 time period so they capture the effects of the
13 external variable on both of the measures that are
14 part of loss costs. If we go to the next slide.

15 And -- and this slide essentially just
16 -- just restates the -- the conclusion, which is that
17 absence -- absent compelling evidence or reasons to
18 deviate, that -- that the -- that the periods used
19 should be in common.

20 Okay. So now I'm going to shift to the
21 issue of -- of trend models. So, as I mentioned at
22 the beginning, I think we're going to take a slightly
23 different approach to our -- our presentation this
24 year.

25 In -- in prior years, we've sort of --

1 we've reviewed each coverage individually and -- and
2 talked about concerns. This year, I think we're --
3 we're trying to present a more streamlined issues-
4 based approach.

5 So, the -- if we just go across the
6 columns, we've -- we've already reviewed the -- the
7 issue of the mobility parameter. It affects, you
8 know, various coverages as -- as are listed through
9 the 'X'es in the -- in the column. And we've reviewed
10 the -- the frequency and severity period mismatch.

11 So -- so those two (2) items we've
12 reviewed, and now the -- the next two (2) issues that
13 I'm going to go over are -- are the experience period
14 and then the issue of future trend.

15 So -- so with the experience period,
16 I'm -- I'm going to -- we're going to focus on-- on
17 two (2) coverages, the accident benefits, other non-
18 indexed coverage, and the property damage third-party
19 deductible transfer coverage. So -- and then with the
20 future trend, we'll -- we'll focus on comprehensive
21 theft and -- and -- in particular, but then also
22 property damage and the accident benefits. So, if we
23 could go two (2) slides forward.

24 Okay. So, this -- so again, now we're
25 -- we're focused on the experience period or the

1 period of years that are used in -- in the development
2 of the trend model. So, this slide presents the other
3 --accident benefits, other non-indexed trend models
4 used by MPI so that the -- the top line is -- I'm
5 sorry, the top panel is frequency, the middle panel is
6 severity, the lower panel is loss costs.

7 You'll see these in several slides that
8 -- that we're going to present. The MPI model is
9 based on -- on -- on a model fit to loss costs for
10 2019 through 2024. You'll see that in the -- in the
11 bottom panel where the line is -- overlaps with --
12 with those periods.

13 You'll also notice here again that --
14 that you have a situation where frequency is declining
15 and severity is increasing. And that gets at an
16 earlier point about how the two (2) generally are not
17 independent.

18 And then in the -- in the loss cost
19 data, you'll -- you'll notice a little bit of
20 cyclicity, right? I mean, it's sort of going down
21 generally, but it goes down and then back up and then
22 down and now it's going back up, and -- and that the
23 MPI model is really fit to the increasing part of that
24 wave, so to speak.

25 So, it wasn't fit to the -- the down

1 part of the wave and then not the first up part or the
2 next down part, but there's cyclicity around --
3 around the lost costs. And that's not terribly
4 unusual to -- to see in insurance data. If we go to
5 the next slide, please.

6 And then if -- we just review the -- if
7 we just -- again, this is a similar chart that we
8 reviewed with the accident year weights, just the --
9 the estimates that go into the -- go into the baseline
10 projection and then the forward projection.

11 And what you'll notice is that the
12 forward projection line is -- is quite steep, right?
13 It -- the blue line there is -- is quite -- is -- is
14 rising quite steeply.

15 And that's because that forward trend -
16 - if we could go back one slide, please -- in the
17 bottom panel, it's fit to that period of years which -
18 - which has this -- you know, has this -- has this,
19 you know, reasonably steeply increasing increasing --
20 increasing loss trend indication. So, if we could go
21 two (2) slides up. Thank you.

22 So, our recommendation is that -- is to
23 fit separate frequency and severity models because
24 there are different -- different effects in those two
25 (2).

1 And again, they're -- in in this slide,
2 we talked about some of those effects. There's cycle
3 -- cyclicalities about a negative frequency trend,
4 positive trend -- severity trend since 2022 but it's
5 not clear if that's just the increasing part of the
6 cycle. So, you don't really just want to pick that up
7 and forecast that forward, relatively stable severity
8 other than the one-time increase between '19 and
9 twenty '20.

10 And MPI's model fit to loss cost data
11 for '19 to '24 doesn't recognize the cyclicalities and
12 just extrapolates that going into the future. And
13 then as we present our alternative trend model, that -
14 - that also includes, you know, our preferred work-
15 from-home parameter. So, if we go to the next slide,
16 please.

17 So again, just to sort of talk about
18 all of those issues separately, the -- the top panel
19 is -- is the frequency model. And again, our idea is
20 to capture all of the cyclicalities in that model.

21 So, you know, the cycle starts with
22 sort of the down and an up, and we pick the down and
23 then we're including the up as well, but then we're
24 explaining some of that -- that dip in there through
25 the use of the mobility variable.

1 Severity is -- there's a little bit
2 less -- a little bit less certainty to that, but
3 you'll see that there was a period that it was
4 relatively flat, it popped up, and now it's sort of
5 flat again, again, keeping in mind, as we talked about
6 with the collision data, that -- that last data point
7 is subject to some -- some uncertainty.

8 But -- but, ultimately, what you'll
9 notice is that the -- the rate of increase is not
10 nearly as steep in the -- in the lowest panel as was -
11 - as -- as MPI is predicting because we're trying to
12 take a longer term view of what's happening with the
13 costs rather than focusing on that near term, --that
14 short-term view, that again, if we look at the
15 experience indicates that that could return to a
16 negative trend if the cyclical returns.

17 And if we go to the next slide, you'll
18 notice that, you know, our increasing value for that
19 blue line is -- is not nearly as steep. It's
20 significantly flatter. And -- and we're proposing
21 that that's much more reasonable as a long-term -- as
22 a -- as a long-term adjustment factor for cost
23 increases than the approach that MPI has adopted.

24 Okay. So again, that was -- that was
25 sort of to outline the issues with -- with experience

1 periods, that -- that this is different than the idea
2 that frequency and severity have to be aligned. I
3 mean, on some level they're related that they need to
4 be aligned, but they -- but the model should be fit
5 over a period that captures -- that captures the
6 changes in costs appropriately and not just fit to a
7 period that is showing cost increases, even if you use
8 that period to fit frequency and severity separately,
9 as we've recommended.

10 Okay. So, the -- the next item that
11 we're going to talk about is -- is future loss cost
12 projections. And we're going to use comprehensive or
13 we're going to go through the comprehensive coverage,
14 particularly for the theft peril. So, in -- in slide
15 40 -- 41. I'm sorry. I'm sorry. Slide 40, please.

16 So, in slide 40, we present the claims
17 data for comprehensive theft. And again, what you'll
18 notice is, particularly on the frequency panel, which
19 is the top panel, that the last few points have been -
20 - have been declining.

21 And then in the bottom panel, what
22 you'll see is that MPI fit a model to -- long-term
23 model to loss costs which we don't -- you know, again,
24 we don't necessarily disagree with that. We think
25 that that's a reasonably good idea.

1 But -- but in this case, it's not
2 capturing something that's really evident throughout
3 the country when it comes to theft of automobile --
4 automobiles. Go to the next slide, please.

5 And in particular, extrapolating that
6 trend line, again, we will see what happens, that --
7 that blue line is quite steep. In fact, it sort of
8 runs off the graph here -- that -- that the forward
9 projection of -- of loss cost changes is -- is quite
10 steep. If we could go back to the -- the prior slide,
11 slide 40.

12 Again, this is another area where --
13 where we think it's important to -- to model frequency
14 and severity separately. You'll see there's a
15 different pattern emerging for the severity -- I'm
16 sorry, frequency, which is largely a declining pattern
17 relative to severity which again, while there was a
18 period of increase through the high inflationary
19 period, does appear to be leveling out slightly.

20 So, our view, if we could go to slide
21 42, please, is that we actually observed a flattening
22 loss cost trend since 2022. And so now let me just be
23 clear about this, that for this we're only talking
24 about the future trend.

25 The past trend as it's measured the

1 changes that have occurred through the experience
2 we're not taking an issue with, but just to understand
3 where -- where trend is going in the future, we
4 believe that a -- that the future loss cost trend
5 should be basically flat or 0 percent. And I'm going
6 to talk for a moment about -- or I'm going to explain
7 why we -- why we think that.

8 So, the -- the model fit to that longer
9 term data doesn't recognize this recent flattening.
10 As -- as you may be aware, we produce industry loss
11 trend reports for Ontario, Alberta, Nova Scotia, and
12 Newfoundland, and they all sort of show a very similar
13 pattern for comprehensive theft, and that there was a
14 recent presentation at the Canadian Automobile
15 Insurance Rate Regulators conference -- in fact, it
16 was just last week -- that talked about a decrease in
17 theft losses. And I think it's actually been in the -
18 - in the general press as well. So, if we could go to
19 the next slide.

20 So, here -- here are essentially charts
21 from our review of industry experience in Alberta and
22 Ontario. And you'll note in both provinces, as we saw
23 with the Manitoba data, that the top panel, that
24 frequency, is really starting to decrease. And we
25 think that that's an important consideration and --

1 and that's not being picked up in MPI's approach to
2 future trend for comprehensive theft coverage. So, if
3 we could go to the next slide, 44. Thank you.

4 So, with that flat trend again, this is
5 what would result. It's not to say that we think the
6 adjustments for the past aren't appropriate. They
7 certainly are because those increases did take place.
8 However, going forward, we believe that there's going
9 to be a decrease in theft frequency.

10 And I shouldn't say we just believe it.
11 It's evident in the -- theft frequency appears to
12 generally be declining throughout the country. It's
13 certainly evident in the Manitoba data. It's evident
14 in the Alberta data, and the Ontario data and other
15 provinces, and that -- that just a forward view of
16 flat trend is more appropriate than -- than the
17 approach that MPI adopted in the development of -- of
18 the loss costs.

19 The -- the final item in this section
20 that we're going to review is the property damage, the
21 -- the third party deductible transfer.

22 And again, and I do apologize, there's
23 a slight -- we didn't change the header of this -- of
24 slide 46 correctly. We'll fix that. It's not
25 accident benefits experience, but it actually -- but

1 it is -- rather it is property damage, third-party
2 deductible transfer experience.

3 And again, this -- this is an
4 experience period issue. So, what -- what we observed
5 in reviewing this data is that the frequency data,
6 that those first couple points are -- are quite
7 different than -- than sort of what happened after
8 that. They're just a little bit higher and -- and
9 therefore not quite as predictive of the -- of the
10 claims experience, so -- and we'll talk about why in a
11 second.

12 The next chart is again our chart
13 related to the accident year weights and how -- and
14 the forward projection. Again, MPI takes a slightly
15 different view towards forward severity -- I'm sorry,
16 forward future trend for property damage, third-party
17 deductible, and that's the reason, you know, for that
18 -- for the shape of the blue line.

19 So, our recommendation here is that --
20 that the -- the results in the -- I'm sorry, the loss
21 cost trend should be -- should be based on frequency
22 and severity models fit separately to 2014 and
23 subsequent.

24 Again, this is an idea of having both -
25 - both separate frequency and severity models, and

1 then also picking the right experience period, which
2 we believe is 2014 and subsequent.

3 And if we go to the -- the next slide,
4 the reason that we picked 2014 and subsequent is
5 because we think that that's a better -- because that
6 omits those first three (3) data points for frequency
7 that we believe, you know, really aren't predictive of
8 the pattern in -- in the data that -- that -- in the
9 more recent data and predictive of what's -- what's
10 happening through that 2020 through 2024 period.

11 And then, as we've said, we believe
12 that the -- the period should be consistent. So, we -
13 - we then pick the same period for the severity model.
14 And this actually has -- has a result of increasing
15 the overall trend slightly. And then -- and then we
16 present the results of that -- of that on the
17 following slide.

18 So, those are our primary issues with
19 the forecasting of losses. I'm going to go through
20 the next few sections relatively quickly because
21 they're not -- they're -- they're sections that we
22 include for completeness, just so the Board has our
23 view on these sections, but in general, they're not
24 sections that -- that have -- that we've taken any
25 issue with.

1 So, the first item, if we could go to
2 slide 52, is the -- the growth in HTA counts. And
3 again, what we noticed there is that -- that the
4 growth in the last two (2) years has picked up
5 slightly. We asked an Information Request about that,
6 and again, we -- if we could just go to the next
7 slide, that -- that we find the forecast to be
8 reasonable, but that it is important to -- to monitor
9 this in case that there's -- there's -- there's
10 information come -- related to vehicle purchases or
11 driving behaviours after the pandemic, changes in
12 immigration or future effects from political and
13 economic environments might drive the number of -- of
14 -- of exposures going forward.

15 Okay. Again, the next section I'm
16 going to review fairly briefly as well, which is the
17 expense section. So, the only expenses that represent
18 more than 2 percent of the estimated required premium
19 are unallocated loss adjustment expenses, operating
20 expenses, premium taxes and commissions. So those --
21 those are the areas that we'll review at a -- at a
22 high level. Again, we don't have an issue with these,
23 so we just want to summarize, you know, summarize
24 these expenses for -- for purposes of completeness.

25 So, the first slide has unallocated

1 expenses as we've talked about. Those are expenses
2 that cannot be assigned to an individual claim. And
3 that -- so examples of the fixed unallocated expenses
4 are the health levy and the non-contract towing. And
5 variable expenses are the salaries of claim department
6 personnel, claim payment costs and other overhead
7 costs. So that's unallocated expenses.

8 If we could move to the next slide,
9 please. The next slide is operating expenses, which
10 are roughly \$100 million a year, and that there's a
11 process for allocating those costs to -- to future --
12 to -- to future years.

13 Next slide, commissions, which are --
14 which are established under the Public Insurance
15 Corporation Act. And -- and, again, these are, I --
16 I'm sorry, we have both commissions and premium taxes
17 on this. So, this is to cover -- cover off the four
18 (4) components of expenses that are more than 2
19 percent of the premium. And, you know, we summarize
20 the basis for the MPI -- for -- for MPI's assumptions.
21 And if we could go to the next slide. Again, we have
22 no material issues with -- with MPI's approach here.

23 Okay, so, again, a -- a summary of
24 alternative assumptions. So, this -- this will,
25 essentially, you summarize the -- the -- our -- our

1 suggestions on -- on -- on various items related to
2 claims forecasting. Again, it -- it's really focused
3 on having the right experience period, having
4 consistency in frequency and severity, modeling the
5 effects of the -- of the pandemic and -- and modeling
6 the effects of the pandemic in -- in a -- in a less
7 arbitrary way.

8 On -- on the next slide, we present the
9 -- the impact of those changes. And, again, this, as
10 -- as I said, this is the impact that's in our
11 evidence. However, as -- as I mentioned earlier, that
12 -- that we had a -- a basis for putting this forward
13 as our evidence. But then when we received the IRs
14 from the PUB, you know, we did realize that,
15 potentially, that it would be more appropriate to
16 consider that there is a post pandemic new normal that
17 has lower driving frequency than the pre-pandemic and
18 perhaps some sort of adjustment to that estimate would
19 be appropriate.

20 Again, as -- as it was -- as MPI
21 calculated in an IR to the PUB that the rate
22 indication would have been 0.27 percent or roughly 1.8
23 points below the -- the -- the 2.07 percent that was -
24 - that's being sought by MPI.

25 Okay. So, those are -- are -- are my

1 comments on the claims forecasting. And that, again,
2 that's the -- the -- the more significant part of our
3 presentation. But I do want to touch on merit rating
4 before I turn it over to my colleague, Mr. Chan, to go
5 over the remaining sections.

6 Okay. On slide 63, we review the --
7 the -- the changes to the -- to the -- the DSR program
8 and -- and that involves -- it changes over time to
9 the DSR program. And I -- I won't go through those in
10 -- in detail, but -- I -- I'll -- I'll -- instead I'll
11 focus on really our concerns with -- with the way that
12 MPI models the -- the -- models what the relativities
13 of the credits should be -- for credits and debits for
14 moving between DSR levels. So, if we could move to
15 slide 64, please.

16 So, MPI uses I -- like a -- I'm sorry,
17 MPI uses a two (2) segment linear model, so -- and I
18 know they've move -- they moved the point at which the
19 -- the two (2) segments intersect from the prior GRA
20 and that's represented in -- in the -- in the charts
21 on -- on the -- on the left.

22 So, they use a linear model -- I -- I
23 presented that data sort of on -- on two (2) scales,
24 and I'll explain why in a moment, but the top scale is
25 -- is on a -- on -- on a raw unadjusted scale. And

1 then -- I'm sorry, the top panel is on the -- is on
2 the -- on -- on the -- the raw relativities.

3 The bottom panel uses a log scale and
4 I'll -- as I said, I'll explain why in a moment. On
5 the right, we present something that we refer to as
6 the LOESS model or, I'm sorry, we don't refer -- it is
7 -- it's called the LOESS model. And -- and it's,
8 essentially, a way of sort of smoothing through some
9 data points, that it -- smoothing through some data
10 points in -- in evaluating claims experience. And
11 I'll -- I'll -- I'll explain the -- the -- the reason
12 why we're presenting that. If we could move to the
13 next slide, please.

14 Okay. So, the -- part of our
15 recommendation is that MPI continue the transition
16 moving from minimum bias model to the GLM model, which
17 -- which we understand is -- is underway.

18 But our concerns with respect to the
19 '26/'27 rating year and the 2026 GRA is -- is this
20 approach that -- again, I know we brought this to the
21 Board in -- in -- in prior -- in -- in -- in our prior
22 evidence, as well, that the current approach results
23 in -- in the same absolute movement -- within --
24 between levels but not the same percentage movement.

25 So, as an example, that's in the first

1 bullet point. If you move from level 19 to level 20,
2 you get a 7.4 percent reduction. But if you move from
3 level -- or between level 4 to 5, you get a 3.5
4 percent reduction. So, it's -- you're not getting the
5 same reduction on a percentage basis because how it's
6 modeled is, it's modeled as a change in the absolute
7 value of -- of the -- of the factor and that is -- and
8 then, sorry, I think that should be 0.0482 not -- not
9 0.482.

10 So, they both have the same absolute
11 reduction, but that leads to a difference in the
12 percentage reduction, or credit, that an insured would
13 receive for -- for moving between DSR levels.

14 And, again, our view is that a DSR
15 level is not a numerical variable. I -- I think we,
16 again, we've sort of talked about this in the past, a
17 numerical variable may be number of kilometers driven.
18 So, you drive and if you drive double the number of
19 kilometers, you know, you're more likely to have
20 double the number of accidents.

21 Where moving from nineteen (19) to
22 twenties (20s), you can sort of think of that as a --
23 as a 5 percent movement, right, 5 percent of -- of
24 nine (9) -- twenty (20) -- it -- you'd move from
25 nineteen (19) to twenty (20) is -- is -- is roughly 5

1 percent. But that doesn't mean you're going to have a
2 5 percent improvement and it doesn't mean if you move
3 from four (4) to three (3), you're going to have a --
4 a -- an increase of 25 percent.

5 So, we really view these DSR levels as
6 what we call 'categorical variables'. They're more
7 of, you know, perhaps you could think of it as a -- as
8 small, medium or large, or I -- I think we've given
9 these examples in the past.

10 Having a bachelor's degree, master's
11 degree or a PhD, your -- your compensation or your
12 market value may go up, but it's not -- it's not
13 linear like that. It's not, you -- you know, it's not
14 that a -- that a master's degree increases it by the
15 same percentage that a PhD would over a -- over a -- a
16 master's to a -- a bachelor's degree is not the same
17 increase as a master's degree to a PhD.

18 So, we really think that that should be
19 considered a -- a categorical variable, not a -- a --
20 not a numerical variable, and that -- that there is --
21 there's a different way of fitting to categorical
22 variables. And now that different way of fitting will
23 be captured when they transition to a GLM model.

24 So, this is an issue that may go away
25 in -- in relatively short order. But for purposes of

1 '26/'27 GRA, we think it is, I -- I'm sorry, the 2026
2 GRA, we -- we think that there are still several
3 residual issues, not the least of which being -- and
4 this -- a little bit harder to see on my plots 'cause
5 they're a little bit more condensed, but if we look at
6 Figure RC/Appendix 6-1, which we don't -- I -- I don't
7 know if that's easier to bring up, but -- but I can --
8 I -- I could possibly find it.

9 It's -- it's -- I'm sorry, I don't -- I
10 don't have it offhand, but it's their -- their chart
11 presenting the data and the fitted models. I think
12 it's important to see that the highest volume classes
13 are classes where the -- the -- the fitted
14 relativities are below the indicated relativities,
15 which means that they're being under predicted and
16 that MPI may not collect sufficient premium.

17 And this has been something that we've
18 observed over the past several GRAs. So -- so while
19 this issue may go away in the near future, it's still
20 an issue that does affect the 2026 GRA for the Board's
21 consideration.

22 So, those -- those are the -- the two
23 (2) areas that I wanted to go over before I turn it
24 over to my colleague, Mr. Chan. Again, the first area
25 was more about the overall claims forecasting and then

1 the second topic was related to the -- the DSR levels
2 and the debits or credits that an insured would
3 receive for moving between DSR levels.

4 And what -- and what we tried to
5 present -- or our goal was to present our view as --
6 as to the -- the -- the concerns that we have with
7 respect to the way that MPI has -- has -- has modeled
8 both of those items.

9 MR. FELIX CHAN: Thank you, Mr.
10 Sahasrabuddhe. If we can go forward to the next
11 slide, one more, I will go over the vehicle rate
12 groups and our findings on that.

13 So, I want to start focusing on the
14 right side of this slide first and kind of go over
15 MPI's methodology on how they determine rate groups.

16 We start with the IBC Vehicle Rate
17 Group, and there is a weighting that is determined
18 between the Collision and Comprehensive Rate Group for
19 the IBC vehicles. And there is an adjustment
20 performed for the Accident Benefits Rate Group, before
21 we cap the results at the end to a rate group of
22 forty-one (41).

23 So, that's the current methodology.
24 And then on the left side, we can see the proposed
25 changes that MPI is -- is proposing in this current

1 GRA. The Rate Group Expansion, which is the -- the
2 last box on -- on the right side is currently at
3 forty-one (41) and they're proposing to increase that
4 to forty-five (45). And then with -- with that
5 increase to forty-five (45), they're also proposing
6 the -- the Rate Group movement.

7 So, currently, for -- for each
8 consecutive year, the rate group is capped by -- by
9 plus one (1). So, if -- if your rate group changes
10 from year to year, the most that you can increase your
11 rate group by is -- is one (1). So, you can go from a
12 thirty-five (35) to thirty-six (36), but you can't
13 jump from thirty-five (35) straight to a thirty-nine
14 (39).

15 On -- on the decreasing side, there --
16 there's no cap. So, it -- it's really just a -- a cap
17 on the increase and they're proposing that -- that cap
18 on the increase, increases to a plus five (5) move --
19 movement. So, in -- in this case, you could jump from
20 a plus thirty-five (35) to a -- a plus forty (40).

21 MS. KATRINE DILAY: And, Mr. Chan,
22 just before you move on just two (2) quick questions.

23 When you refer on the right-hand side
24 to IBC, that's Insurance Bureau of Canada.

25 Is that right?

1 MR. FELIX CHAN: Correct.

2 MS. KATRINE DILAY: And I believe on
3 the right-hand side, when you were speaking about the
4 methodology you referred to "we" -- would you agree
5 this is MPI's current method methodology?

6 MR. FELIX CHAN: This is currently
7 MPI's methodology. Yes.

8 MS. KATRINE DILAY: Great. Thank you.

9 MR. FELIX CHAN: If we go on to the
10 next slide, this -- this is a slide that's -- that's
11 been recreated. We're focusing on just the positive
12 rate group movements and this -- this is from R -- or
13 IR-CC/MPI-1-58, Appendix 1, page 2 that MPI has
14 provided in the response.

15 The table describes the premium impacts
16 only for vehicles with a CLEAR rate group and includes
17 the proposed 2026 GRA DSR changes as well.

18 So, the -- this is the premium -- we --
19 we can view this as the premium change that consumers
20 would see, grouped by the number of rate group -- rate
21 groups they would increase by and the vehicles that
22 are -- are changing rate groups.

23 I will note that in the -- in the
24 second row, the -- the plus four (4) row, we see 14.4
25 percent. So, a -- a large number of -- of the

1 vehicles there are -- are -- are being increased and -
2 - and that's due to the -- the movements of -- largely
3 due to the movement of the current cap at forty-one
4 (41) and people being bumped all the way up to the new
5 cap of -- being proposed to forty-five (45).

6 And I -- I won't really describe the
7 rest of this table, but if we go on to the next slide,
8 I -- I -- I will have a little bit more to talk about
9 this table.

10 So, let's -- let's start with the top.
11 The -- the rate group expansion for the -- the off
12 balancing. The -- the current method that MPI has
13 proposed in the GRA is that they have off balance --
14 off-balancing is -- is a term that we use to describe
15 adjusting premiums for revenue neutrality.

16 So, essentially, it would be that the -
17 - the expected future premiums collected are equal to
18 the -- the current premiums being collected. So,
19 there's no additional premium overall that's being
20 collected.

21 So, the -- the way that MPI is -- is
22 currently off balancing or -- or trying to achieve
23 revenue neutrality is that only the rate groups from
24 zero to 41 are being off-balanced and then any
25 additional premium from people moving for -- into the

1 rate group -- the new proposed rate groups 42 to 45,
2 is -- is new premium that they weren't collecting
3 before. So, the -- this is additional premium that --
4 that they're not currently collecting.

5 So, what that means is that rate groups
6 42 to 45, the new rate groups that are being proposed,
7 are -- are going to be bearing the brunt of -- of the
8 increases and -- and -- and taking on all -- all of
9 the -- the additional premium that MPI proposes to
10 collect as a result of the rate group change.

11 That's not to say that the -- the rate
12 group movements, when -- when someone has a -- has a
13 new rate group due to the new updated CLEAR rate
14 groups, that they won't see a premium change. It's
15 just that, overall, from zero to 41, any of those rate
16 group movement changes are being revenue neutralized,
17 so that the overall premium for that entire cohort of
18 vehicles in rate group zero to 41 will -- will have no
19 premium impact if you look at it in -- in totality.

20 And it -- and then I'll go on to the --
21 the second point there, sorry, please stay on the same
22 slide. On the second point there talking about the
23 rate group movement. We -- we believe that the rate
24 group movement also places an undue burden on
25 consumers, as they do not really have control over

1 their vehicle rate group assignments. These are the
2 vehicles that they -- they have currently owned and
3 purchased. This -- these are not vehicles that
4 they're thinking about purchasing, so they don't
5 really have a choice on -- on how their vehicle is --
6 is being rated for right now.

7 So, the -- the Vehicle Rate Group
8 Movement, they -- these are -- these are just
9 summaries of -- of what we saw in -- in prior -- the
10 prior slide, slide 68. But the -- the Rate Group
11 Movement in the plus five (5) category, people will
12 experience an average percent increase of 24.23
13 percent and that results -- that's equivalent to a
14 four hundred and eleven dollars and twenty-five cent
15 (\$411.25) increase.

16 Vehicles moving, plus four (4) rate
17 groups, an -- an increase of four (4) rate groups will
18 experience an average premium increase of 19.3
19 percent. And that -- that's the equivalent of -- of
20 three hundred and fifty-one dollars and ninety cent
21 (\$351.90) increase.

22 So, if -- if we look at the -- the
23 total number of rate groups of -- that -- that people
24 are moving up by, that -- the total -- sorry, the
25 total number of vehicles where the vehicles will see

1 or experience a -- a four (4) rate group increase or a
2 five (5) rate group increase, that's based on -- on
3 the exhibit provided by MPI, that would be a hundred
4 seventy-two thousand three-hundred and fifty-nine
5 (172,359) vehicles, or roughly 19.3 percent of the
6 vehicles that are -- that are being rated by rate
7 groups.

8 And if we look at the -- the total
9 number of vehicles increasing by at least three (3)
10 rate groups, that -- that is 24.4 percent, nearly a
11 quarter of the vehicles in -- in Manitoba that
12 currently have vehicle rate group ratings.

13 So, in -- in a privately delivered
14 insurance model, such as ones in -- in Alberta or
15 Ontario, consumers have the freedom of choice. If
16 they don't like what their insurance company is doing,
17 if they don't like how the -- their premiums are when
18 -- when they receive their -- their premium documents,
19 they -- they have the choice to shop around. They
20 have the choice to find a better rate elsewhere and it
21 -- it -- they don't have to accept it.

22 In a publicly delivered model, such as
23 MPI in -- in Manitoba, it limits the -- the
24 optionality for -- for consumer choice. So, we -- we
25 believe that there is a -- a greater care needed to --

1 to consider the consumer impacts, as -- as this --
2 this can, if we -- if we don't think about this, this
3 can increase the risk of consumer harm, as they will
4 see large -- large increases that are out of their
5 control and do not reflect a -- a change in -- in
6 their absolute risk profile.

7 It -- it's a change in the risk
8 profile, based on the way that MPI has calculated,
9 because they -- they currently cap it at forty-one
10 (41) and they're increasing to forty-five (45). And
11 they -- and then the movement cap is capped at plus
12 one (1) right now, and they're proposing to increase
13 it to plus five (5).

14 So, these are all process changes
15 within MPI that have nothing to do with the consumer
16 and how the consumer's risk has materially changed
17 from last year to -- to this year to next year. If --
18 if they've kept the same vehicle, if they haven't had
19 an accident -- and -- and that's really the point we --
20 - we want to get across on -- on the vehicle rate
21 groups here.

22 MS. KATRINE DILAY: And, Madam Chair,
23 just noting the time, we note that it's 10:30. I -- I
24 believe Mr. Chan only probably has about ten (10)
25 minutes remaining. So, subject to the Board's

1 preference, we'd propose finishing the presentation
2 and then taking a break.

3 PANEL CHAIRPERSON: That's fine, let's
4 proceed that way. Thank you.

5 MR. FELIX CHAN: Thank you. So, we'll
6 -- we'll keep moving on to the -- the next section on
7 the prior period runoff. Next slide, please.

8 I won't spend too much time on this, in
9 the interest of time as we don't really have a -- an
10 issue with this and this is more for -- for
11 completeness for the Board. This -- this slide really
12 just tries to present the -- the prior period runoff.
13 So, we're -- we're trying to present a comparison of
14 the loss cost estimates between the -- the previous
15 2025 GRA and the 2026 GRA.

16 On the right side, you'll -- you'll
17 see graphs for each coverage. And the -- the -- the
18 blue line is the 2026 GRA. The black line is the 2026
19 GRA trend, that has been selected by MPI, and the --
20 the red line is the 2025 GRA.

21 So, you -- you'll see that for most
22 coverages, all of the lines are -- are fairly close to
23 each other and -- and overlap in -- in many segments.
24 The ones that we do want to note are -- are the -- the
25 property damage ones towards the right side of -- of

1 each graph on -- on property damage and comprehensive.
2 We'll see that divergence from the -- the red line,
3 which is the 2025 GRA and -- and then the blue and the
4 black lines, which are the part of the 2026 GRA. And
5 -- and this gap is mostly due to the -- the higher
6 inflationary environment that we experienced in -- in
7 the recent years and right after COVID.

8 And then the -- the last section I want
9 to talk about is -- is the presentation of the rate
10 indication. So, if we can move over two (2) slides.

11 This -- this is kind of a -- an
12 explanation of the components that MPI is -- is
13 proposing in this current GRA.

14 So, the -- there is a -- in -- in row
15 'A' the proposal for the deductible change going from
16 a Basic deductible of seven hundred and fifty dollars
17 (\$750) to a deductible of a thousand dollars (\$1,000)
18 and that, essentially, is the equivalent of a rate
19 increase of 2.98 percent. And -- and what I mean by
20 that is, a deductible generally will lower your
21 expected claim cost because a deductible is the amount
22 that a consumer will pay out of pocket before the
23 insurer pays for the claim and -- and -- and makes the
24 -- the customer whole.

25 So, a higher deductible means that a --

1 a consumer will -- will pay more out of pocket.
2 However, MPI also offer -- will be offering a
3 deductible buy-down option, which we can view as if --
4 if someone decided to lower their deductible back to
5 seven-hundred fifty (\$750), then MPI will no longer
6 see the benefit of that lower claims experience,
7 because they're paying that --that two hundred fifty
8 dollar (\$250) difference between the seven hundred
9 fifty dollar (\$750) buy-down option, and the thousand
10 dollars (1,000) Basic deductible option.

11 So -- so, there would be no savings on
12 the claim cost, and they're transferring that -- that
13 loss of savings to the consumer to -- to pay for that.

14 And within -- within the GRA, MPI
15 assumes a hundred percent take-up rate on the
16 deductible buy-down, which again, just to restate,
17 assumes that they -- they're assuming that they will
18 not see any benefit to lower claims clause, because
19 they assume everyone will buy a seven hundred and
20 fifty dollar (\$750) deductible. Everyone who's
21 eligible will buy the seven hundred fifty dollar
22 (\$750) deductible. So, -- so, in other words, they're
23 assuming everyone will see this 2.98 percent increase.

24 Row 'B' is the DSR change that they're
25 proposing. This results in a premium decrease as DSR

1 is -- is a -- is a discount mostly to -- to reflect
2 the risk of our -- of the drivers. So, the -- the
3 overall rate impact of the DSR change is a 1.63
4 percent decrease in the overall premium that MPI
5 expects to collect. And then the vehicle rate group
6 change, that I just went over previously, results in a
7 3.20 percent increase. And that's additional premium
8 that -- that they're not currently collecting. As I
9 mentioned, this -- this is all for the -- the rate
10 groups of 42 to 45 that we're seeing in the 3.2
11 percent.

12 And just -- just to clarify, it's not
13 3.2 percent for -- for rate groups 42 to 45, but it's
14 -- it's 3.2 percent of the total premium that MPI
15 collects is going to be on only the vehicles in rate
16 group 42 to 45. So, in the -- the current GRA, we --
17 we consider A, B and C -- the total being -- the total
18 of A, B and C being 4.55 percent premium increase.

19 And that's -- that's the starting point
20 of MPI's rate indication, and how they get to a 2.07
21 percent request rate change. So, what -- what's
22 really happening is, they've considered all of these
23 changes, A, B and C, and they're looking at the -- all
24 of the premium that -- that they expect to collect as
25 a result of all these changes and saying, we're still

1 short 2.07 percent.

2 That's not the change that consumers
3 are seeing. That's the change that they're short by
4 after all of these changes are considered. So, if we
5 -- if we include all of the changes that they're
6 proposing, and include the 2.07 percent that they're
7 short buy, we arrive at a total of 6.63 percent.

8 And as -- as I mentioned, the
9 deductible change is -- it can be viewed as a rate
10 change or not. As a rate change, it -- it kind of
11 depends, with the deductible buy-down option, because
12 it is a premium -- premium obligation for the consumer
13 to -- to pay for that, and they're assuming a hundred
14 percent. Then there -- there is a rate impact. There
15 is a premium change that a consumer will see.

16 If we assumed zero percent takeup of
17 the deductible buy-down, then no one would see a
18 premium increase, because everyone's taking the
19 thousand dollars (\$1,000) deductible. MPI would
20 experience a lower claims cost as a result of that.
21 And then if we remove the 2.98 percent on the premium,
22 then we would see that the -- the total rate
23 indication or -- or the rate change need would be 3.65
24 percent.

25 And then if we move on to the next

1 slide. So, I'm going to briefly touch on the -- the
2 Canadian Institute of Actuaries Standards of Practice
3 on the -- on the bottom -- on the bottom paragraph
4 standards of Practice one one two zero dot three four
5 (1120.34); that's the Canadian Institute of Actuaries,
6 the CIA's definition of the indicated rate change, or
7 indicated rate. And then above that, I've -- I've
8 added in their -- their quote for one one one. zero
9 two (111.02), which states:

10 "The existence of the standards is
11 not a substitute for professional
12 judgment or consideration for the
13 needs of the user when performing
14 specific work."

15 My -- our interpretation of that is
16 that the standards of practice should be followed, but
17 there is an allowance to deviate that is acceptable,
18 if it meets a higher threshold than the standards
19 prescribe, or if alternative methods or approaches
20 could result in better outcomes.

21 And then on the right side, this --
22 this was taken from MPI's website. It is their --
23 their core values that we -- we see here. And, I
24 believe we can all agree, that these -- these are good
25 values. I -- I resonate with all of these, and I -- I

1 just want to highlight the one in blue:

2 "Doing what's right. We act with
3 integrity and accountability. We
4 strive to be open and
5 transparent."

6 And really here, the "transparency" is
7 -- is the key word for me. It -- it speaks to me.
8 And that's -- that's what I think we're -- we're
9 trying to achieve a better outcome for here, is better
10 transparency for -- for the Board, better transparency
11 for the public, and better transparency for -- for
12 everyone involved in -- in this process.

13 On the next slide, I'm going to go over
14 a -- a few scenarios. So, in the first column as --
15 as mentioned in -- in the prior slides, the -- the
16 actual required premium change, the actual premium
17 that MPI needs to collect.

18 So, if we look at the -- the kind of
19 the -- the first section, or the first bullet points
20 on -- on the left side, the -- the MPI average premium
21 including trends, so that's -- that's kind of our
22 baseline that I -- I want to start with. It's -- what
23 -- if we did nothing at all, if -- if MPI did not
24 propose a GRA, if -- if the Board did not make a
25 decision, if we just let everything continue on into

1 the next year, what would the premiums look like? And
2 that average premium is nine hundred ninety-seven
3 dollars and 44 cents (\$997.44).

4 Now, when we consider all of the claims
5 forecasting that we talked about, all of the -- the
6 trends that MPI is seeing in -- in their claims
7 experience, and then factor in all of the expenses and
8 everything else that goes into the rate indication, we
9 get an estimated required premium. So, that -- this
10 is the premium that MPI believes they need to charge.
11 And -- and this number is -- is without the -- without
12 the thousand dollars (\$1,000) deductible, because they
13 do believe that 100 percent of the customers will take
14 the deductible buy-down.

15 So, they -- I -- so I have not put up
16 the - the number that includes the required premium,
17 if they receive the benefit of the ded -- of -- of the
18 one thousand dollar (\$1,000) deductible. So, that --
19 that total change is going to be 6.63 percent as -- as
20 mentioned in the prior slide.

21 Now, if we move on from left to right,
22 there's -- there's a -- a couple different scenarios.
23 The -- the MPI requested change is-- is the 2.0
24 percent. And as -- as I alluded to previously, it's -
25 - it's really just the starting point that we're

1 talking about is different. MPI includes the -- the
2 proposed changes that are not -- not yet approved of
3 the -- the rate group change, the DSR change, and then
4 there's -- there's also the -- the matter of the
5 deductible change, which is reflected here in -- in
6 the second column on the second bullet point, the --
7 the benefit they expect to see with the thousand
8 dollar (\$1,000) deductible.

9 And so again, that's -- that's a 2.07
10 percent. And then in the third column, if rate groups
11 were denied, so if -- if the rate group change was not
12 allowed to continue, and the rate group had to
13 continue as it was currently prescribed in -- in MPI's
14 processes, then it would result in a -- based on MPI's
15 methodology, and -- and the way they calculate their
16 required premium change, and their requested premium
17 change, it would be 5.23 percent.

18 But in -- in actuality, if we -- if we
19 look at the -- the starting point of, if -- if we did
20 nothing and where they need to get to, it's still
21 going to be 6.63 percent. And -- and that's really
22 what we're trying to show on these slides.

23 So, the last slide is -- is really to
24 hammer home that point. If we -- if we proposed
25 something that was completely different, that -- that

1 was not in any of the materials in the GRA. So, let's
2 -- let's say MPI -- we -- we want to look at MPI --
3 MPI's premium change. If there was no -- no rate
4 group movement of capital, so everybody goes to their
5 designated rate group without any capping. So that
6 plus five (+5) is gone, the plus one (+1) is gone,
7 everyone, if -- if you were -- this is an extreme, but
8 if you were, say, rate group 20, you could go straight
9 to 45.

10 And what would that look like. We
11 don't know because we don't have any of the
12 information to determine that based on the MPI
13 methodology. But I can tell you from the starting
14 point of, if we did nothing at all, to the endpoint of
15 when we consider the claims trend what -- what the
16 future forecast looks like, and what -- what MPI needs
17 as a premium, I can tell you that that difference is
18 6.63 percent.

19 So really, what I'm trying to -- to
20 point out here, is the 6.63 percent is -- is absolute;
21 that's -- that's the starting point of where we are
22 now. And we project the premiums, if we did nothing
23 into the 2026 to '27 year, and then, the required
24 premium is, if we project all of the -- the claims
25 forecasting, the trend, the expenses, into that year

1 as well.

2 And how -- how you get that 6.63
3 percent? We -- we can -- we can discuss that, we --
4 we can talk about that and -- and say we -- we want to
5 enact different measures, maybe there's some rate
6 segmentation we want to do, maybe there's some claims
7 costs that we -- we can save. For example, a higher
8 deductible or -- or a -- different claims adjustment
9 practices that -- that an insurer can -- can do on the
10 claim side, or even expense savings, if -- if we're
11 able to streamline some expenses. You -- you can --
12 you can adjust those. And at the end of the day,
13 those impacts all add up to 6.63 percent. That's --
14 that's the gap you're trying to close.

15 On the next slide, I'm -- I'm going to
16 talk about rate applications in other jurisdictions.
17 So up -- up here are quotes in the Ontario and Alberta
18 filing guidelines. These are guidelines that the
19 insurers who are applying for rate applications in
20 those -- those jurisdictions must follow. And we'll -
21 - we'll note that in -- in section 2 in Ontario, it --
22 it says, in responding to question 4:

23 "The impact of the proposed change
24 rates or rules, including base
25 rate changes, differential

1 changes, discount or surcharge
2 changes and rating rule changes,
3 must be disclosed under the
4 proposed average rate level
5 column. The impact by coverage
6 must be calculated on an uncapped
7 basis and disclosed."

8 And then in section 7, it says:

9 "The filing must clearly describe,
10 and show, how the rate level
11 impact changes to base rates,
12 differentials and discounts or
13 surcharges in combination with any
14 off-balance, which may be applied,
15 are used to calculate the overall
16 rate level change on a per
17 coverage basis."

18 And Alberta has very similar wording.

19 If we look at other provinces, Newfoundland, New
20 Brunswick, Nova Scotia, they all have similar
21 wordings, and they're -- they're all publicly
22 available. You can look -- look it up online. We can
23 provide those -- those links as well. They -- they
24 all have similar wordings to -- as section 7 that say
25 you do need to clearly describe every single change

1 that you're doing, and not just the off-balancing,
2 which is the -- the gap in which you've considered all
3 of your changes that you're proposing. And then,
4 what's the gap to what -- the rate you really need.
5 So -- so, all of these jurisdictions require this.

6 And -- and then an -- another point I -
7 - I do want to point out real quick, is that in other
8 jurisdictions, most of the insurance rate applications
9 we review, we do see deductible is a variable rather
10 than an extension or an endorsement, so people can
11 view -- can select different deductibles and that will
12 affect their -- their premiums.

13 And then that -- that's similar, but
14 not exactly the same as the deductible buy-down option
15 but, in effect, what -- what it's saying is we --
16 insurers can present consumers with a default
17 deductible option and say, this is -- this is the
18 deductible. And, if you want a lower deductible, then
19 you have to pay more. That's -- that's the messaging
20 across all provinces. There's different ways to do it
21 but, essentially, we -- we -- all insurers do this,
22 where -- where obviously, if they're paying more for a
23 claim because the obligation -- the out-of-pocket
24 obligation on the consumer is less, then they -- they
25 will need to pay more premium to cover that

1 difference.

2 And then in the -- in the next slides,
3 I -- I won't describe it too much, but we can see an
4 example of rate application in -- in Ontario for
5 section 2, question 4, which was quoted in the -- the
6 prior slide. And we can see in -- in -- circled in
7 red, that is the total over -- overall coverage change
8 that is being requested. And that is 7.18 percent.

9 And then in the -- the next slide, this
10 is section 7 where they are presenting -- they are
11 presenting all of the changes and the -- the rate
12 impacts. So, you can see line 4 -- or sorry, line 2
13 A, B, C, D and E are all of the changes that they're
14 proposing. And if we go all the way to the right
15 side, we can see the total, which is the -- the total
16 premium impact of each individual change. And then in
17 line 4 is the off-balancing.

18 So, that's -- that's after -- we can --
19 so, line -- line 3 would be the total -- the sum of
20 all the changes in -- in line 2. So, that's -- that's
21 kind of in -- in the prior slide. In one of the prior
22 slides where I was going over the MPI changes, that
23 would be essentially the same as column D, where we
24 add up all of the changes in A, B and C.

25 And then in -- in line 4 is the off-

1 balancing change. So, that is the change where we've
2 considered all of these changes, and what is the gap
3 to what we really want to charge in premium? And that
4 -- that would be the equivalent to the requested rate
5 change of 2.07 percent by MPI. And in -- generally in
6 other jurisdictions that we review, we -- we call this
7 the base rate change. This is -- is the base level
8 change. It does not include any of the other changes.
9 It's -- it's just the base rate change, but it's not
10 the true rate change that a consu -- that an insurer
11 is proposing or requesting.

12 And then in -- in the next slide, I'll
13 -- I'll just go over really quickly as well, an
14 example of an Alberta rate application. So, this --
15 this question 4, similar to question 4 of Ontario,
16 where an insurer presents the -- the current premium
17 level, and the proposed rate level, including all of
18 the changes that they're proposing. And we can see
19 here, circled in red, it's 7.49 percent.

20 And then in the next slide, it's --
21 it's a different -- it's a different view. Insurers
22 have the flexibility to present their -- their
23 information, how they -- how they want. But at the
24 end of the day, they still need to follow the
25 guidelines. So, in Alberta section 7, we can see

1 here, each table shows the impact of a different
2 proposed change that this insurer is asking for. And
3 it's a little bit hard to see so, if -- if you do have
4 the PDF version, I encourage you to -- to zoom in and
5 take a look.

6 I do want to point out the -- the first
7 circled red table on the -- on the right side. So,
8 the middle table, we can see that that is the -- is
9 the final base rate adjustment. So that is again,
10 equivalent to the -- the base rate change or the --
11 the MPI proposed 2.07 percent.

12 And then the last table on the right
13 side, the bottom right table, is the total rate change
14 that is being proposed. And you can see that says
15 7.49, which is the same as the prior -- the prior
16 slide.

17 To wrap it all up, what does this all
18 mean? We -- we believe the rate indication should
19 describe the total change in required prem -- premium
20 to achieve rate adequacy irrespective of the proposed
21 changes.

22 So, the -- the rate indication really
23 is just an indicator. It's a number to tell you how
24 much you need to change your rates by to achieve rate
25 adeq -- adequacy to achieve the -- the profit margin

1 that you're -- that you're looking for in a private
2 insurer. Or, if you're a public insurer with -- with
3 no profit margin, then it's -- it's the premium you
4 need to -- to collect to achieve a -- rate adequacy
5 where -- where you're not sustaining losses and -- and
6 needing to be subsidized through -- through other
7 lines.

8 And it does not prescribe how you get
9 to that -- that number though. So, you can -- you can
10 present, or propose a number of changes, but at the
11 end of the day, as long as they all add up to the --
12 the actual number you need to reach, then, really all
13 we're looking at is, are those proposed changes
14 reasonable? Not, is this rate actually what you need?

15 So, we're -- we're really focused on
16 the -- the transparency. We -- we believe that the
17 way that other jurisdictions are doing it, and showing
18 it are -- are good for transparency, good for -- for
19 consumer transparency, as well as the Board
20 transparency to understand the actual gap, the total
21 gap of the -- of the cost pressures that MPI is
22 experiencing, and that MPI is needing. It allows for
23 greater flexibility for the Board to prove overall
24 rate changes because you will know what the -- what
25 the actual gap is.

1 And if you propose alternative changes,
2 for example, in this -- this GRA, if we're talking
3 about the vehicle rate groups, if you decide to do
4 something differently for there, at the end of the day
5 like -- that premium impact is all baked into the 6.63
6 percent.

7 So I -- I don't need to -- if -- if we
8 believe that the rate group change is necessary, but
9 maybe we have different views on how it should be
10 implemented, we could propose a -- and by "we" I mean
11 the Board -- the Board could propose alternative
12 options for the vehicle rate group, without needing to
13 request additional IRs or undertakings from MPI to get
14 the premium impact; if we believe that the 6.63
15 percent is appropriate and if we believe that the --
16 the alternative changes are going to be better for
17 consumers and more fair.

18 And then the -- the second point is the
19 requested rate change should include premium impacts
20 of all requested changes. So, the current MPI
21 methodology is less transparent because it does not
22 disclose or include all of the proposed changes before
23 arriving at the 2.07 percent. So, it would be
24 difficult for consumers to identify the potential
25 impacts on their policy. For example, the vehicle

1 rate groups, consumers aren't aware of that, unless
2 they go digging through the entire GRA application and
3 find that specific section.

4 And we -- we see that in headlines as
5 well in Manitoba when -- when the GRA was filed that
6 the headlines are 'MPI is requesting a 2.07 percent
7 increase'. So, people are expecting a roughly 2.7
8 percent increase. When we -- when we explain to
9 consumers, well, it's not 2.7 percent for everyone.
10 It's on average. Your -- your change may be higher or
11 lower based on --based on your risk profile, based on
12 all of these factors, but in actuality, it's -- it's
13 not 2.07 percent.

14 If you look at it overall, if you look
15 at the total premium from where they are now to where
16 they need to get to, it's not 2.7 percent. It's 2.7
17 percent after they've considered all of these changes
18 that they're asking for. And then they're saying 2.7
19 -- 2.07 percent is the gap.

20 And one last point -- I guess two (2)
21 last points. One -- the first point is consumers
22 don't experience the rate changes from MPI separately
23 from the requested rate change of 2.07 percent. They
24 -- they experience this as a whole. They don't have
25 an option to opt out and say, I don't want this

1 change. I'm okay with the 2.07 percent. They -- they
2 have to accept the whole rate change as proposed in
3 the GRA.

4 So, we -- we believe that for
5 transparency, for -- for consumer transparency,
6 consumer benefit, as well as the Board benefit, that
7 the -- the total change should be disclosed and
8 included. And then if -- if we can back up to slide
9 73, one last point I want to make before I close out.

10 We -- we can see here again, I'm -- I'm
11 -- this is -- this is just an example, more for the
12 benefit of the Board, we can see here in row 'E,' the
13 2.07 percent. Again, that is the gap that MPI is --
14 is requesting, because after all the changes, they --
15 they still need 2.07 percent.

16 So, in a hypothetical scenario, if we
17 were to -- if MPI were to propose a change that gave
18 them an additional 2.7 percent, let's say on the
19 vehicle rate group they're getting 3.2 percent
20 already, now there's -- there's an additional change
21 on the vehicle rate group that gives them the
22 additional 2.7 percent they're looking for. That
23 would mean that in the GRA, they would be requesting a
24 0 percent rate change.

25 Alternatively, if we go to a very

1 extreme example, if they were able to get 12.07
2 percent, on -- on top of the 3.2 percent on vehicle
3 rate group, for example, then they've -- what they're
4 saying is all of these changes, they're collecting 10
5 percent more premium than they need. And in which
6 case row 'E' would say minus 10 percent, that they're
7 requesting a 10 percent decrease.

8 And for -- for consumer transparency,
9 and for -- for fairness, I -- we don't believe that
10 that is an appropriate number to be presenting, or
11 disclosing as the requested rate change because no one
12 will see that -- well, not no one, but on average,
13 it's not a minus 10 percent rate decrease, because the
14 rate overall that they're collecting is still going to
15 be higher. It's an increase.

16 That is the end of my section and
17 arguments. Thank you for your time.

18 PANEL CHAIRPERSON: Thank you very
19 much. We'll take a break now and come back for direct
20 and cross-examination. So, could we back at quarter
21 after 11:00, please?

22

23 --- Upon recessing at 11:01 a.m.

24 --- Upon resuming at 11:16 a.m.

25

1 PANEL CHAIRPERSON: Thank you. Ms.
2 Dilay...?

3 MS. KATRINE DILAY: Thank you, Madam
4 Chair. And I believe that concludes the direct
5 examination of the Oliver Wyman witnesses. They're
6 are now available for questions.

7 PANEL CHAIRPERSON: Okay. Thank you,
8 Mr. Guerra...? Mr. Wishnowski. Sorry.

9 MR. ERIC WISHNOWSKI: Yes. Good
10 morning. Eric Wishnowski, for MPI. I'm prepared to
11 ask my questions. I wasn't sure if Mr. Andres or Ms.
12 Moore going first, but I'm happy to.

13 PANEL CHAIRPERSON: Our procedure in
14 the past has been that MPI now crosses the Consumer
15 Coalition witnesses, so please proceed.

16 MR. ERIC WISHNOWSKI: Thank you, Madam
17 Chair.

18

19 CROSS-EXAMINATION BY MR. ERIC WISHNOWSKI:

20 MR. ERIC WISHNOWSKI: Again, my name
21 is Eric Wishnowski. I'm going to be asking you the
22 primary questions today. Mr. Guerra may have some
23 cleanup at the end, but nonetheless, I had like to
24 start.

25 I know that the MPI's not taking any

1 issue with your expertise, either of you, but I just
2 do have a few background questions. Some of them were
3 answered.

4 So, Mr. Sahasrabuddhe, you've testified
5 in the MPI GRA four (4) times. Is that correct?

6 MR. RAJESH SAHASRABUDDHE: Yes.

7 MR. ERIC WISHNOWSKI: Okay. And in
8 your experience, do you have other experience
9 testifying in front of other regulatory panels?

10 MR. RAJESH SAHASRABUDDHE: Yes, in new
11 Brunswick

12 MR. ERIC WISHNOWSKI: In New
13 Brunswick. And that would be -- everything in Canada
14 would be those two provinces?

15 MR. RAJESH SAHASRABUDDHE: Yes.

16 MR. ERIC WISHNOWSKI: Okay.

17 MR. RAJESH SAHASRABUDDHE: That's
18 correct.

19 MR. RAJESH SAHASRABUDDHE: And -- and
20 I know you're based out of United States,
21 Philadelphia, correct?

22 MR. RAJESH SAHASRABUDDHE: That's
23 correct.

24 MR. ERIC WISHNOWSKI: Okay. And does
25 your office -- and you specifically, do you do any

1 testifying regarding auto insurance in the United
2 States?

3 MR. RAJESH SAHASRABUDDHE: No, not
4 testifying.

5 MR. ERIC WISHNOWSKI: Okay. Thank
6 you. And Mr. Chan, is this -- have you done other
7 testifying in front of regulatory panels in -- in
8 Canada?

9 MR. FELIX CHAN: No.

10 MR. ERIC WISHNOWSKI: Okay. Have you
11 done any testifying at all?

12 MR. FELIX CHAN: No.

13 MR. ERIC WISHNOWSKI: Okay. Fair
14 enough. Well, this is my first time testifying or
15 cross-examining in front of a regulatory panel, so
16 don't -- don't worry, you're not alone.

17 But your office -- and this is for both
18 of you, or whoever's best. Your office does reports
19 across Canada because I've seen some of the reports.
20 I know Alberta and a few other provinces as well.
21 That's correct, right?

22 MR. RAJESH SAHASRABUDDHE: Yes. We
23 work in every province other than Quebec.

24 MR. ERIC WISHNOWSKI: Okay, perfect.
25 There we go. And so, you've provided reports for all

1 those provinces?

2 MR. RAJESH SAHASRABUDDHE: That's
3 correct.

4 MR. ERIC WISHNOWSKI: Right. And just
5 to clarify, and this is just me making sure I'm right,
6 when you say you work for other provinces, that would
7 always include a report essentially from Oliver Wyman?

8 MR. RAJESH SAHASRABUDDHE: Yes, it's -
9 - yes, it's -- there's always a report. The only
10 provinces that we testify as experts in are New
11 Brunswick and Manitoba.

12 MR. ERIC WISHNOWSKI: Okay. Perfect.
13 Thank you. And New Brunswick's a little bit different
14 than Manitoba though. Is that correct?

15 MR. RAJESH SAHASRABUDDHE: That's
16 correct.

17 MR. ERIC WISHNOWSKI: Right. Manitoba
18 here -- Manitoba's a very unique situation with MPI
19 being the -- the sole auto insurer for the province,
20 correct?

21 MR. RAJESH SAHASRABUDDHE: Well --
22 well, it's unique relative to New Brunswick, but --
23 but we do work in Saskatchewan and British Columbia as
24 well.

25 MR. ERIC WISHNOWSKI: Okay.

1 MR. RAJESH SAHASRABUDDHE: Yes.

2 MR. ERIC WISHNOWSKI: Thank you. I'd
3 like to just sort of pick up a little bit where --
4 where Mr. Chan left off, and that's talking about this
5 idea of a misrepresentation of the rate indication.

6 So, Mr. Chan, I think my next few
7 questions are going to be primarily based for you. In
8 your experience -- and recognizing this is your first
9 time testifying, but I think you've been around these
10 reports from Manitoba before -- has Oliver Wyman ever
11 made this recommendation that MPI is -- is
12 misrepresenting the rate indication?

13 MR. FELIX CHAN: No, not to my
14 knowledge.

15 MR. ERIC WISHNOWSKI: Okay. Thank
16 you. And, in fact, there isn't anything different
17 that MPI is doing this year that's sort of raising any
18 flag for -- from Oliver Wyman.

19 Is that correct?

20 MR. FELIX CHAN: MPI is not doing
21 anything differently than the past. It's more -- I
22 would say that we've -- we picked up on it this time.
23 And I don't really have an explanation on why it
24 wasn't picked up in prior times.

25 MR. ERIC WISHNOWSKI: Yeah. Yeah, no

1 --

2 MR. RAJESH SAHASRABUDDHE: Yeah.

3 MR. ERIC WISHNOWSKI: -- no
4 explanation required. Yeah, just trying to make sure
5 that I'm not sort of misinformed or -- or under some
6 different perspective. I wonder if we could look to
7 that Table 4 of the Oliver Wyman report on page 4,
8 please, Ms. Dweh. Thank you.

9 And so, you can see that on screen, Mr.
10 Chan. And could I just ask, these numbers here, these
11 MPI listed numbers, where did Oliver Wyman get these
12 numbers?

13 MR. FELIX CHAN: I'll have to confirm,
14 but they -- they are from one of the exhibits in the
15 appendices that were provided to us.

16 MR. ERIC WISHNOWSKI: Perfect. Thank
17 you. And I'll just perhaps just lead you a bit.
18 These are in fact all numbers that were provided
19 through MPI's General Rate Application this year,
20 correct? You -- your office either had them --
21 explicitly given them to you or found them within the
22 Application.

23 Would that be fair to say?

24 MR. FELIX CHAN: Correct.

25 MR. ERIC WISHNOWSKI: Right. It's not

1 as if Manitoba Public Insurance Corporation was hiding
2 these numbers in any -- in any way, correct?

3 MR. FELIX CHAN: Correct.

4 MR. ERIC WISHNOWSKI: And, sir, would
5 you agree that in fact Manitoba Public Insurance's
6 General Rate Application is extremely voluminous in
7 its entirety of the amount of documents and paperwork
8 that is provided to the Board and to the public?

9 MR. FELIX CHAN: There -- there is a
10 large volume of data. I would agree with that. What
11 I would specify as well though is you need a certain
12 level of knowledge and expertise to be able to
13 navigate all of the documents and data to understand
14 everything, all the changes in totality.

15 MR. ERIC WISHNOWSKI: Absolutely. I
16 agree. And this is a question for either of you, but
17 in your experiences here in -- in the country of
18 Canada and the various provinces where you've written
19 reports, are any other provinces providing -- are the
20 auto insurers in any of their provinces required to
21 provide this amount of data as is provided in the
22 General Rate Application?

23 MR. RAJESH SAHASRABUDDHE: I'll take
24 that. So, one (1) of the differences between the
25 General Rate Application and rate filings in other

1 provinces is that the General Rate Application also
2 includes financial forecasting of the operations of
3 the -- of MPI, whereas typical rate filings in -- in
4 provinces that have a private insurance program
5 wouldn't include that.

6 Now in British Columbia, the revenue
7 and rate -- revenue and -- the RRA, revenue and rate
8 application, I believe, also does include, you know,
9 quite a bit of -- of information and on -- that --
10 that might be a little bit more closely aligned with
11 what's in the MPI GRA.

12 MR. ERIC WISHNOWSKI: Thank you. And
13 perhaps just before we move on to the next topic,
14 you'd agree that then it's not a concern that MPI
15 isn't being forthright with its -- with its numbers.
16 The concern is primarily really, instead of just
17 having the simplified rate indication ask, your office
18 is suggesting it should be a bit more expounded upon.

19 Is that fair to say?

20 MR. FELIX CHAN: Yes, that would be
21 correct.

22 MR. ERIC WISHNOWSKI: Okay. And so,
23 your concern is really that -- I think you testified
24 to it, Mr. Chan -- the idea that in a -- in a media
25 release a Manitoban wouldn't see MPI is applying for

1 2.07. Your concern is that, you know, Manitobans
2 should really be able to see more of the picture in
3 this media release.

4 Is that fair to say?

5 MR. FELIX CHAN: I would say that I
6 believe the public should be aware of the total
7 premium increase that MPI is looking for and not just
8 the premium increase after consideration of the
9 proposed changes that aren't part of the base rate.

10 MR. ERIC WISHNOWSKI: Okay. Thank
11 you. Ms. Dweh, can I have you go to page 80 of the
12 presentation this morning, please.

13 Now, Mr. Chan, you testified to this
14 slide. Now, you just said a phrase, something along
15 the lines of, you know, you would require a certain
16 level of knowledge to understand, you know, to go
17 through MPI's General Rate Application.

18 Would you agree that you would also
19 need a certain level of knowledge to interpret this
20 slide that's on screen, this rate application in
21 Alberta?

22 MR. FELIX CHAN: All rate applications
23 will likely need varying levels of knowledge. So, in
24 a sense, yes, I agree you need some knowledge to be
25 able to understand this, but I believe that this

1 exhibit here is more clearly laid out in terms of the
2 premium impacts for each individual change.

3 MR. ERIC WISHNOWSKI: Okay. And so,
4 is this a model that -- that you would like to see,
5 from your opinion, be included along with the release
6 from Manitobans to be informed of -- of what the true
7 numbers are when an MPI is making their rate ask
8 indication?

9 MR. FELIX CHAN: It doesn't
10 necessarily have to be this exact one. As you saw,
11 like this -- this was the Alberta one There was one
12 presented on Ontario. And each insurer presents it
13 slightly differently.

14 The -- the important thing is that it
15 is being presented and included in a way that
16 summarizes everything that allows both the Board and
17 the public to -- to very easily identify the numbers
18 and the impacts that -- that are going -- that are
19 being proposed.

20 MR. ERIC WISHNOWSKI: Okay. If we
21 could please pull up the pre-ask MPI/CC-1, please,
22 Part C. Ms. Dweh, I have it as page 5 of 30 of my
23 document, but I'm not sure if your document includes
24 all the pre-asks.

25

1 (BRIEF PAUSE)

2

3 MR. ERIC WISHNOWSKI: And sorry, it's
4 actually the MPI/CC pre-ask, not the CC/MPI pre-ask.
5 Sorry, Ms. Dweh.

6 MS. KATRINE DILAY: Sorry. Mr.
7 Wishnowski, are you talking about Information Request
8 rather than pre-ask?

9 MR. ERIC WISHNOWSKI: Oh, I am. My
10 apologies.

11 MS. KATRINE DILAY: Thank you.

12 MR. ERIC WISHNOWSKI: Yes, it is
13 Information Request.

14 MS. KATRINE DILAY: Thank you for the
15 clarification.

16

17 (BRIEF PAUSE)

18

19 CONTINUED BY MR. ERIC WISHNOWSKI:

20 MR. ERIC WISHNOWSKI: Thank you. If
21 you could scroll down a little bit.

22 So, Mr. Chan, this was included -- your
23 office drafted this response or -- or this figure
24 here. Is that correct?

25 MR. FELIX CHAN: That's correct.

1 MR. ERIC WISHNOWSKI: Okay. And so --
2 and I'm -- you know, just -- just above this table
3 here, it's saying this is just a sample table for
4 illustrative purposes and not suggesting this is the
5 only method.

6 MR. FELIX CHAN: Correct.

7 MR. ERIC WISHNOWSKI: But is this more
8 of an idea of perhaps a simplified version, is that --
9 of -- showing the work so to speak of a rate ask?

10 MR. FELIX CHAN: Again, just to
11 reiterate that this is not a recommendation that
12 should be adopted, per se, but this is an example of
13 something that would be simplified, that is easy to
14 digest all of the information about the proposed
15 changes within a GRA. So, this is one of many methods
16 or scenarios where you -- you could present the
17 information, yes.

18 MR. ERIC WISHNOWSKI: Okay. So, I'm
19 looking at this simplified version, and I'm still
20 having a little trouble understanding it. So, can you
21 -- I know it's just an example, but can you just walk
22 the PUB through how you're -- you're sort of laying
23 out this information. Obviously, the information is
24 based on Manitoba's -- or MPI's General Rate, but to
25 me, that -- that total line at the bottom is just a

1 bit confusing because that's not the two point o seven
2 (2.07) that MPI is requesting at the -- at the bottom.

3 So, I'm just wondering if you can just
4 sort of explain to the Panel how this table works
5 exactly and -- and how it's simplifying things.

6 MR. FELIX CHAN: Sure. Yes. So, the
7 baseline scenario, as -- as mentioned, was 6.63
8 percent in my presentation. So that is the -- the
9 total premium gap, and that's in column 2.

10 The rate indication impact in column 3
11 as -- as a result of the deductible change, and that
12 would be assuming 0 percent take-up rate of the
13 deductible buydown extension.

14 So that is -- you have 6.63 percent of
15 a premium gap that you need to close. And you don't
16 have to close all of that gap through premium
17 increases or premium changes.

18 As I mentioned or alluded to in my
19 presentation, you can do -- you can perform other
20 actions in terms of claims adjustment, cost -- cost
21 management, expenses, streamline expenses that can
22 reduce the rate indication without changing the rate
23 that you're requesting.

24 So, in theory, the -- the column 2,
25 6.63 percent, if you were able to find 6.63 percent

1 savings within expenses, then you would not need to
2 request a rate change because you would be able to
3 cover that gap.

4 So, column -- column 3 is really about
5 the non-premium changing aspects that are being
6 proposed and how that relates to the impact on the
7 indication. So, we remove 2.98 percent of the 6.63
8 percent out of the 6.63 percent between column 2 and
9 3, and then the remaining which is essentially the row
10 F of column 4.

11 So, if you do 6.63 minus 2.98, you
12 arrive at 3.65, and that is the total premium change
13 that is being passed on to the consumers if we assume
14 that there is a 0 percent take-up rate on the
15 deductible buydown option.

16 And then that 3.65 percent is broken up
17 into the different changes that are being proposed:
18 the DSR change, the rate group change, and then row E,
19 the base rate change, which is the MPI requested 2.07
20 percent.

21 MR. ERIC WISHNOWSKI: Okay. Thank you
22 for that. That does help. So, if we were going to
23 pick one number to -- to show Manitobans what MPI's
24 rate ask would be, would it be the 6.63 or the 3.65?

25 MR. FELIX CHAN: I believe that

1 depends on the message that's trying to be
2 communicated in terms of the rate change. I would say
3 3.65, but in terms of the total rate gap, if -- if we
4 were having a discussion on the -- the gap between the
5 current premium and the premium needed, it would be
6 6.63.

7 If -- if we're going with -- with a
8 headline, I don't have a view on that. I'm not an
9 expert in -- in public relations, so I -- I don't have
10 a view on that.

11 MR. ERIC WISHNOWSKI: Fair enough.
12 Thank you. I can pull it up if -- if we need to, but
13 I'm hoping we don't. But when we look at -- it's
14 included in the -- in the GRA generally every year,
15 from my understanding, but there's sort of a list of
16 prior years, and it says 'MPI's rate request', and
17 then it says 'the approved rate', 'the PUB approved
18 rate'.

19 And so those are just two (2) numbers,
20 you know, last year being three (3) and then the
21 approved rate being higher.

22 If the PUB were to recommend this
23 change to how the rate indication is presented, would
24 you then be suggesting that we should be looking back
25 at the prior ten (10) years, twenty (20) years of what

1 those -- what MPI considers its rate ask, which has
2 always been one number, and that should sort of then
3 be retroactively changed to see what the sort of
4 baseline scenario number was and then the other
5 variables which led to that rate indication request?

6 MR. FELIX CHAN: I don't believe the
7 past needs to be restated. The -- the rate change and
8 the rate indications are -- are all in the -- the
9 prior GRAs.

10 They may not be presented in -- in the
11 way that we're -- we're kind of highlighting here.
12 But in -- in terms of the -- the amount of effort and
13 undertaking to -- to go back in time for -- for things
14 that are already in place and have already happened, I
15 -- I don't think that's necessary.

16 I believe really we should be forward
17 looking and -- and seeing how we can make the process
18 better moving forward.

19 MR. ERIC WISHNOWSKI: Okay. Thank
20 you. I hope it's one of my last comments on the -- on
21 the rate representation. I just want to summarize a
22 little bit to make sure I'm correct.

23 It's really not a -- 'cause I -- I take
24 a little bit of issue with the idea of Manitoba Public
25 Insurance not being transparent and then being

1 involved in this General Rate Application where so
2 much information is public, and that so much
3 information is -- is put forth.

4 Fror offices such as yourself or the
5 Public Utility Board lawyers, anyone can go and look
6 through it. And so, the idea that Manitoba Public
7 Insurance isn't being transparent, as I indicated, I
8 take it some umbrage with.

9 Is it really more that your indication
10 about how the rate request should be, MPI should just
11 be more forward or front facing with it's -- be it
12 press releases or be it a one sheet that lays out the
13 rate indication in a more fulsome manner?

14 MR. FELIX CHAN: I don't believe the
15 argument is that MPI is not being transparent. I
16 believe my argument would be that there is a better
17 way to be transparent.

18 MR. ERIC WISHNOWSKI: Perfect. Thank
19 you.

20

21 (BRIEF PAUSE)

22

23 MR. ERIC WISHNOWSKI: A change here
24 slightly here. So, I think these questions will be
25 more for you, Mr. Sahasrabuddhe. I'm going to look at

1 the discussion this morning and in -- in your report
2 regarding the time periods for frequency and severity.

3 Okay. So just a little talk about
4 frequency and severity trends. Would you agree that
5 the ideal as an actuary is to find the best fit when
6 determining these trends?

7 MR. RAJESH SAHASRABUDDHE: I think you
8 -- I think the ideal is to find a model that predicts
9 the future the best, and -- and that's not always the
10 model of best fit. In fact, sometimes it's not.

11 That's the concept of overfitting
12 that, again, it was -- it was one word in the
13 presentation, so I don't -- I don't mean to imply that
14 we went through that in detail, but -- but that's what
15 the word 'overfitting' means that you fit the -- the
16 data so well that it's not predictive of what could
17 happen in the future because you're capturing the --
18 the noise as well as the signal.

19 MR. ERIC WISHNOWSKI: Interesting.
20 Okay. And so again, explain it to me if I'm wrong,
21 but, you know, my understanding was if -- if we're
22 looking at what is a good -- or, sorry, a best fit,
23 that would include finding one with the lowest 'P'
24 value. Is that correct?

25 MR. RAJESH SAHASRABUDDHE: Yes. 'P'

1 value typically isn't used as a measure of -- of fit.
2 It's typically used as a measure of variable
3 significance, but a lower 'P' value in that context is
4 better. And -- and variable significance is an
5 important factor in -- in understanding whether the
6 model is appropriate or not.

7 MR. ERIC WISHNOWSKI: Okay. And I'm
8 sure this is an obvious question, but it is a public
9 hearing, and just for everyone to know, actuaries as
10 their jobs, both yourselves and other actuaries, when
11 you're looking at finding these models or these
12 trends, you're going to be comparing various different
13 time periods. Is that fair to say?

14 MR. RAJESH SAHASRABUDDHE: Yes, that's
15 fair to say.

16 MR. ERIC WISHNOWSKI: Right. So,
17 you're going to be looking at some, and some may not
18 be working as well as others. And so, you are just
19 sort of -- I wouldn't say trial and error, but it's a
20 little bit of that where you look at certain numbers
21 and then you find ones which work better.

22 Is that fair to say?

23 MR. RAJESH SAHASRABUDDHE: That is
24 correct, yes.

25 MR. ERIC WISHNOWSKI: Thank you. And

1 so, part of your presentation today and in your report
2 indicated that you took issue with MPI at certain
3 points using different time periods for frequency and
4 severity trend forecasting. Is that correct?

5 MR. RAJESH SAHASRABUDDHE: Yes, that's
6 correct.

7 MR. ERIC WISHNOWSKI: And you said it
8 today, I do believe, and it's certainly in your
9 report, but that:

10 "Frequency and severity are not
11 entirely independent. Selecting
12 the same time period for the
13 frequency and severity models
14 helps include any offsetting
15 effects in the selected trend
16 rates."

17 Do you recall that in your report?
18 That's page 13, should have said.

19 MR. RAJESH SAHASRABUDDHE: Yes.
20 That's my view. I don't remember those exact words,
21 but -- but that -- that certainly sounds right.

22 MR. ERIC WISHNOWSKI: Sounds good.
23 Thank you. So, is it your submission that anytime
24 we're looking at frequency and severity models that
25 they should be using the same time periods?

1 MR. RAJESH SAHASRABUDDHE: No, I
2 wouldn't say any time. I would say that there are --
3 there are particular circumstances where it may make
4 sense to deviate, but then the -- the basis for that
5 deviation should be documented. I never meant to
6 imply that every single time frequency and severity
7 should be based on the exact same time periods.

8 MR. ERIC WISHNOWSKI: Okay. So, there
9 are times when it's appropriate to use different time
10 periods?

11 MR. RAJESH SAHASRABUDDHE: Yes.

12 MR. ERIC WISHNOWSKI: And you'd agree
13 that, in your experience in your past, you've at times
14 chose different time periods for frequency and
15 severity trends. Is that fair to say?

16 MR. RAJESH SAHASRABUDDHE: Yes, that's
17 fair. I don't recall whether that's the case in an
18 MPI hearing or a different rate filing, but -- but,
19 yeah, I think that's fair to say.

20 MR. ERIC WISHNOWSKI: Thank you. And
21 there isn't any actuarial like hard and fast rule
22 saying, you know, you have to use the same time
23 periods. There is flexibility there.

24 That's fair to say?

25 MR. RAJESH SAHASRABUDDHE: Yes. I

1 mean, there would be what I'd consider best practice
2 again, which is to use the same time period unless --
3 unless circumstances dictate otherwise, but I wouldn't
4 -- I would characterize that as a best practice as
5 opposed to hard and fast rule, but -- but hopefully
6 that conveys my view on that.

7 MR. ERIC WISHNOWSKI: Thank you. Can
8 you give some examples and -- and I don't want to, you
9 know, have you just sit here and speculate, but I --
10 you know, I've reviewed reports. Obviously, I'm not
11 an actuary, and so I -- I hear these -- this sort of
12 concept of maybe either justification as why to not
13 use the same time periods or, you know, unless
14 circumstances dictate otherwise.

15 Can you just give an example or two (2)
16 of -- of what that would be, just so I can understand,
17 please?

18 MR. RAJESH SAHASRABUDDHE: Sure. And
19 some of these may apply more in the context of a
20 smaller insurer that had -- might have had more
21 variability in the data, but let -- let's just say
22 there was a -- a catastrophic accident where -- where
23 there were several deaths, and that -- that was
24 unusual. It -- it -- that might be a situation where
25 the severity is -- is overstated, even though it's

1 just one accident. So, that severity data point may
2 not be appropriate, even if it's in the same time
3 period where the frequency is unaffected.

4 So that would be a -- a situation where
5 it might be okay to have a -- a different -- you know,
6 a different time -- different time period for the two
7 (2) phenomena.

8 Give you another example might be,
9 again, a little bit more recent, but -- but the COVID
10 pandemic. Again, we do have approaches to dealing
11 with the impact of the pandemic, but if we didn't have
12 such approaches, then it might be okay to leave out
13 the -- you'd leave out the frequency values that were
14 affected by the pandemic, while keeping them in for
15 severity, as -- as our view is that the pandemic
16 affected frequency a lot more than severity.

17 MR. ERIC WISHNOWSKI: Right. Okay.
18 Thank you. I'm going to bring up a document. Ms.
19 Dweh, this is an Oliver Wyman report about
20 Newfoundland and Labrador.

21 I recognize you probably haven't
22 reviewed it. I know I did provide it to your Counsel,
23 but I -- I know that -- but if we could perhaps go to
24 page 24, please. Maybe just scroll down a little bit,
25 paragraph 3 and paragraph 4 and I can give you a

1 moment to read it rather than read it myself, but the
2 -- the short of it is, on the frequency model, your
3 office chose 2014 to 2024, and the severity model was
4 2011 to 2024.

5 And I -- I -- I guess I'm just curious,
6 and if you need a few minutes and -- and we can -- we
7 can come back to this question.

8 But I -- I'm just wondering what the
9 circumstances were here, that dictated that, a -- a
10 different time period of -- of three (3) years was
11 appropriate?

12 MR. RAJESH SAHASRABUDDHE: Can we
13 scroll down to the charts. It should be on the next
14 page.

15 Yes. So, here what we observe is a --
16 a -- a change in the -- in the patterns for frequency
17 and severity and for frequency, the -- those earlier
18 data points were -- were flat. And then there was a
19 prevailing trend, so we didn't want to use those
20 points for the frequency model, because it would -- it
21 didn't really characterize the -- the -- the changes
22 that were occurring post 2014.

23 So, then the question becomes, should
24 we exclude 2014 and prior in the severity model. We --
25 -- so we have a -- so just to back up, we have a good

1 reason to exclude them on the frequency. Now we need
2 to look at, you know, should we exclude them on -- on
3 severity.

4 And, again, that becomes a bit of a
5 judgment call. Here, just because of the volatility
6 in the data, we decided to leave them in to -- to --
7 to capture -- to capture that effect. So, if -- if
8 the -- if -- if we had seen -- the -- the frequency
9 data, as you can see, they -- they -- they -- the data
10 points around our fitted line are -- are much closer
11 than what you see in the severity model. The severity
12 model is bouncing around a lot over -- around the
13 fitted line.

14 So, the exceptional circumstance in
15 this case that would have -- that -- that -- that we
16 identified to ex -- to start in a different spot was
17 the change in trend in the frequency model for the
18 first, you know, pre 2014, where we didn't identify
19 that sort of change in the severity model, certainly
20 not to as strong a degree 'cause the -- the data's
21 just not as well behaved.

22 MR. ERIC WISHNOWSKI: Okay. Thank
23 you. So, in -- in this figure here, are -- are the
24 frequency and severity graphs, or sorry, trends, are
25 they -- are they independent then, in this case?

1 MR. RAJESH SAHASRABUDDHE: I'm -- I'm
2 not sure I fully understand the question, but the --
3 the -- the models -- in the top panel, it's a model
4 fit solely to frequency data. In the middle panel,
5 it's a model fit solely to severity data. And then in
6 the lower panel, which you have to scroll down to, is
7 a model fit to both, to loss costs, I'm sorry, which
8 are the combination of frequency and severity.

9 And, there, we did exclude fourteen
10 (14) and prior -- to align with the idea that the
11 frequency wasn't -- wasn't predictive of -- I'm sorry,
12 the frequency model -- the frequency data for fourteen
13 (14) and prior wasn't predictive of -- of -- of what
14 was happening post 2014.

15 Also, just as a high-level comment,
16 this is a much smaller province and a much smaller
17 coverage with -- with bodily injury. So, that -- that
18 factors into our thinking as well.

19 MR. ERIC WISHNOWSKI: For sure. So,
20 you -- there's always factors going into it. I -- but
21 I guess, if you can help me, please.

22 In your report, Oliver Wyman states the
23 -- that the frequency and severity are not entirely
24 independent and, therefore, they -- they should have
25 the same time period.

1 Now, I recognize this is a report from
2 a different province --

3 MR. RAJESH SAHASRABUDDHE: Yeah.

4 MR. ERIC WISHNOWSKI: -- different
5 factors going on. So, I guess what I'm just curious
6 at is what was the -- the choice in this year's
7 application to say that frequency and severity are not
8 entirely independent, therefore, they have to have the
9 same time periods.

10 And then, in the report on screen, you
11 -- they are -- they're allowed to have different time
12 periods?

13 MR. RAJESH SAHASRABUDDHE: Right, so
14 our position is that -- that they should have the same
15 time period absent a -- a compelling reason why the
16 time period should be different. And we believe that
17 the compelling reason in this -- in this Newfoundland
18 report is the change in pattern on frequency pre-2014.

19 MR. ERIC WISHNOWSKI: Okay. And I
20 think you just testified a few minutes ago and -- and
21 is it a bit of a judgment call. That's fair to say?

22 MR. RAJESH SAHASRABUDDHE: That is
23 correct. Yes.

24 MR. ERIC WISHNOWSKI: Thank you.
25 And so, presumption would be that MPI's actuaries,

1 when developing their trend models, would be using --
2 making a bit of a judgment call as well.

3 Is that fair to say?

4 MR. RAJESH SAHASRABUDDHE: Yes,
5 that's correct. Thank you.

6 MR. ERIC WISHNOWSKI: Now, does
7 Oliver Wyman agree that MPI, specifically in these
8 models, was using best fit models?

9 MR. RAJESH SAHASRABUDDHE: I think
10 -- I think MPI took efforts to make sure that -- that
11 they picked the right model. Again -- again, just
12 depends how you define the term 'best fit'. So,
13 there's a sort of a statistical definition to that.
14 There's a plain English definition to that, and I
15 haven't -- I don't have all of the models they looked
16 at, sort of at the ready, to conclude, you know,
17 whether it meets either definition. Whether it meets
18 the -- the statistical definition or the plain English
19 definition of 'best fit'.

20 But I -- I would say they reviewed
21 multiple models, and made a selection that they felt
22 was the most appropriate. So, that's, you know,
23 without using the statistical terminology, "best fit",
24 that's how I would characterize their process.

25 MR. ERIC WISHNOWSKI: Okay. You'd

1 agree, that for a lot of these models, now referring
2 back to MPI's, not the one on screen, but for MPI's
3 models, there was a difference really of just one year
4 of 2011 or 2012?

5 MR. RAJESH SAHASRABUDDHE: Yes.
6 That's my recollection. Yes.

7 MR. ERIC WISHNOWSKI: The difference -
8 - relatively modest as far as not a dramatic number of
9 years removed or included. Fair?

10 MR. RAJESH SAHASRABUDDHE: Yes.

11 MR. ERIC WISHNOWSKI: But again, I
12 think and I'm right, based on your answers so far or -
13 - or, correct me if I'm wrong, but would it -- would
14 it -- there's no actually hard and fast rule. If --
15 if you wanted to have a 20 year frequency trend, and
16 you had an eight (8) year severity trend, you could do
17 it. There's no actuarial rule against it.

18 Is that fair to say?

19 MR. RAJESH SAHASRABUDDHE: Correct.
20 As I said before, it's a best practice as opposed to a
21 rule.

22 MR. ERIC WISHNOWSKI: Thank you.

23

24 (BRIEF PAUSE)

25

1 MR. ERIC WISHNOWSKI: And just to
2 confirm that, is it a general business practice of
3 Oliver Wyman to try to make its recommendations the
4 same time period, or is each situation unique?

5 MR. RAJESH SAHASRABUDDHE: Again, I --
6 I would say that -- that we try to use that same best
7 practice that I just described. That when we produce
8 models, whether it be for benchmark reports or when
9 we're evaluating insurer submissions, which we do in
10 many provinces, you know, including Manitoba here,
11 that -- that we view the best practices using the same
12 time period, unless there's a compelling reason to
13 deviate.

14 MR. ERIC WISHNOWSKI: Okay. Thank
15 you. Just one more question. If you could scroll
16 back up, Ms. Dweh. Oh, oh just up that top table
17 there on the next page. Thank you.

18 And so I know you just described that
19 there was a removal of those -- is it four (4) or five
20 (5) data points there, and in Oliver Wyman's report,
21 do you feel that there was, you know, compelling
22 evidence, or sufficient justification, as to why
23 Oliver Wyman removed those years?

24 MR. RAJESH SAHASRABUDDHE: Yes, I do
25 believe that there's compelling evidence for --

1 there's a rationale for excluding those three (3) --
2 it's actually six (6) periods three (3) years, because
3 in -- in other provinces, we get semi-annual data, as
4 compared to here in Manitoba where it's annual data.
5 So, six (6) points over three (3) years.

6 MR. ERIC WISHNOWSKI: That's what it
7 is, thank you. Another thing, you testified earlier
8 today, sir, is in regards to accident year weights.

9 And I believe you mentioned it this
10 morning, and I think, I know for sure it's in your --
11 in your report, and that previously the PUB had
12 ordered that the accident year weights be 20 percent
13 allocated over the five (5) most recent years.
14 Correct?

15 MR. RAJESH SAHASRABUDDHE: Yes.

16 MR. ERIC WISHNOWSKI: But Oliver Wyman
17 doesn't feel that that was a -- a recommendation going
18 forward. It was just at the time of that GRA.

19 Is -- is that your understanding?

20 MR. RAJESH SAHASRABUDDHE: Yes. I
21 mean, we don't -- we don't -- we try not to interpret
22 it PUB decisions, but it -- it's our view that at the
23 time that related only to that GRA.

24 MR. ERIC WISHNOWSKI: Okay. Do you
25 agree, Mr. Sahasrabuddhe, that Oliver Wyman found that

1 to be reasonable at the time?

2 MR. RAJESH SAHASRABUDDHE: Yes. I --
3 I believe that's correct. I'd have to go back and
4 think about that GRA, but yes, I'll accept that.

5 MR. ERIC WISHNOWSKI: Okay. But
6 certainly, your recommendation has been apparent this
7 morning and in the report, that MPI does not need to
8 keep its accident year weighting at 20 percent per.

9 Is that right?

10 MR. RAJESH SAHASRABUDDHE: Again, I
11 guess very similar to the discussion on trend, it's
12 about the baseline, the starting point, and then
13 deviations from that baseline.

14 Twenty percent over five (5) years is a
15 pretty reasonable baseline assumption, but then there
16 are -- there are circumstances that dictate deviations
17 from that baseline. And, even in this case, it's --
18 it's quite limited. It's really just one coverage in
19 the entirety of the GRA where we're recommending a
20 deviation.

21 MR. ERIC WISHNOWSKI: Okay. That's
22 right. So, there's -- I think there was seven (7)
23 total coverages and just one of them Oliver Wyman
24 recommended it being changed. And specifically for
25 those years, 2020/2021?

1 MR. RAJESH SAHASRABUDDHE: Yes, that's
2 correct.

3 MR. ERIC WISHNOWSKI: Thank you. And
4 Oliver Wyman didn't feel compelled to have all the
5 categories with different weights? That's correct.

6 MR. RAJESH SAHASRABUDDHE: That's
7 correct. We -- we reviewed all of them, and this --
8 this one coverage was the only coverage where we felt
9 that differing weights were appropriate.

10 MR. ERIC WISHNOWSKI: Thank you. Now,
11 again, I'm not an actuary, and so I do just want a
12 little bit of clarification. And again, this is a
13 public hearing and, in theory, we're trying to be
14 transparent for Manitobans.

15 So, part of your report that sticks out
16 for me is the idea that frequency and severity are not
17 entirely independent, therefore, we should use the
18 same time periods.

19 And then we look at accident year
20 weighting. And now I would look at, you know, the
21 category you chose to -- to have reduced in the early
22 years and then increase in later years; that'd be
23 accidents, benefits, other indexed. And I would think
24 -- well, it's not entirely independent from
25 collisions, why is just this accident year weighting

1 being changed. And what is the -- the justification
2 to that, sir, please?

3 MR. RAJESH SAHASRABUDDHE: Yeah. So,
4 the -- the years that we're suggesting get deweighted
5 are -- are those that were most affected by the
6 pandemic, and they have a -- a fairly significant
7 adjustment factor to those. And, it's possible that
8 the COVID adjustment while it works reasonably well
9 for collision, there are other, you know, claiming
10 benefits, or claimant behavior associated with
11 accident benefits that aren't -- that aren't well
12 described by that four three two one zero scheme (4-3-
13 2-1-0) scheme. And perhaps that yields an -- an
14 adjustment that doesn't seem to work and creates an
15 outlying result.

16 MR. ERIC WISHNOWSKI: Okay. Now, MPI
17 suggested that they all remain at the 20 percent by 5
18 for all categories. Oliver Wyman has suggested the
19 one we've been talking about.

20 But I just want to clarify, is it
21 Oliver Wyman's position that it -- it would be
22 unreasonable to just have equal weighting of 20
23 percent across all categories?

24 MR. RAJESH SAHASRABUDDHE: For this
25 coverage, we find the results unreasonable, yes.

1 MR. ERIC WISHNOWSKI: And then, with
2 the benefit of hindsight, we're looking back at
3 previous decisions on accident year weightings, would
4 you now say that the weighting of 20 percent was
5 unreasonable?

6 Again, with the benefit of hindsight
7 and looking back, would you now say, oh, I -- I think
8 it would've been best if they had been changed in the
9 past, in prior GRAs?

10 MR. RAJESH SAHASRABUDDHE: No, I
11 wouldn't say that. We -- we review accident year
12 weights every year, and -- and where we have an issue,
13 we would raise it. So, to the extent that we didn't
14 raise it in the past, we wouldn't suggest that -- that
15 the approach that the -- that MPI adopted and the
16 Board approved was unreasonable.

17 MR. ERIC WISHNOWSKI: Thank you.
18 Madam Chair, looking at the time, I'm happy to keep
19 going. There will be a bit of a topic change, but I'm
20 happy to --

21 PANEL CHAIRPERSON: Just one question.
22 Ms. Dilay, are your experts under any time constraints
23 today?

24 MS. KATRINE DILAY: Madam Chair,
25 essentially a 4:00 p.m. time constraint would be the

1 only one, thank you.

2 PANEL CHAIRPERSON: I think we should
3 be done by then.

4 MR. ERIC WISHNOWSKI: We will be.

5 PANEL CHAIRPERSON: Let's break for
6 lunch then, and we'll come back at one o'clock. Thank
7 you.

8 MR. ERIC WISHNOWSKI: Thank you.

9

10 --- Upon recessing at 12:03 p.m.

11 --- Upon resuming at 12:58 p.m.

12

13 PANEL CHAIRPERSON: Thank you. Mr.
14 Wishnowski...?

15 MR. ERIC WISHNOWSKI: Yes. Thank you,
16 Madam Chair.

17

18 CONTINUED BY MR. ERIC WISHNOWSKI:

19 MR. ERIC WISHNOWSKI: I'll ask -- Mr.
20 Sahasrabuddhe, this might be a question more in line
21 for you, but I'll leave it to yourselves or Mr. Chan.
22 So, perhaps if I could ask just quickly, and I
23 apologize, Ms. Schubert, if we could quickly --
24 quickly go to slide 34 of today's presentation,
25 please. Okay.

1 And so, these -- this -- this
2 transcript that we have in another tab, it's going to
3 be in relation to this table. So, I wanted you just
4 to have a look at this table first. And then if we
5 can go back to the transcript, please.

6 And then scrolling down, just slightly,
7 this is where your counsel, Ms. Dilay, was asking
8 questions in relation to that table.

9 So, if we can just scroll down. And
10 perhaps starting at line 12, I would ask you just to
11 sort of read that. And rather than me read it
12 verbatim, perhaps you could just indicate when you've
13 done the screen.

14 MR. RAJESH SAHASRABUDDHE: Okay. I --
15 I reviewed it.

16 MR. ERIC WISHNOWSKI: Thank you. And
17 we'll scroll down. There's another page to read, so.

18

19 (BRIEF PAUSE)

20

21 MR. RAJESH SAHASRABUDDHE: Okay.

22 MR. ERIC WISHNOWSKI: Thank you. And
23 then just one (1) final paragraph in the next page,
24 please, Ms. Schubert. And so, Ms. Low was responding
25 there.

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(BRIEF PAUSE)

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(BRIEF PAUSE)

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MR. ERIC WISHNOWSKI: And if you're complete reading it, we can go back to that -- the slide 34, please.

MR. ERIC WISHNOWSKI: Thank you. And then so again, having that sort of narrative fresh in your mind, you can sort of see in that trend where there's -- there is that fall in the beginning up to 2014, a slight rise to 2016, and then a fall to 2022, and then a rise again?

MR. RAJESH SAHASRABUDDHE: Yes, I see that.

MR. ERIC WISHNOWSKI: Okay. And so, there was the discussion about cyclicalities and that, you know, if it's rising and falling, rising and falling and that -- perhaps that can be a trend that can be expected.

That's what that transcript was -- those lines of questions were about, correct?

MR. RAJESH SAHASRABUDDHE: I don't

1 know -- I don't know if 'expected' is the right word,
2 but certainly possibility.

3 MR. ERIC WISHNOWSKI: Thank You.

4 MR. RAJESH SAHASRABUDDHE: Yes.

5 MR. ERIC WISHNOWSKI: Thank you. I
6 appreciate that. Now -- then we saw Ms. Low's
7 testimony and the -- the explanation. And I'll read
8 that part just for the record.

9 "The first low dip that we have
10 there from 2014 up to 2016, well,
11 that's well known that there was
12 some changes to how we were doing
13 our reserving on some of the
14 permanent impairment. So, we
15 wouldn't expect to see that again,
16 and processing times as well, and
17 centralized reserving, so that was
18 the known dip."

19 Would you agree, Mr. Sahasrabuddhe,
20 based on that explanation, that there was a -- this
21 change in how MPI was conducting itself, reserving on
22 some of the permanent impairment, that that would be a
23 reasonable reason to exclude those dates or the data
24 from those dates?

25 MR. RAJESH SAHASRABUDDHE: So, I'd

1 have to go back and look at the transcript, but I
2 thought the reference was to frequency, the -- the
3 drop and the rise, and then the rise post 2022,
4 whereas reserving would tend to be more of a severity
5 issue.

6 So -- but I guess I will accept
7 certainly that to the extent that MPI staff are aware
8 of changes in circumstances that -- that influence the
9 data, that that's a basis for a judgment to include or
10 exclude certain data points.

11 MR. ERIC WISHNOWSKI: Perfect. Thank
12 you, sir. Moving on to -- if we could look at the
13 Oliver Wyman report, please, page 15. If we could
14 scroll down just a little bit. If we could possibly
15 have all the tables. And I'm really looking at this -
16 - the loss cost table here at the bottom.

17 And so, we have -- for the benefit of
18 the record, there's three (1) lines, one a dashed one,
19 one a red one, and one a blue one.

20 Do you see that there, sir?

21 MR. RAJESH SAHASRABUDDHE: I do.

22 MR. ERIC WISHNOWSKI: Thank you. And
23 we see that the blue line is a straight line.

24 Is that correct?

25 MR. RAJESH SAHASRABUDDHE: Yes, that's

1 correct.

2 MR. ERIC WISHNOWSKI: And it's
3 labeled, 'MPI model'?

4 MR. RAJESH SAHASRABUDDHE: Yes.

5 MR. ERIC WISHNOWSKI: But my
6 understanding, sir, is that that is not actually
7 representative of the MPI model. It is just simply
8 labeled MPI model there.

9 Are you able to point to where or how
10 Oliver Wyman determined that flat straight line being
11 MPI's model?

12

13 (BRIEF PAUSE)

14

15 MR. RAJESH SAHASRABUDDHE: So, in the
16 -- excuse me. In the -- in the -- the paragraph right
17 above the -- that chart where it says:

18 "MPI selects a past trend rate of
19 plus 0.20 percent based on fitted
20 frequency and severity models."

21 The -- the red line represents that
22 fitted frequency and severity model. The -- the blue
23 line is a -- again, I'd have to go back to the GRA,
24 but -- but my understanding and conferring with my
25 colleague is that the blue line was the model that MPI

1 fit to the loss cost data; however, the selected model
2 is the -- is the red line.

3 So, the selected trend rate is based on
4 the red line. The blue line was offered as an
5 alternative in the MPI GRA that was not selected.
6 That's -- that's my understanding conferring.

7 And another way to -- to understand
8 that that's the case is up above where we cite the
9 0.20 as the -- as the fitted trend rate, that's the --
10 without getting into technical details, that's sort of
11 the sum of the minus 36 on frequency and the plus 39
12 on severity that -- that appear next to the upper and
13 middle panels.

14 MR. ERIC WISHNOWSKI: Okay. My
15 understanding is that MPI didn't actually select or
16 offer a loss cost model.

17 MS. KATRINE DILAY: Perhaps, Counsel,
18 do you have a question for the witness?

19

20 CONTINUED BY MR. ERIC WISHNOWSI:

21 MR. ERIC WISHNOWSKI: Yeah. I guess
22 the question would be -- I guess I've already asked
23 it, but the question would be, where exactly did that
24 blue line -- that blue line come from?

25 I'm being directed to -- perhaps we can

1 bring up claims forecasting 7.3. My back Panel's
2 advising me that might assist.

3 MR. RAJESH SAHASRABUDDHE: Yes, that -
4 - that would be helpful if it's --

5 MR. ERIC WISHNOWSKI: Certainly.

6

7 (BRIEF PAUSE)

8

9 MR. ERIC WISHNOWSKI: Perhaps --

10 MR. RAJESH SAHASRABUDDHE: Keep
11 scrolling down just a little. Yes. Thank you.
12 Scroll down.

13 I mean, I know the trend models
14 themselves are in the Excel workbooks. That's where
15 we typically consult them, but -- would you mind
16 continuing to scroll. There -- there's no fitted
17 models here. I'm sorry. Okay.

18 So here, again, without having looked
19 at the details, and we're happy to look at it, but
20 this figure CF-38 indicates that there was a
21 regression to loss costs.

22 Is that the -- if that's -- I'm not
23 sure that that's the same model that's the blue line,
24 but -- but this would...

25

1 (BRIEF PAUSE)

2

3 MR. RAJESH SAHASRABUDDHE: Thank --
4 thank you. I just conferred with my colleague. If --
5 if you notice on the -- if you -- if you notice, the
6 blue line in our chart starts at 2012 and -- and the
7 line 2 in this table also starts at 2012 and the loss
8 trend there in line 2 is minus 1.44 percent. And
9 that's the same as the minus 1.4 percent that's in the
10 bottom panel of -- of the figure that you referenced
11 in our report.

12 MR. ERIC WISHNOWSKI: Okay. Thank
13 you. If we could just scroll up momentarily to CF-36,
14 please.

15 So, if we're looking at this -- this
16 figure here, the same time periods, I do believe, and
17 then we -- we see that 2012 has been -- has been
18 bolded. And my understanding is that MPI had selected
19 that as a loss cost trend. And if we can scroll back
20 down, please, to CF-38.

21 You agree, sir, that there -- there
22 isn't actually anything bolded here?

23 MR. RAJESH SAHASRABUDDHE: Right. We
24 didn't mean to imply that that was a selected model.
25 We just meant to show that that was a model that was

1 presented that was again fit to the same time period
2 as -- excuse me -- fit to the same 2012 to 2024 time
3 period as the frequency and severity models that
4 appear in our report.

5 MR. ERIC WISHNOWSKI: Okay. So, then
6 if you agree then, in your report, it's somewhat
7 misrepresented by saying it's the MPI model. It's
8 actually a selection of -- of Oliver Wyman that is --
9 that is choosing that blue line.

10 Is that fair to say, sir?

11 MR. RAJESH SAHASRABUDDHE: Well, I
12 think we're clear above that selects -- MPI selects a
13 past trend rate of plus 0.20 based on the fitted
14 frequency and severity models.

15 So, while we present a model there that
16 -- that says MPI model, as I said, that it's -- it's
17 really the implied -- I'm sorry, the model that --
18 that is included in the report that fits -- that's fit
19 over those same time periods.

20 And -- and we do think it's important
21 to show a model that's fit to loss costs directly so
22 that we can understand whether there's an offsetting
23 frequency and severity effect, so, yes. But
24 potentially we could have labeled that slightly
25 differently, but I think we were clear as to the basis

1 of the selected trend rate that's -- that appears just
2 above the caption.

3 MR. ERIC WISHNOWSKI: Okay. Well, I -
4 - I won't belabour it too much, but I just wanted it
5 to be very clear here. It says "MPI model" on your
6 report, but that -- that is Oliver Wyman's selection
7 of the MPI model in that trend.

8 Is that -- you'd agree with that?

9 MR. RAJESH SAHASRABUDDHE: Well, it's
10 a model that MPI presents in figure CF-38. And we're
11 only presenting it -- again, this chart is what we --
12 our -- our usual layout of these sections is we
13 present what the filer is proposing. And I'm -- I'm
14 saying "filer" here in this case because we do this
15 when we review filings, you know, across provinces.

16 We always present what the filer's
17 proposing first, and then discuss any concerns we
18 have. And then we present an alternative. That's our
19 general approach.

20 So, we wanted to present the -- the
21 models that the -- models from the filer. And I guess
22 in a sense you're correct in that MPI is not proposing
23 that 2012 model, but they did fit a frequency -- they
24 did fit frequency and severity models to that same
25 time period.

1 So, I think we just wanted to -- and
2 with -- with the parameterization as, importantly,
3 that's in figure CF-38, meaning there's no
4 consideration of mobility in figure CF-38.

5 So, it was -- what we -- I guess our
6 assumption is, if they included -- if they included
7 the data in CF-38, that that was -- those were models
8 that were considered.

9 And to the extent that they considered
10 2012 to 2024 as the basis for frequency and severity
11 models, maybe we inferred or implied that they would
12 have selected that same time period for loss costs.
13 But -- but I think that's -- that's where we land on -
14 - on that issue.

15 MR. ERIC WISHNOWSKI: Okay. So, Mr.
16 Sahasrabuddhe, I have a somewhat concern for my client
17 facing a report indicating that MPI is misrepresenting
18 the rate ask indication.

19 And then we have in your report what
20 amounts in my view to be a misrepresentation of what
21 an MPI model is. Would you agree that --

22 MS. KATRINE DILAY: Sorry. Mr.
23 Wishnowski, we're -- we're just taking issue with --

24 MR. ERIC WISHNOWSKI: A very small
25 thing.

1 MS. KATRINE DILAY: -- with -- no,
2 with legal -- with counsel taking a position while
3 during cross-examination. So, if you have a question
4 for the witness, we'd appreciate it. Thank you.

5

6 CONTINUED BY MR. ERIC WISHNOWSKI:

7 MR. ERIC WISHNOWSKI: Okay. So, do
8 you agree then, sir, that -- and -- and you've
9 answered it, but I just wanted to clarify -- that by
10 labeling something the MPI model that wasn't actually
11 chosen by MPI, it is misrepresenting, in your report?

12 MR. RAJESH SAHASRABUDDHE: Well, we
13 don't call it a selected MPI model, so just to be
14 clear. We have the -- we have the discussion of
15 selection immediately above, so I don't find it as a
16 misrepresentation on that basis.

17 MR. ERIC WISHNOWSKI: Okay. Thank
18 you. I'd like to move to the -- Mr. Chan, I'll be
19 talking about the CLEAR rate group and the proposed
20 changes. Obviously, Oliver Wyman is familiar with the
21 CLEAR rate group by the Insurance Bureau of Canada.

22 That's correct, right, sir?

23 MR. FELIX CHAN: That is correct.

24 MR. ERIC WISHNOWSKI: Thank you. And
25 you would agree that part of the CLEAR ranking -- and

1 I'm pulling this really off their website, so -- but,
2 you know, it's the value of a vehicle, cost to repair,
3 safety features, susceptibility for the theft, those
4 impact the CLEAR rating.

5 Is that correct?

6 MR. FELIX CHAN: Yes, those are
7 factors that can impact CLEAR rate groups.

8 MR. ERIC WISHNOWSKI: Thank you. And
9 by impacting a CLEAR rating, that therefore impacts
10 insurance premiums on that vehicle.

11 Is that right?

12 MR. FELIX CHAN: To the extent that an
13 insurance company uses the CLEAR rate groups to
14 segment the risk profiles of the vehicles, yes.

15 MR. ERIC WISHNOWSKI: Perfect. Thank
16 you. In Oliver Wyman's report, Oliver Wyman did agree
17 that MPI's increase to 45 is reasonable, correct?

18 MR. RAJESH SAHASRABUDDHE: Yes, that
19 is correct.

20 MR. ERIC WISHNOWSKI: And I believe
21 based on the report and your presentation this
22 morning, the concern was perhaps more the -- the cap
23 movement -- or the movement cap?

24 MR. RAJESH SAHASRABUDDHE: It was a
25 twofold issue. So, you are correct in -- in the rate

1 group movement, but also how the -- the premiums are
2 distributed in terms of the off balancing, which goes
3 towards the rate groups 42 to 45.

4 MR. ERIC WISHNOWSKI: Thank you.
5 Recognizing you probably didn't listen to the
6 Ratemaking Panel last week, but perhaps you did, and I
7 can bring us there, if necessary, but part of the
8 testimony by Ms. Low and Mr. Massud was this idea that
9 vehicles were paying less than their fair share of the
10 premiums in these higher CLEAR ratings.

11 And is that something you would agree
12 with? If -- if you would like, I can bring up that
13 section of the transcript if that assists, but...

14 MR. FELIX CHAN: I have not reviewed
15 all of MPI's loss experience by rate group. But if
16 that is what you're asking, then I would accept that
17 as a possibility, yes.

18 MR. ERIC WISHNOWSKI: Thank you. That
19 works. And then so, if that was the case, that in
20 these higher rate groups -- would you agree then that
21 because they had been underpaying for perhaps a period
22 of time, that this rate cap limit need not be as -- as
23 necessary as they had been underpaying in premiums in
24 the past?

25 MR. FELIX CHAN: Ratemaking is a

1 prospective exercise in the sense that you're not
2 really using the premiums to recover past
3 deficiencies. So, in that sense, I would disagree.

4 MR. ERIC WISHNOWSKI: Okay. Thank
5 you. But nonetheless, Oliver Wyman does agree that
6 it's appropriate to have these new rankings for the
7 higher end or higher risk vehicles based in the CLEAR
8 rating?

9 MR. FELIX CHAN: Yes.

10 MR. ERIC WISHNOWSKI: Thank you.
11 Looking at Oliver Wyman's recommendations regarding
12 the Driver Safety Rating, otherwise known as DSR,
13 Oliver Wyman's recommended that MPI adopt a
14 categorical variable approach.

15 Is that correct?

16 MR. FELIX CHAN: That's correct, yes.

17 MR. ERIC WISHNOWSKI: And this is a
18 recommendation that Oliver Wyman has made in the past?

19 MR. FELIX CHAN: It is

20 MR. ERIC WISHNOWSKI: Okay. And one
21 of the concerns Oliver Wyman has with the current
22 model is that it could lead to insufficient premium
23 collection.

24 Is that correct?

25 MR. FELIX CHAN: It's a separate

1 concern from the categorical -- categorical variable
2 concern, but --

3 MR. ERIC WISHNOWSKI: Thank you.

4 MR. FELIX CHAN: -- yes, that -- that
5 is also a concern.

6 MR. ERIC WISHNOWSKI: Okay. And can I
7 just clarify that this is not insufficient premiums as
8 a whole, but relating to specific rating groups?

9 MR. FELIX CHAN: Right. So, yes, to
10 the extent that they are under collecting there, that
11 would essentially flow through to the overall rate
12 level need.

13 MR. ERIC WISHNOWSKI: Thank you. If
14 MPI were to implement a categorical approach, your
15 report indicates that they would at times need to
16 manually smooth the relativities.

17 Is that right?

18 MR. FELIX CHAN: Yes.

19 MR. ERIC WISHNOWSKI: Thank you. And
20 just as far as what that would look like, that would
21 be actuaries looking at the graphs, the numbers, and -
22 - and making adjustments to sort of "smooth the
23 numbers."

24 Is that fair?

25 MR. FELIX CHAN: Yes, that's fair.

1 MR. ERIC WISHNOWSKI: And so, that
2 would be a little bit of -- of judgment call or
3 subjectivity in that practice as well?

4 MR. FELIX CHAN: Yes. I mean, you
5 could use that low 'S' curve that -- that we
6 suggested, but manual smoothing would involve a
7 judgment call.

8 MR. ERIC WISHNOWSKI: Okay. So, then
9 with the manual smoothing, then we may very well have
10 a situation where other actuaries such as yourself
11 might disagree with the choices it used during manual
12 smoothing.

13 Is that fair?

14 MR. FELIX CHAN: Yes, that's fair.

15 MR. ERIC WISHNOWSKI: Thank you. I'd
16 like to bring up, please, Information Request MPI/CC
17 number 6. Just a clarification question.

18 So, to answer -- or maybe we can just -
19 - part 3 of 'A', so we can just -- with that. So,
20 Oliver Wyman was asked, would the adoption of its
21 recommended approach lead -- could it lead to
22 unreasonable outcomes such as DSR level of plus 10
23 receiving a lower discount than a DSR level of plus 9.

24 Now, your response was that you did not
25 agree. And there was a bit of more follow-up to the

1 response in 'B', but I'm -- I'm wondering if you could
2 just clarify exactly why you don't agree with part 3
3 and -- and what -- I'll just leave it at that.

4 If you can clarify, please.

5 MR. FELIX CHAN: Sure. So, I -- I
6 think we -- we think about our suggested approach in
7 totality, which includes the -- the smoothing.

8 So, once you put that aspect of the
9 approach into the process, then it wouldn't lead to
10 that reversals because you could address that reversal
11 through the smoothing process.

12 MR. ERIC WISHNOWSKI: Okay. Thank
13 you. And again, that smoothing process would be up to
14 the actuarial team,

15 MR. FELIX CHAN: Correct.

16 MR. ERIC WISHNOWSKI: Thank you. A
17 few more questions for this Panel. In the Oliver
18 Wyman report, you agreed that increasing the
19 deductible was a good decision to reduce rate.

20 Is that fair to say? Page 61 of the
21 report if you need to see it.

22 MR. FELIX CHAN: I'll answer. Then my
23 colleague may -- may need to clarify my answer
24 slightly. But I think our position is that increasing
25 the deductible did reduce the rate need, but I

1 wouldn't put the word 'good' into the -- into our view
2 of -- our -- our view of that change.

3 MR. ERIC WISHNOWSKI: Okay. Perhaps
4 then just reasonable, reasonable decision?

5 MR. FELIX CHAN: I would just say it's
6 an approach to reduce the overall rate level need.

7 MR. ERIC WISHNOWSKI: Okay.

8 MR. FELIX CHAN: If -- if that's the
9 ultimate goal, is -- is to reduce the overall rate
10 level need, you know, passing that loss back to
11 consumers, I don't know that I would necessarily
12 consider that reasonable, but that's more of a public
13 policy decision than an actuarial decision.

14 MR. ERIC WISHNOWSKI: Okay. Yeah, so
15 then it's -- I'm just going to ask you some
16 clarification -- a clarification at line:

17 "We find the proposed hundred
18 thousand -- sorry, one thousand
19 dollar (\$1,000) deductible common
20 among other provinces and insurers
21 and, therefore, reasonable.

22 So, is it your submission that it's
23 reasonable because other provinces and other insurers
24 are doing it?

25 MR. FELIX CHAN: Yeah. So, the -- the

1 word 'reasonable' there relates to the use of a
2 thousand dollars deductible, not the decision itself.
3 So, I thought -- the earlier line of questioning I --
4 I took as being related to a decision on how to reach
5 the overall rate level need.

6 All we're saying there is that we
7 review rate filings and -- and in many provinces and -
8 - and a thousand dollars deductible is not as -- as
9 common, so it's not unreasonable to have a thousand
10 dollar deductible. Whether that's the approach that
11 you take to reduce the overall rate level need is --
12 is a different question.

13 MR. ERIC WISHNOWSKI: Thank you. I
14 jut want to -- a couple questions on the mobility
15 parameter. Specifically, I want you to clarify,
16 please, that Oliver Wyman is also recommending on-
17 going forward basis a zero essentially to the work-
18 from-home factor.

19 MR. FELIX CHAN: Right. So, as I
20 discussed this morning, that was our initial
21 recommendation in our evidence, though we find value
22 in the -- in the IR from the PUB related to the -- the
23 parameter. And, you know, potentially, we would also
24 think that it's -- that based on -- on looking at that
25 IR, some level of adjustment might be appropriate or

1 would more likely be appropriate than not. Maybe I
2 can phrase it that way.

3 MR. ERIC WISHNOWSKI: Essentially, it
4 might possibly be appropriate?

5 MR. FELIX CHAN: Yes, that's fair.

6 MR. ERIC WISHNOWSKI: One moment
7 please, Madam Chair

8

9 (BRIEF PAUSE)

10

11 MR. ERIC WISHNOWSKI: I have one (1)
12 last question for Mr. Chan in relation to your -- your
13 evidence this morning, and it was -- your question --
14 or sorry, your presentation along the lines of the
15 CLEAR rate group and the idea that the concern from
16 Oliver Wyman was that consumers not -- in Manitoba not
17 having a freedom of choice when looking at an insurer
18 offering different levels of premiums for the same
19 rate groups or different insurers offering different
20 level of premiums for the same CLEAR rate group.

21 Does that ring a bell, sir?

22 MR. FELIX CHAN: Yes. My
23 understanding is that MPI provides Basic insurance for
24 all Manitobans and the rate group variable. The rate
25 group that is assigned to each vehicle is part of that

1 rating, in which case, Manitobans do not have an
2 option to opt out of the rate group changes.

3 MR. ERIC WISHNOWSKI: Thank you.
4 You'd agree though consumers have the option of what
5 vehicle they choose to buy and could look at these
6 CLEAR ratings in advance?

7 MR. FELIX CHAN: They could for future
8 purchases, but not for their current vehicle.

9 MR. ERIC WISHNOWSKI: Thank you. And
10 in your experience, are consumers in Alberta paying
11 lower premiums than consumers in Manitoba for
12 insurance, auto insurance? For the same coverage, I
13 should clarify.

14

15 (BRIEF PAUSE)

16

17 MR. FELIX CHAN: I don't know for
18 sure, but I -- we do know that other provinces such as
19 Alberta are higher, but those are mainly driven by
20 bodily injury claims and tort claims, which -- which
21 aren't present in the Manitoba loss experience.

22 MR. ERIC WISHNOWSKI: Okay. One
23 moment, please.

24

25 (BRIEF PAUSE)

1

2 MR. ERIC WISHNOWSKI: Thank you, Madam
3 Chair. Those are MPI's questions.

4 PANEL CHAIRPERSON: Thank you.

5 Ms. Moore...?

6

7 CROSS-EXAMINATION BY MS. KARA MOORE:

8 MS. KARA MOORE: Good afternoon, Mr.
9 Sahasrabuddhe, Mr. Chan. My name is Kara Moore. I am
10 counsel to the Public Utilities Board, and I have a
11 few questions for you this afternoon. I'll ask my
12 questions to both of you generally, and whoever would
13 like to answer may do so.

14 So, if we could first pull up
15 Information Request PUB/CC-1. Scroll down to question
16 'C'.

17 So, the question asked was: Please
18 explain why Oliver Wyman assumed a return to normal
19 for accident years 2024 and subsequent. You see that?

20 MR. RAJESH SAHASRABUDDHE: I do.

21 MS. KARA MOORE: If we can scroll down
22 to the response to see in the first paragraph, it
23 says:

24 "in May 2023, the World Health
25 Organization determined that

1 COVID-19 no longer constituted a
2 public health emergency. Prior to
3 that, Google had stopped
4 collecting mobility data to update
5 their community mobility reports."

6 Correct?

7 MR. RAJESH SAHASRABUDDHE: I do see
8 that, yes.

9 MS. KARA MOORE: And the accident year
10 2023 covers the period April 2023 to March of 2024.
11 Is that correct?

12 MR. RAJESH SAHASRABUDDHE: Yes.

13 MS. KARA MOORE: And we see that it
14 was in May of 2023 that the WHO determined that COVID-
15 19 no longer constituted a public health emergency so
16 close to the beginning of accident year 2023?

17 MR. RAJESH SAHASRABUDDHE: Yes, I
18 would agree with that.

19 MS. KARA MOORE: So why did Oliver
20 Wyman assume that COVID-19 still had an impact on
21 accident year 2023, given the timing of this
22 determination?

23 MR. RAJESH SAHASRABUDDHE: On 2023, it
24 was based on -- on the loss experience. If you
25 remember this morning, I -- I reviewed that -- that.

1 I guess if we could go back to...

2

3

(BRIEF PAUSE)

4

5

MR. RAJESH SAHASRABUDDHE: ...slide

6 25, please. So -- so you'll note that the 2023 data

7 point is quite a bit below where the losses would've

8 trended -- trended to. And that's why we felt that

9 there was -- that at least there appeared to be --

10 there appeared to be a COVID effect in that data point

11 -- or, I'm sorry, maybe we shouldn't call it a COVID

12 effect at that -- at that point, but a post-COVID or

13 new normal effect in that 2023 data point.

14

MS. KARA MOORE: Thank you for that

15 clarification. If we can go back to the Information

16 Request. So just to follow up, sorry, before we --

17 before we continue reading through this response, the

18 selection then was based on a review of the loss

19 experience and not the timing of the WHO declaration?

20

MR. RAJESH SAHASRABUDDHE: That's

21 correct.

22

MS. KARA MOORE: Thank you. And if we

23 can look at the second paragraph of the response to

24 PUB/CC-1C, you wrote:

25

"We also noted through visual

1 inspection that 2024 frequency was
2 near levels implied by pre-
3 pandemic patterns."

4 You see that?

5 MR. RAJESH SAHASRABUDDHE: I do.

6 MS. KARA MOORE: Okay. So, we're now
7 going to go through some of the frequency graphs and
8 see which ones you consider to be near levels implied
9 by pre-pandemic patterns.

10 So, Ms. Schubert, if we can start with
11 -- oh, yeah, she's one step ahead of me as usual --
12 Figure CF-18, for the record, 'Weekly Indemnity
13 Frequency Experience'. In this graph, does 2024
14 appear to have returned to the level implied by pre-
15 pandemic patterns?

16 MR. RAJESH SAHASRABUDDHE: Without
17 doing an analysis, just based on visual inspection, I
18 would say no, it is not.

19 MS. KARA MOORE: Okay. And if we can
20 now go to Figure CF-31. This is 'Observed ABO Indexed
21 Frequency Experience'. Does 2024 appear to have
22 returned to the pre-pandemic trend line?

23 MR. RAJESH SAHASRABUDDHE: This one's
24 a little bit harder because there is that dip going
25 into -- you know, prior to the pandemic in -- in 2019.

1 I would guess no, but 00 but it would be a closer call
2 on this one.

3 MS. KARA MOORE: And what about any of
4 the years 2021 to 2023?

5 MR. RAJESH SAHASRABUDDHE: Those are
6 below pre-pandemic levels.

7 MS. KARA MOORE: Okay. We'll now go
8 to Figure CF-44, 'Observe ABO Non-indexed Frequency
9 Experience'.

10 Does 2024 from your perspective appear
11 to have returned to the level implied by pre-pandemic
12 patterns, or would you alternatively say that 2020 to
13 2022 appear to have continued the trend observed from
14 pre-pandemic, and then 2023 and 2024 have increased
15 for some reason?

16 MR. RAJESH SAHASRABUDDHE: I would
17 suggest that either of those approaches, either of
18 those explanations may be reasonable. I would -- the
19 -- just visually, I would -- I would think that your
20 second -- your second explanation where there was a
21 continuation of the pre-pandemic pattern and then a
22 rise in 2023 and '24 is the more likely to be the case
23 if we were to perform statistical testing of those two
24 (2) hypotheses.

25 MS. KARA MOORE: Thank you. And do

1 you have any explanation or understanding as to why
2 2023 and 2024 have moved off the trend line?

3 MR. RAJESH SAHASRABUDDHE: I do not.

4 MS. KARA MOORE: Okay. We'll now go
5 to Figure CF-55, 'Observed Bodily Injury Frequency
6 Experience'.

7 Do 2022 to 2024 appear to have returned
8 to levels implied by pre-pandemic patterns?

9 MR. RAJESH SAHASRABUDDHE: Again, just
10 based on visual inspection, 2024 appears to be below
11 2023, may be just slightly below. But again, it's
12 hard to tell because there is that -- there is a
13 decreasing pattern going into the pandemic and then
14 just a matter of -- I would guess that they're still -
15 - just sort of visually looking at it, that -- that it
16 -- that it is below.

17 But, you know, one of the complications
18 here is that, because it's not on a log scale, like
19 the line wouldn't be straight, so there'd be some
20 curvature to that line. So, it's difficult to tell,
21 but I would guess that it's below if -- if I had to
22 guess one way or the other.

23 MS. KARA MOORE: Thank you. A few
24 more of these, so bear with me. We'll go to Figure
25 CF-66, 'Observed Collision Frequency Experience'.

1 Do 2021 to 2023 all appear to have
2 returned to levels implied by pre-pandemic patterns?

3 MR. RAJESH SAHASRABUDDHE: No.

4 MS. KARA MOORE: And 2024 appears to
5 be higher than the trend line?

6 MR. RAJESH SAHASRABUDDHE: Yes.

7 MS. KARA MOORE: Okay. We'll go to
8 CF-152 -- Figure CF-152, that is -- 'Observed Property
9 Damage, Third Party Loss of Use Frequency Experience'.

10 Looking at the graph, would you agree
11 that all years other than 2020 appear to be at levels
12 implied by the pre-pandemic patterns?

13 MR. RAJESH SAHASRABUDDHE: Yes, that's
14 a -- that's a reasonable approach on that coverage.

15 MS. KARA MOORE: And looking at the --
16 sorry. We'll go now to CF-165, 'Observe Property
17 Damage, Third Party Deductible Transfer Frequency
18 Experience'.

19 Looking at the graph, would you agree
20 that all years other than 2020 appear to be at levels
21 implied by pre-pandemic patterns similar to the last
22 one we looked at?

23 MR. RAJESH SAHASRABUDDHE: Yes, I
24 think that's a reasonable conclusion just visually,
25 without -- without any testing. It's possible that

1 testing would result in a different conclusion.

2 MS. KARA MOORE: Thank you. And the
3 last figure that we'll look at, and then I'll have
4 some follow-up questions for you, Figure CF-176,
5 'Observed Property Damage, Other Frequency
6 Experience'.

7 Looking at this graph, would you agree
8 that all years other than 2020 could be considered to
9 be at levels implied by pre-pandemic patterns?

10 MR. RAJESH SAHASRABUDDHE: I would say
11 this one's a harder one because -- just because of the
12 pattern, that there's -- it looks like there's a
13 little bit of cyclical prior to the pandemic.

14 So just how you fit through that
15 cyclical, it's possible. Just -- just visually,
16 it's possible that testing would indicate that -- that
17 they have not returned to pre-pandemic levels or what
18 might be expected based on pre-pandemic experience.

19

20 (BRIEF PAUSE)

21

22 MS. KARA MOORE: Thank you. So, the
23 approach that you have recommended takes the 2025 GRA
24 mobility assumptions for accident years 2020 to 2023,
25 and then assumes that, for 2024 and subsequent years,

1 there has been a return to normal. Is that correct?

2 MR. RAJESH SAHASRABUDDHE: That's what
3 was included in our evidence prior to our receiving
4 the IRs, the PUB IR-1.

5 MS. KARA MOORE: Okay. And based on
6 your observations of the various graphs, is there an
7 alternative approach that you might recommend?

8 MR. RAJESH SAHASRABUDDHE: Yes. I
9 think, based on -- it's -- it's partly -- based on the
10 review of the graphs, it's -- it's -- maybe a bigger
11 influence in my view is the -- is the -- the
12 observation from PUB IR-1 about the uncertainty on the
13 2024 data point.

14 Taken as a whole, I think reflecting
15 some sort of new normal factor where frequency for the
16 -- for 2024 and subsequent is at a level lower than
17 the pre-pandemic experience would've suggested is --
18 would be reasonable.

19 MS. KARA MOORE: Thank you. I'd now
20 like to bring you to PUB/CC-1D. This is the response.
21 Thank you, Ms. Schubert.

22 The question reads:

23 "Did Oliver Wyman consider looking
24 at annual fuel sales versus HTA
25 units to see if Manitoba drivers

1 have returned to consuming the
2 same amount of fuel and hence
3 driving about the same amount as
4 they did prior to the pandemic?"

5 Do you recall this question?

6 MR. RAJESH SAHASRABUDDHE: I do.

7 MS. KARA MOORE: And if we scroll down
8 to your response, the first part reads:

9 "We did not examine annual fuel
10 sales versus HTA units during our
11 review. However, we note from
12 Statistics Canada net-of-tax-
13 remitted gasoline sales dropped in
14 2020 coincident with the COVID
15 pandemic and has returned to pre-
16 COVID levels as of 2024."

17 Correct?

18 MR. RAJESH SAHASRABUDDHE: Yes.

19 MS. KARA MOORE: Okay. And I'm going
20 to ask you some questions about an undertaking that
21 MPI gave regarding fuel sales that I hope your counsel
22 --

23 MR. RAJESH SAHASRABUDDHE: Yes.

24 MS. KARA MOORE: -- gave you a heads
25 up about. But before we go there, I'd like to bring

1 you to Figure REV-5.

2

3

(BRIEF PAUSE)

4

5 MS. KARA MOORE: Thank you. This
6 figure shows the HTA accident year earned units from
7 2013/'14 to 2024/'25. You see that?

8

MR. RAJESH SAHASRABUDDHE: I do.

9

10 MS. KARA MOORE: And if we look at the
11 year 2019/2020 at row 7, which would be pre-pandemic,
12 we can see total HTA units of eight thousand (8,000) -
13 - or, sorry, eight hundred and eighty-six thousand
14 nine hundred and fifty (886,950)?

14

MR. RAJESH SAHASRABUDDHE: Yes, I see

15

that.

16

17 MS. KARA MOORE: And if we look at row
18 12, the year 2024/'25, we can see total HTA units of
19 nine hundred and sixty-six thousand five hundred and
20 fifty-three (966,553)?

20

MR. RAJESH SAHASRABUDDHE: Yes. I see

21

that.

22

23 MS. KARA MOORE: This is an increase
24 of seventy-nine thousand six hundred and three
25 (79,603) units, correct? You'll trust my math?

25

MR. RAJESH SAHASRABUDDHE: Yes. I'll

1 -- I'll accept that, yes.

2 MS. KARA MOORE: Sure. Or a 9 percent
3 increase?

4 MR. RAJESH SAHASRABUDDHE: Yes. That
5 seems -- seems about right, yes.

6 MS. KARA MOORE: And if we can now go
7 to MPI Exhibit 60. So, this is MPI's response to that
8 Undertaking number 10 regarding fuel sales that I
9 referred to. And at the top of the page, we can see
10 that this undertaking asked MPI to produce work-from-
11 home analysis done on the gas tax as supports the
12 scaler model. You see that?

13 MR. RAJESH SAHASRABUDDHE: Yes.

14 MS. KARA MOORE: And have you had a
15 chance to review the response to this undertaking?

16 MR. RAJESH SAHASRABUDDHE: I did.

17 MS. KARA MOORE: Excellent. You'll
18 recall that MPI provided graphs with both gross and
19 net sales, correct?

20 MR. RAJESH SAHASRABUDDHE: Yes.

21 MS. KARA MOORE: And if we can scroll
22 down to Figure 2, this is the first graph provided and
23 it has -- it shows gross sales of gasoline?

24 MR. RAJESH SAHASRABUDDHE: Yes, I see
25 that.

1 MS. KARA MOORE: And if we scroll down
2 to Figure 4, this graph shows net sales of gasoline,
3 correct?

4 MR. RAJESH SAHASRABUDDHE: Yes.

5 MS. KARA MOORE: And we'll go back up
6 to Figure 2. Gross sales include off-road activities
7 such as farming, forestry, construction, and mining,
8 correct?

9 MR. RAJESH SAHASRABUDDHE: I'm not
10 familiar with the definition of gross sales, but --
11 but I'll certainly accept that.

12 MS. KARA MOORE: Sure. Would you
13 agree, therefore, that the graph that would better
14 reflect -- if you're accepting what I've said to be
15 true, the graph that would better reflect gas used by
16 Manitoba motorists would be the net sales of gasoline?

17 MR. RAJESH SAHASRABUDDHE: Yes.

18 MS. KARA MOORE: Thank you. And if we
19 just scroll down to Figure 3, looking at the net sales
20 of gasoline in column 'D', would you agree that it is
21 consistent with Statistics Canada's conclusion that
22 gasoline sales have returned to pre-COVID levels?

23

24 (BRIEF PAUSE)

25

1 MR. RAJESH SAHASRABUDDHE: Well, the
2 pre -- the pre-COVID -- the pre-COVID levels were
3 north of eighteen hundred (1,800) sales of gasoline
4 per unit, and -- and the 2024 value, seventeen twenty-
5 two (1,722), I guess it depends on how you factor in
6 some of the issues that MPI listed in the response
7 about electric vehicle adoption and some of those
8 other issues.

9 Perhaps if you did sort of that full-
10 scale analysis of -- of electric vehicle adoption,
11 increased mileage efficiency, you could reach that
12 conclusion. But just -- just looking at it here, the
13 2024 level is still below the pre-pandemic levels.

14 MS. KARA MOORE: So, we will go
15 through a bit of that analysis that you're referring
16 to. So, I'm specifically referring to column 'D' for
17 the purposes of this question. And so maybe just to
18 be more precise, if we look at column 'D,' row 4, in
19 2019, there was 1.627 billion litres of gasoline on a
20 net basis. Do you see that?

21 MR. RAJESH SAHASRABUDDHE: I do.

22 MS. KARA MOORE: And then in 2024,
23 there were 1.665 billion litres of gasoline on a net
24 basis?

25 MR. RAJESH SAHASRABUDDHE: Yes.

1 MS. KARA MOORE: So that would be an
2 increase of about 37 million litres, or about 2.3
3 percent. Will you accept that?

4 MR. RAJESH SAHASRABUDDHE: Yes.

5 MS. KARA MOORE: And MPI has included
6 the HTA earned units in column E. You see that?

7 MR. RAJESH SAHASRABUDDHE: Yes.

8 MS. KARA MOORE: Okay. And then
9 column H, as you've correctly pointed out, it takes
10 column D and divides it by column E to generate the
11 net sales of gasoline per unit.

12 MR. RAJESH SAHASRABUDDHE: Yes.

13 MS. KARA MOORE: So, if we compare, as
14 -- as you did, 2019 at 1,835 litres to 2024 at 1,722
15 litres, we get a decrease of 6.8 percent. Do you
16 accept that?

17 MR. RAJESH SAHASRABUDDHE: Sure. Yes.

18 MS. KARA MOORE: So, it appears that,
19 on average, there was less gasoline used per vehicle
20 insured in Manitoba in 2024 than there was in 2019,
21 correct?

22 MR. RAJESH SAHASRABUDDHE: Yes.

23 MS. KARA MOORE: And if we scroll up
24 to page 1 of this exhibit, in the fourth paragraph
25 under the response heading, it reads that:

1 "MPI does not recommend the use of
2 fuel consumption as a proxy for
3 measuring mobility within
4 Manitoba."

5 You see that?

6 MR. RAJESH SAHASRABUDDHE: I do.

7 MS. KARA MOORE: And then we -- we
8 then have a number of bullet points. So, we'll go
9 through the first two (2) which support that position.

10 The first bullet point is that fuel
11 consumption levels are affected by the fuel efficiency
12 of the vehicle fleet, correct?

13 MR. RAJESH SAHASRABUDDHE: Yes.

14 MS. KARA MOORE: And if we scroll back
15 down to Figure 3 and look at the net sales of gasoline
16 per unit, again, that last column, column 'H,' from
17 2016 to 2019, we can see that that number doesn't
18 really move much. Do you agree?

19 MR. RAJESH SAHASRABUDDHE: 2016 to
20 2019, yes, I would agree.

21 MS. KARA MOORE: Thank you. So, fuel
22 efficiency of the fleet doesn't appear to have changed
23 materially over that time period?

24 MR. RAJESH SAHASRABUDDHE: I think
25 that's fair, yes.

1 MS. KARA MOORE: Could you therefore
2 conclude that the changes in fuel efficiency of the
3 fleet, based on historical rates of change, do not
4 appear to explain the difference?

5 MR. RAJESH SAHASRABUDDHE: That
6 statement is true certainly, with the -- as you noted
7 with the historical rate of change. So, you'd have to
8 assume that that was -- that rate of change would
9 continue, but if you were to make -- if you were to
10 assume that, then -- then you'd be correct, yes.

11 MS. KARA MOORE: Thank you. And if we
12 can scroll back up to the bullet points at the bottom
13 of page 1 of this exhibit, Ms. Schubert. Thank you
14 very much.

15 The second reason listed here was:

16 "The increasing adoption of hybrid
17 and battery electric vehicles will
18 further reduce overall fuel
19 consumption."

20 Correct?

21 MR. RAJESH SAHASRABUDDHE: Yes.

22 MS. KARA MOORE: And I'm going to
23 bring you to a portion of last year's transcript, and
24 this, just for your reference, was a portion -- or the
25 excerpt that we're looking at is MPI's closing

1 comments, so it wasn't your evidence.

2 So, this is page 2,356 of the
3 transcript from the 2025 GRA, and we'll just scroll
4 down slightly. We're looking at this second paragraph
5 on the page here, starting at line 9. It says:

6 "So, the PUB heard that in our
7 fleet, EVs represent below 1
8 percent of the total fleet, and
9 the current count for registered
10 vehicles in Manitoba is three
11 thousand three hundred and sixty-
12 four (3,364) and eighteen thousand
13 three hundred and eight (18,308)
14 for hybrid vehicles."

15 You see that?

16 MR. RAJESH SAHASRABUDDHE: I do.

17 MS. KARA MOORE: So, while this number
18 is expected to rise, the adoption rates of electric
19 vehicles and hybrid vehicles are not -- are noted not
20 to be as high in Manitoba, at least not as of last
21 year's General Rate Application, correct?

22 MR. RAJESH SAHASRABUDDHE: Yes.
23 That's how I read the -- the closing submission here.

24 MS. KARA MOORE: Relative to nine
25 hundred and sixty-six thousand five hundred and fifty-

1 three (966,553) earned HTA units in 2024, three
2 thousand three hundred and sixty-four (3,364) battery
3 electric vehicles would be about 0.35 percent.

4 Do you accept that?

5 MR. RAJESH SAHASRABUDDHE: Yes.

6 MS. KARA MOORE: And the number of
7 battery electric vehicles could therefore explain
8 about 0.35 percent of the 6.8 percent decrease in per-
9 vehicle fuel purchases, correct?

10 MR. RAJESH SAHASRABUDDHE: Yes. I
11 think that's reasonable.

12 MS. KARA MOORE: And relative to the
13 nine hundred and sixty-six thousand five hundred and
14 fifty-five (966,555) earned HTA units again, eighteen
15 thousand three hundred and eight (18,308) hybrid
16 vehicles would be about 1.9 percent.

17 Do you accept that?

18 MR. RAJESH SAHASRABUDDHE: I do.

19 MS. KARA MOORE: And hybrid vehicles
20 still use some fuel, maybe about half the volume or
21 slightly more than half?

22 MR. RAJESH SAHASRABUDDHE: I wouldn't
23 know, but that sounds reasonable.

24 MS. KARA MOORE: So, if we -- if we go
25 off that assumption, hybrid vehicle adoption might

1 explain slightly less than 1 percent of the 6.8
2 percent decrease, correct?

3 MR. RAJESH SAHASRABUDDHE: Yes

4 MS. KARA MOORE: Would you conclude
5 that the adoption of hybrid and battery electric
6 vehicles can, therefore, explain a small part of the
7 observed decrease?

8 MR. RAJESH SAHASRABUDDHE: Yes.

9 MS. KARA MOORE: Perhaps about 1
10 percent or so or maybe a bit more of the 6.8 percent?

11 MR. RAJESH SAHASRABUDDHE: That seems
12 reasonable.

13 MS. KARA MOORE: Thank you.

14

15 (BRIEF PAUSE)

16

17 MS. KARA MOORE: Just give me one
18 moment to review my notes here.

19

20 (BRIEF PAUSE)

21

22 MS. KARA MOORE: Thank you. Would you
23 consider the amount of fuel purchased in Manitoba to
24 be a good indicator of the amount of kilometres driven
25 in Manitoba?

1 MR. RAJESH SAHASRABUDDHE: Yes, I
2 would.

3 MS. KARA MOORE: So, having reviewed
4 this information that we've just gone over, would you
5 consider that the level of fuel sales shown is
6 consistent with the conclusion that Manitoba drivers
7 have returned to pre-pandemic levels of driving?

8 MR. RAJESH SAHASRABUDDHE: Based on
9 what we just reviewed, not fully returned. It would
10 be the conclusion that I'd have based on the very high
11 level analysis that we just performed over the last
12 twenty (20) minutes or whatever it's been.

13 MS. KARA MOORE: Sure. Thank you.
14 And if we can look at Figure 4 of Exhibit 60, 'Net
15 Sales of Gasoline Compared to Mobility Parameters',
16 I'd like to look at the shape of the net sales graph,
17 specifically looking at 2020 to 2024.

18 MPI assumed a linear return to normal
19 with a selected 4, 3, 2, 1, and zero for 2020 to 2024.
20 And that's identified by the purple line, correct?

21 MR. RAJESH SAHASRABUDDHE: Yes.

22 MS. KARA MOORE: The scaled Oliver
23 Wyman mobility is shown by the green line?

24 MR. RAJESH SAHASRABUDDHE: Yes.

25 MS. KARA MOORE: And the 2025 GRA

1 scaled mobility is shown by the red line? Maybe it's
2 orange.

3 MR. RAJESH SAHASRABUDDHE: Yeah, I see
4 it as orange, but yes.

5 MS. KARA MOORE: Thank you. And the
6 net sales of gasoline per HTA unit is shown by the
7 dotted black line?

8 MR. RAJESH SAHASRABUDDHE: Yes.

9 MS. KARA MOORE: And this dotted black
10 line likely needs to be adjusted by the number of
11 battery electric vehicles and by some fraction of the
12 number of hybrid vehicles in each year, correct?

13 MR. RAJESH SAHASRABUDDHE: Yes.

14 MS. KARA MOORE: Do you believe that
15 this graph provides support that a linear return to
16 normal assumption is reasonable?

17 MR. RAJESH SAHASRABUDDHE: If we take
18 the -- the two (2) parts together that -- that gallons
19 consumed reflects driving habits, then -- then this
20 indicates that driving habits are -- certainly have
21 not returned to normal and that, you know, perhaps the
22 linear approach -- not only the linear approach, but
23 even the 2025 GRA approach, overestimate the -- the
24 amount of -- of driving activity.

25 MS. KARA MOORE: Thank you. And based

1 on these observations, what would you recommend as
2 mobility parameters?

3 MR. RAJESH SAHASRABUDDHE: I didn't
4 have a chance to research exactly what's in the -- the
5 net sales amount, the net sales of gasoline. I know
6 you've described it to me, but I'd want to try to
7 understand a little bit better why the shape is as it
8 is.

9 For example, I'm quite surprised that
10 2023 is below 2020 levels. So there -- there's
11 aspects of that data that are surprising to me.

12 I would suggest that, if I had to pick
13 -- without knowing, if I had to pick a compromise, I'd
14 go with the 2025 GRA levels because again that is
15 supported by that Google data, which -- which I guess
16 I'll say comports more with my understanding of the
17 pandemic.

18 It was deepest in 2020, and then there
19 was a recovery after that. So, it sort of fits my
20 priors on the expectations of -- of behaviour on the
21 pandemic, whereas the gasoline sales don't necessarily
22 fit my priors because they -- they stayed depressed
23 for much longer than I would've expected. But that's
24 not -- there's that -- that's not to say you couldn't
25 use those, but certainly the -- the linear seems to

1 make less sense.

2 MS. KARA MOORE: Thank you. So, we're
3 going to switch gears now. We're done talking about
4 fuel sales. We're going to discuss rate group capping
5 now.

6 So, if we can look at PUB/CC-2, here's
7 the question. The question reads:

8 "Given the observed trade-off
9 between the overall rate increase
10 borne by all policyholders and the
11 Rate Group Premium increase borne
12 by policyholders with higher rate
13 group vehicles, please provide a
14 recommended cap and include any
15 reasoning underlying this
16 recommendation."

17 Do you recall this question?

18 MR. RAJESH SAHASRABUDDHE: Yes.

19 MS. KARA MOORE: If we scroll down to
20 the last paragraph of this response, it says:

21 "We do not recommend a specific
22 rate group movement as this should
23 consider business and consumer
24 impacts is not an actuarial
25 assumption. We suggest PUB

1 consider alternatives that provide
2 a more acceptable level of
3 dislocation for the consumer."

4 Correct?

5 MR. RAJESH SAHASRABUDDHE: Correct.

6 MS. KARA MOORE: Does Oliver Wyman
7 consider the amount of dislocation in the current MPI
8 proposal to be either unacceptable or less acceptable
9 than other options?

10 MR. RAJESH SAHASRABUDDHE: I think
11 that would depend on the other options being
12 considered.

13 MS. KARA MOORE: Does Oliver Wyman
14 have any criteria by which they determine a level of
15 dislocation to be acceptable?

16 MR. RAJESH SAHASRABUDDHE: I think
17 there's general guiding principles on that, but not
18 necessarily specific numbers that -- that we should
19 focus on. It's -- it's consideration of a -- a lot of
20 different factors that are sometimes difficult to
21 quantify.

22 You know, there -- there's the -- the
23 explicit considerations of how much premium -- or is
24 being passed on to consumers? How are they going to
25 view, for example, in -- in that rate group, movement

1 of plus five (5), how they're going to view a four
2 hundred dollar (\$400) increase with no -- no change in
3 their vehicle, no claims, no -- no convictions,
4 nothing different from the prior year, how they would
5 respond to that?

6 And I -- I think part of that
7 consideration is as -- as a publicly delivered model,
8 there -- there is a -- a greater -- greater standard
9 of -- of care for the public and the consumer. As the
10 public model would provide insurance for -- for the
11 entire population of -- of Manitoba versus a -- a
12 privately delivered model where there is an option of
13 shopping around and -- and finding a better rate
14 somewhere else.

15 MS. KARA MOORE: Thank you. If we can
16 now look to PUB/CC-3. But by way of background to
17 this Information Request, Oliver Wyman continues to
18 recommend that MPI adopt a categorical variable
19 approach to calculate the relativities for Driver
20 Safety Rating. Correct?

21 MR. RAJESH SAHASRABUDDHE: Yes, that's
22 correct.

23 MS. KARA MOORE: And if we look at
24 question 'A', the question asked that CC indicate if
25 Oliver Wyman recommends that the DSR levels should

1 move in a continuously downward direction with
2 increases in DSR. Correct?

3 MR. RAJESH SAHASRABUDDHE: Yes.

4 MS. KARA MOORE: And in response to
5 'A', Oliver Wyman indicated that it believes that DSR
6 discounts should not reverse. Correct?

7 MR. RAJESH SAHASRABUDDHE: Yes, that's
8 correct.

9 MS. KARA MOORE: Does this mean that
10 Oliver Wyman believes that if a reversal occurs
11 between two (2) points, that the two (2) values should
12 be averaged in some fashion, such that there is not a
13 reversal, but rather the slope would be zero (0)
14 between those two (2) points?

15 MR. RAJESH SAHASRABUDDHE: No, there -
16 - there should be -- the -- the discount should
17 increase. So, the -- the -- so the slope wouldn't be
18 zero (0).

19 MS. KARA MOORE: Okay. If we can look
20 now at Figure RC Appendix 6-1.

21 And if we look at this graph there do
22 appear to be a number of reversals. Correct?

23 MR. RAJESH SAHASRABUDDHE: Yes.

24 MS. KARA MOORE: And if we can look
25 now at CC/MPI-1-52 at figure CC-1-52 in the response.

1 Balanced fitted relativity and driver
2 units provide the values used in the graph that we
3 were just looking at. Correct?

4 MR. RAJESH SAHASRABUDDHE: Yes.

5 MS. KARA MOORE: So, this makes it a
6 bit easier to compare values?

7 MR. RAJESH SAHASRABUDDHE: Yes, it
8 does.

9 MS. KARA MOORE: We can see in column
10 'A' that DSR-15 is higher than 14 or 13 or 12.

11 Correct?

12 MR. RAJESH SAHASRABUDDHE: Yes, I see
13 that.

14 MS. KARA MOORE: And DSR-10 is higher
15 than 9, 8 and 7?

16 MR. RAJESH SAHASRABUDDHE: Yes.

17 MS. KARA MOORE: And DSR-5 is higher
18 than 4. Correct?

19 MR. RAJESH SAHASRABUDDHE: Yes.

20 MS. KARA MOORE: Based on these
21 reversals, would Oliver Wymand -- Wyman, recommend
22 that having a no change in relativity over the points,
23 sorry, I'm going to rephrase my question.

24 Based on these reversals, would Oliver
25 Wyman recommend having a no change in relativity over

1 the points with the reversal?

2 MR. RAJESH SAHASRABUDDHE: No. I -- I
3 think we would still want relativities -- relativities
4 that reflect decreasing risk as the DSR level
5 increases.

6 MS. KARA MOORE: Beyond the data
7 itself, what would the basis that DSR-15 should be the
8 same as 12 -- what would be the basis that DSR-15
9 should be the same as 12, given that DSR-15 has
10 exhibited better driving behavior or has more
11 experience?

12 MR. RAJESH SAHASRABUDDHE: I'm sorry,
13 could you repeat that? So, is 15 better than 12 --

14 MS. KARA MOORE: Yeah.

15 MR. RAJESH SAHASRABUDDHE: So -- so
16 you're comparing the 9 2 9 8 to 8 3 7 4. Is that --

17 MS. KARA MOORE: Yes.

18 MR. RAJESH SAHASRABUDDHE: -- or am I
19 looking at it wrong?

20 MS. KARA MOORE: Nope. That's what I
21 have.

22 MR. RAJESH SAHASRABUDDHE: I -- I mean
23 -- I -- I think I know what you're trying to get at in
24 the question, so I'm happy to --

25 MS. KARA MOORE: Sure. Go ahead.

1 MR. RAJESH SAHASRABUDDHE: Okay. So -
2 - so, we -- we would view that as just statistical
3 noise, essentially. The reversals we'd view is -- so
4 the reversals can happen for two (2) reasons. Either
5 the -- the DSR levels are not well-defined and -- or -
6 - or they're just statistical noise.

7 I would think, at this point, it's much
8 more likely to be the latter than the former, that the
9 DSR levels are probably pretty well-defined and it's
10 just -- it's just noise that causes -- causes the
11 reversals in the data.

12 MS. KARA MOORE: Thank you. If we can
13 go now to PUB/MPI-1-2A.

14

15 (BRIEF PAUSE)

16

17 MS. KARA MOORE: This question asked
18 MPI to provide a number of updated figures, but to
19 assume the deductible remains at seven hundred and
20 fifty dollars (\$750) and the rate groups remain at a
21 maximum of 41. Correct?

22 MR. RAJESH SAHASRABUDDHE: I see that,
23 yes.

24 MS. KARA MOORE: And if we scroll down
25 to figure PUB-1-2-A2. Thank you, Ms. Schubert.

1 This table shows the rate indication
2 without any change to the rate group or the Basic
3 deductible as requested by the question. Correct?

4 MR. RAJESH SAHASRABUDDHE: Correct.

5 MS. KARA MOORE: And it takes into
6 consideration changes due to the premium trend at line
7 13. Correct?

8 MR. RAJESH SAHASRABUDDHE: Correct.

9 MS. KARA MOORE: And at line 14, a
10 decrease of 1.5 percent reflects the approved changes
11 in prior GRAs to the DSR discount that are not
12 captured in the rate model. Correct?

13 I can bring you to a reference for that
14 1.5 percent if you'd like.

15 MR. RAJESH SAHASRABUDDHE: Yes,
16 please.

17 MS. KARA MOORE: So, we'll look at
18 part 8 of the Application, Rate Indication Chapter,
19 page 21.

20 And I am looking at the -- yeah, the
21 larger paragraph there, starting with the rate model,
22 I'll just read it into the record.

23 "The rate model does not account
24 for the addition of the new Driver
25 Safety Rating, DSR level, that was

1 introduced by MPI in the 2025 GRA,
2 DSR level plus 19. Given that the
3 population of vehicles is based on
4 the population at November 1,
5 2024. To account for this MPI
6 forecasted an additional decrease
7 in revenue from the additional
8 movements not captured in the rate
9 model. For example, policies
10 moving from DSR 18 to DSR 19, the
11 estimated additional impact is a
12 decrease of 1.5 percent to the
13 average vehicle premium."

14 Do you see that?

15 MR. RAJESH SAHASRABUDDHE: Yes.

16 MS. KARA MOORE: So, if we can go back
17 to that figure we were just looking at. So again, the
18 -- at line 14, the 1.5 percent decrease reflects the
19 approved changes in the prior GRA to the discount --
20 to the DSR discount that are not captured in the rate
21 model. Do you agree?

22 MR. RAJESH SAHASRABUDDHE: Yes.

23 MS. KARA MOORE: Why does Oliver Wyman
24 consider changes in prior GRAs to the DSR discount to
25 be considered part of the current year's rate

1 indication, as those changes were already approved?

2 MR. RAJESH SAHASRABUDDHE: So, as I
3 had explained this morning, the rate indication is
4 telling us from where we are today, if we do nothing
5 at all, how much premium we'd need in the -- in the
6 future -- in -- in the 2026/'27 year.

7 The DSR changes that have already been
8 approved are going to happen. Even if they haven't
9 happened yet, they are going to happen. So, they
10 should be reflected because if we did nothing at all,
11 they would still be there.

12 MS. KARA MOORE: Thank you. And the
13 rate indication -- a required rate indication shown in
14 this figure is 8.26 percent. Correct?

15 MR. RAJESH SAHASRABUDDHE: Yes.

16 MS. KARA MOORE: If we scroll up one
17 page to figure 1-2-A1, and we look at column 'F,' we
18 can see in line 8 that there is an impact from DSR
19 changes in the current GRA of minus 4.62 percent.

20 Correct?

21 MR. RAJESH SAHASRABUDDHE: Yes.

22 MS. KARA MOORE: And if we look at the
23 formula below in line 12, and that's the formula for
24 column 'G,' we can see that the minus 4.62 percent is
25 incorporated into the offset to vehicle premium for

1 DSR impact. Correct?

2 MR. RAJESH SAHASRABUDDHE: Yes, I see
3 that.

4 MS. KARA MOORE: Thank you. And we'll
5 now switch to a different Information Request. It's
6 PUB/CC-5, question 'C.' Question reads:

7 "Please provide pure premium
8 summaries with a column added
9 showing the Oliver Wyman
10 estimate."

11 You recall that question?

12 MR. RAJESH SAHASRABUDDHE: Yes.

13 MS. KARA MOORE: And if we scroll down
14 to the response to 'C.'

15

16 (BRIEF PAUSE)

17

18 MS. KARA MOORE: There it is. Thank
19 you, Ms. Schubert. The response is we reproduce the
20 pure premium summary tables for each coverage where we
21 propose an alternative below and include the Oliver
22 Wyman estimates in the adjacent column. And then we
23 have a number of tables below. Correct?

24 MR. RAJESH SAHASRABUDDHE: Correct.

25 MS. KARA MOORE: And for all of the

1 coverages with mobility factors, Oliver Wyman uses its
2 approach instead of MPI's. Is that correct?

3 MR. RAJESH SAHASRABUDDHE: Correct.

4 MS. KARA MOORE: And the use of a
5 different mobility assumption will result in different
6 indicated trends even if using the same time period.

7 Correct?

8 MR. RAJESH SAHASRABUDDHE: Correct.

9 MS. KARA MOORE: So, we're going to
10 look at the two (2) coverages with the largest changes
11 in loss cost and then the resulting impact on the rate
12 indication, collision and comprehensive theft.

13 So, we'll start at table 4, Collision
14 and you might have to scroll down slightly, Ms.
15 Schubert, to see the bottom half the table. I'm not
16 sure if you're able to -- there, that's great. Thank
17 you.

18 The MPI pure premium, which is the last
19 row, row 'J' is four hundred and eighty dollars and
20 one cent (\$480.01), whereas Oliver Wyman's alternative
21 estimate is four hundred and ninety-one dollars fifty-
22 eight cents (\$491.58), being an -- an increase of
23 eleven dollars and fifty-seven (\$11.57). Correct?

24 MR. RAJESH SAHASRABUDDHE: Correct.

25 MS. KARA MOORE: With a 1.35 percent

1 impact on the rate indication.

2 MS. KARA MOORE: Would you like a
3 reference for that?

4 MR. RAJESH SAHASRABUDDHE: Yes,
5 please.

6 MS. KARA MOORE: Okay. If we go to CC
7 Exhibit No. 8, page 27, figure 16. Oh, sorry, I'm
8 bringing you to the wrong place. Just give me one
9 moment.

10

11 (BRIEF PAUSE)

12

13 MS. KARA MOORE: Sorry, I'm bringing
14 you to the wrong reference. We'll go back to that
15 table 4 we were just looking at at PUB/CC-5. Sorry,
16 Ms. Schubert, I'm going to ask you to go back to
17 Oliver Wyman's evidence at page 27. And if we just
18 scroll up, we can see the last line before we get to
19 the figures.

20 We estimate these changes increase the
21 required rate indication by 1.35 percentage points.

22 You see that?

23 MR. FELIX CHAN: Yes.

24 MS. KARA MOORE: Thank you. So now
25 we'll go back to the Information Request.

1 Oliver Wyman didn't -- didn't use or
2 didn't like the different trend periods selected by
3 MPI. Is that correct?

4 MR. FELIX CHAN: We selected different
5 trends, yes.

6 MS. KARA MOORE: And instead, you
7 selected 2012 to 2024 years for both frequency and
8 severity models. Correct?

9 MR. FELIX CHAN: Yes. 2012 to 2024.

10 MS. KARA MOORE: Thank you. And the
11 combination of the different mobility assumption and
12 the different trend period for severity resulted in
13 the increased loss cost. Correct?

14 MR. FELIX CHAN: Could you repeat
15 that?

16 MS. KARA MOORE: The combination of
17 the different mobility assumption and the different
18 trend period for severity resulted in the increased
19 lost cost?

20 MR. FELIX CHAN: Yes. I believe
21 that's accurate.

22 MS. KARA MOORE: Does Oliver Wyman
23 know how much of the change is due to the mobility
24 assumption versus the different severity trend period?

25 MR. RAJESH SAHASRABUDDHE: I'll take

1 this one just because I was more on the trend issues.

2 MS. KARA MOORE: Sure.

3 MR. RAJESH SAHASRABUDDHE: No, I mean
4 -- I don't know off the top. We didn't quantify that
5 separately. It's not to say we couldn't, but we did
6 not quantify it.

7 MS. KARA MOORE: Thank you. Does
8 Oliver Wyman -- no, sorry. We're going to go to table
9 6 and look at comprehensive now. So, in this table,
10 the MPI pure premium, again at the last row, is
11 thirty-one dollars and thirty-one cents (\$31 31). And
12 the Oliver Wyman alternative is twenty-four (24),
13 twenty-four (24) being a decrease of eight eighty-
14 seven (8 87).

15 MR. RAJESH SAHASRABUDDHE: Yes. I see
16 that.

17 MS. KARA MOORE: With an impact of
18 minus 0.98 percent on the rate indication. And I can
19 bring you to a reference again.

20 MR. RAJESH SAHASRABUDDHE: I'll accept
21 that from the report.

22 MS. KARA MOORE: Oliver Wyman did not
23 consider it reasonable to select a future trend rate
24 equal to the past loss trend rate, and instead,
25 selected a 0.0 percent future loss cost trend.

1 Correct?

2 MR. RAJESH SAHASRABUDDHE: That's
3 correct.

4 MS. KARA MOORE: Okay. And if we can
5 look at figure CF-122. This shows the ultimate loss
6 cost from accident year 2011 at row 1 at eleven
7 dollars and twenty-three cents (\$11.23) cents.

8 Correct?

9 MR. RAJESH SAHASRABUDDHE: Yes.

10 MS. KARA MOORE: And the ultimate loss
11 cost for accident year 2024 was thirty-three-o-nine
12 (33.09).

13 MR. RAJESH SAHASRABUDDHE: Yes.

14 MS. KARA MOORE: Roughly a tripling of
15 cost over that time period?

16 MR. RAJESH SAHASRABUDDHE: Yes.

17 MS. KARA MOORE: 2011 to 2013 was
18 quite stable. Correct? First three rows.

19 MR. RAJESH SAHASRABUDDHE: Yes. Yes,
20 reasonably stable.

21 MS. KARA MOORE: And then there was a
22 jump-up, and then the years of 2015 to 2017 were again
23 stable. Do you agree?

24 MR. RAJESH SAHASRABUDDHE: Yes.

25 MS. KARA MOORE: Okay, and then we see

1 another jump -- jump-up, and a further period of
2 stability from, I should say, relative stability, from
3 2018 to 2021, perhaps apart from the 2020 decrease.

4 MR. RAJESH SAHASRABUDDHE: Yeah. It
5 increases by almost five dollars (\$5) on a base of
6 twenty (20). So that's, you know, 25 percent. So,
7 there is an increase there. May -- if -- if you're
8 referring to maybe a stable level of increase, that --
9 could be the case, but not flat loss costs.

10 MS. KARA MOORE: Okay. And then we
11 see another jump up in 2022?

12 MR. RAJESH SAHASRABUDDHE: Yes.

13 MS. KARA MOORE: And then a period of
14 relative stability from 2022 to 2024.

15 MR. RAJESH SAHASRABUDDHE: Yes. It --
16 again, depends how you -- you could look at it as two
17 dollars (\$2), but you could also -- it's about, I
18 guess, two dollars and forty cents (\$2.40) on a base
19 on thirty-five fifty-one (35.51), which is probably
20 likely to be roughly 6 percent or so, a 6 percent
21 decline. Could that be viewed as stability?
22 Potentially, I guess it all depends where you draw the
23 line.

24 MS. KARA MOORE: Thank you. Why does
25 Oliver Wyman believe that there will not continue to

1 be these jumps upward in the future, given what we've
2 observed here over the last 14 years of data.

3 MR. RAJESH SAHASRABUDDHE: So, if --
4 if we look at the frequency and severity chart
5 separately, and then also understand what's going on
6 in the country, I -- I think the frequency is -- is,
7 clearly declining. I think we're hearing that in news
8 reports experience in other provinces, and it almost
9 would have to decline because it -- the problem had
10 gotten so bad that -- that -- again, I think
11 everyone's probably heard horror stories about
12 vehicles disappearing just off the streets in Toronto,
13 that the public and auto insurers had to react to make
14 sure that that didn't continue to happen.

15 Our understanding is, and it's
16 reflected in the claim statistics, that that's been
17 relatively successful. So, the frequency should come
18 down, and we're seeing it come down, and we
19 acknowledge the severity is going up. And that's how
20 you sort of get to the zero in our view.

21 MS. KARA MOORE: Thank you very much.
22 I have no further questions.

23 PANEL CHAIRPERSON: Thank you. Ms.
24 Meek...?

25 MS. CHARLOTTE MEEK: No questions.

1 Thank you, Madam Chair.

2 PANEL CHAIRPERSON: Thank you, Mr.

3 Ireland...? Ms. Sharman...?

4 BOARD MEMBER SHARMAN: Nothing from
5 me, thanks.

6 PANEL CHAIRPERSON: Thanks, Ms.

7 Dilay...?

8 MS. KATRINE DILAY: Thank you, Madam
9 Chair. I just have a few short questions on redirect.

10

11 RE-DIRECT EXAMINATION BY MS. KATRINE DILAY:

12 MS. KARA DILAY: Mr. Sahasrabuddhe,
13 you recall being asked questions regarding testifying
14 in Manitoba and New Brunswick relating to auto
15 insurance. Correct?

16 MR. RAJESH SAHASRABUDDHE: I do.

17 MS. KATRINE DILAY: And you'll agree,
18 and I believe you alluded to this, Oliver Wyman does
19 work to support auto regulation in almost every
20 province in Canada?

21 MR. RAJESH SAHASRABUDDHE: Yes, every
22 province other than Quebec and PEI.

23 MS. KATRINE DILAY: And that work does
24 not always require expert testimony. Correct?

25 MR. RAJESH SAHASRABUDDHE: That's

1 correct.

2 MS. KATRINE DILAY: And is it -- does
3 it only require expert testimony in Manitoba and New
4 Brunswick?

5 MR. RAJESH SAHASRABUDDHE: Yes, there
6 -- there was -- was a period, I want to say roughly a
7 decade ago, where in Newfoundland and Nova Scotia,
8 there was the possibility of expert testimony, but it
9 hasn't come up in -- in a decade at this point.

10

11 (BRIEF PAUSE)

12

13 MS. KATRINE DILAY: My apologies. Ms.
14 Schubert, I wonder if we could turn to Exhibit CC-8,
15 which is the Oliver Wyman report at page 4, table 4.
16 Thank you.

17 Mr. Chan, do you recall being asked
18 questions, I believe about this table or a very
19 similar table?

20 MR. FELIX CHAN: Yes.

21 MS. KATRINE DILAY: And you'll agree
22 that some of these numbers -- or rather all of the
23 numbers I believe you alluded to, were obtained
24 through MPI's evidence in this GRA. Correct?

25 MR. FELIX CHAN: Correct.

1 MS. KATRINE DILAY: Would it be fair
2 to say that some of the numbers were obtained through
3 looking at various portions of the GRA or through IRs?

4 MR. FELIX CHAN: Yes.

5 MS. KATRINE DILAY: And they were not
6 presented altogether in one table or one page.

7 Would that be fair?

8 MR. FELIX CHAN: Yes. I believe that
9 would be fair.

10 MS. KATRINE DILAY: And if we turn to
11 page 81 of the presentation from this morning, which
12 is Exhibit Coalition 10.

13 And at a high level, this page is
14 focused on having information presented in a way that
15 is easily rea -- understood by customers?

16 MR. FELIX CHAN: The customers and the
17 Board. Yes.

18 MS. KATRINE DILAY: Sorry, and the
19 Public Utilities Board?

20 MR. FELIX CHAN: Yes.

21 MS. KATRINE DILAY: And you refer on
22 this page, if we look at the -- at the top part of the
23 page in the last bullet there, that the way MPI
24 provides the information can determine the effect on
25 MPI's requested rate change without the need for IRs

1 or requests for undertaking. You see that?

2 MR. FELIX CHAN: I do, yes.

3 MS. KATRINE DILAY: And in your view,
4 could this lead to potential efficiencies in the
5 regulatory process?

6 MR. FELIX CHAN: I believe it could,
7 yes.

8 MS. KATRINE DILAY: And, Mr.
9 Sahasrabuddhe, you'll recall discussing with my
10 friends at the -- at MPI regarding the time periods
11 between severity and frequency?

12 MR. RAJESH SAHASRABUDDHE: Yes, I do.

13 MS. KATRINE DILAY: And correct me if
14 I'm wrong, but your recommendation was, that based on
15 best practice, you would recommend using the same time
16 period for frequency and severity unless circumstances
17 warrant otherwise? Would that be correct?

18 MR. RAJESH SAHASRABUDDHE: Yes.

19 MS. KATRINE DILAY: And you'll agree
20 where -- that where there are particular circumstances
21 that would warrant deviation from best practice,
22 should those be documented and included in the rate
23 application?

24 MR. RAJESH SAHASRABUDDHE: Yes.

25 MS. KATRINE DILAY: Thank you, Madam

1 Chair. Those are our questions on redirect.

2 PANEL CHAIRPERSON: Thank you, Ms.
3 Delay. And thank you very much, Mr. Sahasrabuddhe,
4 Mr. Chan, and thank you to Oliver Wyman for your
5 expert evidence in this GRA.

6 It's 2:30ish. We'll take a break until
7 quarter to 3:00, please.

8

9 --- Upon recessing at 2:29 p.m.

10 --- Upon resuming at 2:47 p.m.

11

12 PANEL CHAIRPERSON: Thank you. Mr.
13 Klassen...?

14 MR. CHRIS KLASSEN: Good afternoon,
15 Madam Chair. The Consumers Coalition is pleased to
16 welcome Mr. Valter Viola back to the PUB hearing room
17 this afternoon. It's been a few years since he was
18 last able to join us in the MPI GRA process and our
19 clients are glad to have him back. We'll spend a few
20 minutes going over his qualifications. But first,
21 perhaps we'll invite Dr. Christle to have the witness
22 sworn or affirmed.

23

24 CC & CMMG PANEL:

25

1 MR. VALTER VIOLA, Affirmed

2

3 EXAMINATION-IN-CHIEF BY MR. CHRIS KLASSEN:

4 MR. CHRIS KLASSEN: Thank you. And
5 Ms. Schubert, if we can have Mr. Viola's CV up on the
6 screen before us. Perfect. Thank you. And we'll go
7 -- start on the second page.

8 Mr. Viola, you'll confirm your
9 understanding that your CV is filed on the record of
10 this proceeding?

11 MR. VALTER VIOLA: Yes.

12 MR. CHRIS KLASSEN: And for the
13 benefit of the Board, Madam Chair, I'll note that it's
14 available both as an attachment to the Coalition's
15 application to intervene as well as appended to Mr.
16 Viola's report. So, that's both CC-1 and CC-7.

17 And you'll confirm, Mr. Viola, that we
18 see before us -- or perhaps if we scroll down a little
19 bit -- that you completed a Bachelor of Commerce,
20 graduated with distinction from the University of
21 Toronto in 1986?

22 MR. VALTER VIOLA: Yes.

23 MR. CHRIS KLASSEN: And your chartered
24 accountant designation in 1989 --

25 MR. VALTER VIOLA: Yes.

1 MR. CHRIS KLASSEN: -- followed by a
2 Master's in business administration from Western in
3 '90?

4 MR. VALTER VIOLA: Yes.

5 MR. CHRIS KLASSEN: And then spent '92
6 and '93 as a lecturer in investments, finance, and
7 accounting at both Wilfrid Laurier and York, correct?

8 MR. VALTER VIOLA: Yes.

9 MR. CHRIS KLASSEN: And you became a
10 chartered financial analyst in '95?

11 MR. VALTER VIOLA: Yes.

12 MR. CHRIS KLASSEN: In 1993, if we
13 scroll up to "professional experience" and maybe onto
14 the bottom of the -- of the page above, you joined the
15 Ontario Teachers' Pension Plan, correct?

16 MR. VALTER VIOLA: Yes.

17 MR. CHRIS KLASSEN: And at that time,
18 you were the first and an only -- and only analyst in
19 the Funds Research and Economics Group?

20 MR. VALTER VIOLA: Yes. The fund had
21 been just recently -- there was a recent inception in
22 1989, and there was a small overall group. And that
23 group had just one (1) analyst, and that was it.

24 MR. CHRIS KLASSEN: And over the next
25 seven (7) years or so, you -- you became first, the

1 funds research director, and then a portfolio manager.
2 And by the end of your time at Ontario Teachers', you
3 were on the Funds Investment Planning Committee,
4 correct?

5 MR. VALTER VIOLA: Yes. The director
6 role was -- it included as one (1) of its mandates
7 being the portfolio manager of two (2) portfolios,
8 yes. Yeah.

9 MR. CHRIS KLASSEN: And as this Board
10 has heard from you before, a significant portion of
11 your experience at Ontario Teachers' related to asset
12 and liability management, correct?

13 MR. VALTER VIOLA: Yes.

14 MR. CHRIS KLASSEN: But what we're
15 here to talk about today is value added and
16 performance attribution. And I'd like to invite you
17 to comment briefly on how your experience at Ontario
18 Teachers' informed the development of expertise you'll
19 share with the board today.

20 MR. VALTER VIOLA: So, at Ontario
21 Teachers', as I -- as I said, I was the first analyst
22 in the Research and Economics Group. The group didn't
23 have an asset mandate per se. It was total fund
24 research, long horizon asset liability management,
25 currency edging policy stuff as opposed to active

1 management.

2 And as the first analyst that got
3 thrown into the deep end, I'm not an actuary, but I
4 like math, and I worked with the actuary, Mercer,
5 who's the actuary of the Ontario Teachers' Pension
6 Plan.

7 I worked closely with the most senior
8 guy, Malcolm Hamilton, who is a very well-respected
9 actuary in Canada, and got the data from the actuary.
10 And I built a model that basically simulated the
11 results of what Mercer does today for the fund and
12 other clients.

13 So, that was doing asset liability
14 modeling as an analyst and to lead to the first --
15 second study that was done, first one internally. The
16 first one was done by an external consultant. Five
17 (5) years later, it supported the decision to
18 undertake a certain asset mix strategy around 1994.

19 MR. CHRIS KLASSEN: Thank you. In
20 2000, you left Ontario Teachers' to join the Canada
21 Pension Plan Investment board, correct?

22 MR. VALTER VIOLA: Yes.

23 MR. CHRIS KLASSEN: And you took on
24 the role of Vice President of Research and Risk
25 Management?

1 MR. VALTER VIOLA: Yes.

2 MR. CHRIS KLASSEN: And, again, I'll
3 invite you to briefly comment on how your experience
4 at the Canada Pension Plan informed the development of
5 your expertise with respect to value added active
6 management and performance attribution reporting that
7 we'll hear from you on today.

8 MR. VALTER VIOLA: Sure. And I didn't
9 mention it. At Ontario Teachers', as the analyst,
10 they had implemented a performance attribution system.
11 So, I was the analyst who ran that application, which
12 was trying to look at security selection effects,
13 asset allocation effects, that kind of stuff, through
14 a third party.

15 I also -- at Ontario Teachers' --
16 didn't mention it. I did manage two (2) portfolios,
17 the real return bond portfolio and the tactical asset
18 allocation portfolio.

19 So, both the -- the portfolio of the
20 real return bonds, which took risk off the table from
21 a surplus at risk, assets versus liabilities, for the
22 fund.

23 We have one of the biggest -- the
24 biggest program in Canada, maybe internationally for
25 big funds, for real return bonds. And I also managed

1 the portfolio that at the margin could contribute to
2 or take off the most risk for the fund, which was the
3 tactical asset allocation portfolio, which was a
4 long/short, looked at global markets, public stocks,
5 public bonds, not currencies and not private equity.

6 And so, from those two (2) experiences,
7 I basically took the playbook from Ontario Teachers'
8 having learned it for a period of seven (7) years with
9 no kids and lots of time on my hand to becoming the
10 first investment officer hired at Canada Pension Plan
11 Investment Board. I preceded the head of public
12 markets and private markets.

13 So, in the summer of 2000, the
14 Investment Department consisted of two (2) people, the
15 CEO, John MacNaughton, who was also the chief
16 investment officer, one (1) person and me. And we had
17 a billion dollars coming in the door every month.

18 So, it was a mega fund with two (1)
19 people. And my responsibilities were to build up a
20 team and look at how Canada Pension Plan was unique.
21 Didn't have any of the assets in Ottawa, didn't have
22 any of the liabilities, and yet I -- my job was to
23 work with the Board and one chief investment officer
24 to make sure we had the right framework in defining
25 risk and success for a fund that didn't have all the

1 assets, had none of the liabilities, and yet ought to
2 be managing things with a surplus in mind. So, that's
3 at a high level what my job was at CPP Investment.

4 MR. CHRIS KLASSEN: Thank you. And
5 just to respond briefly to one (1) of your comments
6 about your time at Ontario Teachers'.

7 The tactical asset allocation portfolio
8 would have been an actively managed portfolio,
9 correct?

10 MR. VALTER VIOLA: Right. And in the
11 -- in the material that I presented there is a bell
12 curve shape. One (1) page of it describes the Active
13 Management Program and how we viewed it. It's the
14 brainchild of my boss, Dr. Leo de Bever, who later
15 went on to be CEO at AIMCO, Alberta Investment
16 Management Corporation, among other places.

17 And the basic premise there was risk is
18 good on active management. It's a resource that ought
19 to be spent wisely, not wasted. And so, that logic
20 sort of ported over to -- as well with others -- to
21 CPP Investment Board and supported the -- the
22 management of both what I call the beta risk, the
23 passive portfolio without active management relative
24 liabilities, the beta risk, and then the alpha risk,
25 or value-added program, which was kind of an overlay

1 on top of that.

2 So, between those two risks, we manage
3 the total fund risk in an integrated fashion at both
4 funds

5 MR. CHRIS KLASSEN: And performance
6 attribution reporting like you'll be talking about
7 today would have heavily informed your decision making
8 with respect to the alpha risk portion of those
9 management roles?

10 MR. VALTER VIOLA: Yes.

11 MR. CHRIS KLASSEN: Both?

12 MR. VALTER VIOLA: Yes.

13 MR. CHRIS KLASSEN: Thank you.

14 MR. VALTER VIOLA: Yeah, we had views
15 on where -- where are the markets more inefficient.
16 We want to work in -- to add value relative to the
17 benchmark you have to have two (2) things, skill.
18 It'd be nice to have a lot, but you can't count on it.
19 But if you have skill but no opportunity to deploy it,
20 you don't have the breadth of opportunities, then it's
21 not very helpful. It's like having Gretzky on the
22 bench. You know, you got to throw him on the ice and
23 take a whack at the puck once in a while.

24 MR. CHRIS KLASSEN: Ms. Schubert,
25 could you take us up to the top of the page before us.

1 That's great.

2 Mr. Viola, you'll confirm that since
3 2005 or so, you've maintained an active consulting
4 practice under a couple of different banners, correct?

5 MR. VALTER VIOLA: Yes. Yes.

6 MR. CHRIS KLASSEN: And your clients
7 through that work are primarily pension funds and
8 other institutional investors, and you support them on
9 issues primarily related to portfolio and risk
10 management, correct?

11 MR. VALTER VIOLA: Yes, initially
12 mostly Canadian, mostly defined benefit pension plans,
13 but over the years evolved to support some of the -- a
14 lot of the large funds mostly in California and the
15 United States and elsewhere, South Africa to name
16 another one, Columbia another one as well, so -- but
17 mostly Canada and the US.

18 MR. CHRIS KLASSEN: Thank you. And
19 just out of interest, we see the last bullet under
20 your work for Cortex Applied Research since 2016
21 indicates that you support client searches for third
22 party investment consultants and outsourced chief
23 investment officers, correct?

24 MR. VALTER VIOLA: Yes. Not the most
25 fun, but certainly have some experience at it.

1 MR. CHRIS KLASSEN: Thank you. Other
2 than your experience here in Manitoba supporting
3 formerly CAC, now the Consumers Coalition, as well as
4 the Coalition of Manitoba Motorcycle Groups in MPI GRA
5 processes, you don't have other experience working
6 with property and casualty insurers, correct?

7 MR. VALTER VIOLA: Not property, no.

8 MR. CHRIS KLASSEN: But you do have
9 experience supporting Workers' Compensation Boards in
10 other jurisdictions?

11 MR. VALTER VIOLA: Yeah, many years
12 ago, two (2) in Western Canada, one more recently in -
13 - on the east coast in Canada.

14 MR. CHRIS KLASSEN: Thank you. Madam
15 Chair, the Coalition and -- and jointly with the
16 Coalition of Manitoba Motorcycle Groups will propose
17 that Mr. Viola be qualified to give evidence on issues
18 related to two distinct areas in this process, one
19 being investment portfolio management and two (2)
20 being investment portfolio research, economics, and
21 risk management.

22 I note that these are consistent with
23 the Board's recognition of Mr. Viola's qualifications
24 in the 2017 and 2019 proceedings with one exception
25 being that in both of those processes, the Board also

1 recognized a third area, which was quantitative asset
2 liability modeling.

3 We are not including that third area in
4 this process because it's not relevant to the
5 substance of Mr. Viola's report, but the two (2) areas
6 that we are proposing are the same as those recognized
7 earlier.

8 PANEL CHAIRPERSON: Thank you, Mr.
9 Klassen. Mr. Scarfone, do you have any comments?

10 MR. STEVE SCARFONE: I do. Excuse me.
11 I do, Madam Chair. Thank you.

12 So, we had made counsel for the
13 Coalition aware last night that we took no issue with
14 the gentleman's qualifications. We're certainly
15 familiar with Mr. Viola, but we have just recently
16 made the Coalition aware that we do take issue with
17 respect to the content of his slide presentation vis-
18 a-vis the report that was filed in September.

19 PANEL CHAIRPERSON: And so, will you
20 raise those concerns when we get to them, when we're
21 reviewing the presentation?

22 MR. STEVE SCARFONE: What we thought
23 might be more useful, Madam Chair, procedurally is if
24 we had the issue dealt with now with respect to the
25 impugning slides, have the decision from this Board,

1 and that way, depending on how the Board decides, Mr.
2 Viola could then proceed with his presentation
3 uninterrupted.

4 PANEL CHAIRPERSON: And what are the
5 numbers of those slides?

6 MR. STEVE SCARFONE: I'm sorry?

7 PANEL CHAIRPERSON: The slide numbers?

8 MR. STEVE SCARFONE: There's a number
9 of them. They deal largely with the issue of
10 opportunity costs and revisiting Mr. Viola's
11 recommendations from the 2017 General Rate
12 Application. So, they're slides number 20, 22, 23,
13 24, 25, 26, 27, 28 and 29.

14 PANEL CHAIRPERSON: And, Mr. Klassen,
15 the Coalition's position on that?

16 MR. CHRIS KLASSEN: In terms of
17 process, Madam Chair, we're certainly open to
18 addressing this before Mr. Viola proceeds. You know,
19 we -- we have the slide numbers for Mr. Scarfone.

20 I'm not sure that we have substantive
21 argument from him with respect to a motion to have
22 these matters excluded. If he provides that we're
23 certainly able to respond and are certainly willing to
24 do so before Mr. Viola begins.

25 PANEL CHAIRPERSON: Okay. Thank you.

1 Mr. Scarfone...?

2 MR. STEVE SCARFONE: Thank you, Madam
3 Chair. Is the board inclined to have the witness
4 excused or does it want Mr. Viola in the room for the
5 purposes of this voir dire?

6 PANEL CHAIRPERSON: I don't think that
7 there's an issue with having him in the room when we
8 have this discussion.

9 MR. STEVE SCARFONE: I don't think
10 there is either, Madam Chair. Just was asking.

11 PANEL CHAIRPERSON: Yeah. So,
12 proceed, please.

13

14 SUBMISSIONS BY MR. STEVE SCARFONE:

15 MR. STEVE SCARFONE: So, Madam Chair,
16 the Corporation's position with respect to the -- the
17 slides that we've just identified lies primarily on
18 the basis of procedural fairness. So, as this Board
19 is aware, there is a timetable that is adhered to by
20 all the parties to the proceeding that forms part of
21 this Board's procedural order.

22 In that timetable, there is an
23 opportunity for the Interveners to file evidence which
24 the Coalition did on September 18th. They filed the
25 report of Mr. Viola. At that time, there wasn't

1 contained therein any reference to opportunity costs
2 with respect to earlier recommendations made by the
3 gentleman.

4 In addition to that, there was nothing
5 with respect to the recommendations that the gentleman
6 had made back in 2017. And so, the report was limited
7 exclusively to that of attribution analysis, and the
8 Board will be aware of that, having read the report.

9 Then last evening we received the slide
10 deck, which contained more information that was
11 outside of the expert's report, including a revisiting
12 of the eighteen (18) recommendations and the
13 gentleman's opinion on whether some of them had been
14 followed, some of them were outstanding, some of them
15 had been complied with.

16 He also makes reference to the shadow
17 portfolios in terms of opportunity costs and where MPI
18 could have done better had those shadow portfolios
19 been implemented as recommended in the 2017 GRA.

20 So none of that, with respect, was in
21 his report, and there is a principle of fundamental
22 procedural fairness, sorry, that would say an expert
23 is limited or confined to give testimony on the
24 content of his report.

25 He can't stray outside the four (4)

1 corners of that report largely because it's unfair to
2 the party that's being asked to respond to the report.
3 Had MPI known that he was going to provide evidence
4 with respect to opportunity costs and the -- and the
5 eighteen (18) recommendations that were made several
6 years ago, MPIC in all likelihood would've filed
7 rebuttal evidence.

8 But we weren't given that opportunity
9 because the report didn't contain any of that
10 information. More importantly, Madam Chair will be
11 familiar with the rule of *Brown v. Dunn*.

12 It would be different if counsel for
13 the Coalition had put any of those impugned -- any of
14 that impugned content to our investments panel. They
15 did not. They didn't ask our investments panel about
16 opportunity costs, they didn't ask our panel about
17 whether MPI had followed the eighteen (18)
18 recommendations made in the 2017 GRA.

19 So now at this late stage of the
20 hearing, we're at a spot where we can't respond to any
21 of that. And so, this Board will listen to that
22 evidence with effectively no opportunity for MPI to
23 respond to any of that information which could have
24 been contained in the expert's report.

25 And so, our submission with respect to

1 that is it's simply unfair at this stage to allow that
2 kind of evidence in before this Board without allowing
3 MPI an opportunity to respond.

4 PANEL CHAIRPERSON: Thank you, Mr.
5 Scarfone. Mr. Klassen...?

6

7 SUBMISSIONS BY MR. CHRIS KLASSEN:

8 MR. CHRIS KLASSEN: Thank you, Madam
9 Chair. I'll begin briefly in response to Mr.
10 Scarfone's points about opportunity cost, which are
11 found at slides 25, 26, through 29, so that latter --
12 latter section of the list of slide numbers that Mr.
13 Scarfone mentioned.

14 This is included by Mr. Viola as a
15 response to the record. You'll see transcript
16 excerpts from the testimony of Mr. Bunston earlier in
17 this proceeding discussing the role of opportunity
18 cost in an active management portfolio, which, as you
19 know, is the subject of Mr. Viola's evidence with
20 respect to performance attribution.

21 And Mr. Viola wanted to respond to that
22 statement on the record and clarify in his perspective
23 the appropriate consideration of the relationship
24 between opportunity cost and active management and
25 performance attribution.

1 So, from Mr. Viola's perspective,
2 twenty (20) -- slides 25 through 29 are provided for
3 the benefit of the Board to offer clarification in
4 response to testimony by MPI's witnesses earlier in
5 this proceeding.

6 With respect to the other slides raised
7 by Mr. Scarfone, it's certainly the case that Mr.
8 Viola's slides today include reference to his -- his
9 past testimony.

10 There was a conscious effort made in
11 preparing Mr. Viola's September report to keep the
12 scope narrow, to be focused on active management,
13 value added, and performance attribution, which
14 necessarily excluded discussion about his past
15 evidence and recommendations with respect to MPI's
16 policy asset mix.

17 In response to Information Requests
18 from the Public Utilities Board, however, which he'll
19 -- which -- which he'll discuss and explain further in
20 his presentation, if he's permitted to proceed, made
21 clear that the Board was curious about how active
22 management decisions and a -- an approach -- MPI's
23 approach to investment decision making, relates to its
24 risk appetite as a whole.

25 And, so, you'll hear from Mr. Viola

1 today, if he's permitted to proceed as planned, that
2 it's his expert opinion that active management
3 decisions and policy asset mix decisions are
4 complimentary and should certainly be considered
5 separately, but then should also be considered
6 together.

7 And so, it's for that reason that he's
8 providing background and context based in his past
9 evidence to support the Board's receipt of his
10 evidence in this proceeding.

11 A couple of minor points of
12 clarification are that the references to his past
13 work, that are in his slides today, are not new
14 analysis. They're simply reproductions of what he's
15 provided before.

16 So, for example, slide 23, which Mr.
17 Scarfone characterized as a review and his opinion
18 today on whether his past recommendations had been
19 responded to or not.

20 Before you -- this is an excerpt from
21 his report in 2019. And the -- the visual there in
22 the center of the slide, conveniently enough, is from
23 also page 23 of his 2019 evidence. And so, what Mr.
24 Viola's -- is providing today is not new opinion
25 evidence, building on his past work, it's providing

1 references to his past work for the benefit of the
2 Board to support their interpretation of his evidence
3 in this proceeding.

4 Nothing further, Ms. -- Madam Chair.

5 PANEL CHAIRPERSON: Thank you, Mr.
6 Klassen. Just to confirm, Mr. Scarfone, this
7 information it -- contained in slides, sorry, 20 -- 22
8 to 29 is all information that has been filed,
9 formerly, in GRA proceedings before the Public
10 Utilities Board. Is that correct?

11 MR. STEVE SCARFONE: So, the
12 recommendations -- yes, Madam Chair, the
13 recommendations that Mr. Viola made, as Mr. Klassen
14 said, were filed 2019 GRA.

15 I'm not certain if this Board has
16 before it the opportunity costs' evidence that the
17 gentleman purports to give to this Board today, but
18 the point to be taken from this, Madam Chair, is that
19 if a conscious decision is made to narrow the scope of
20 a report, so too is the viva voce evidence. He cannot
21 give evidence outside of that report.

22 And so, that is the main thrust of this
23 motion here today, is that it would be unfair to MPIC
24 to have to accept this evidence without an opportunity
25 to provide a response, particularly to the eighteen

1 (18) recommendations, if he's saying there are still
2 some outstanding.

3 PANEL CHAIRPERSON: Okay. Thank you.
4 Mr. Scarfone.

5 Specifically, in relation to the
6 eighteen (18) recommendations, how long would it take
7 MPI to provide a response to those recommendations
8 because we're certainly not at the end of the hearing
9 yet, as you're aware?

10 MR. STEVE SCARFONE: Yes. Just one
11 moment.

12

13 (BRIEF PAUSE)

14

15 MR. STEVE SCARFONE: Sorry for the
16 delay, Madam Chair. The difficulty the panel that --
17 the MPI panel is having is, particularly as it
18 concerns Ms. Low, this is the first time she's seen
19 the recommendations and -- and Mercer would have been
20 engaged to provide advice with respect to those, back
21 when those recommendations were made.

22 And, so, it's -- it's not likely that
23 the Corporation could provide feedback or its response
24 to those recommendations before the close of hearing.

25 PANEL CHAIRPERSON: It couldn't

1 provide a response in relation to the implementation
2 of the recommendations? I would have thought that
3 that would be something that --

4 MR. STEVE SCARFONE: Whether they've
5 been implemented?

6 PANEL CHAIRPERSON: Correct.

7

8 (BRIEF PAUSE)

9

10 MR. STEVE SCARFONE: This may be an
11 easier exercise because Ms. Low is sworn. If we bring
12 those recommendations up before us and have her
13 perhaps address some of them and -- and some of the
14 concerns that she's relating to me on how -- how
15 difficult it will be at this -- at -- on short notice
16 to provide feedback with respect to those
17 recommendations.

18 PANEL CHAIRPERSON: Well, prior to
19 doing that, Mr. Scarfone --

20 MR. STEVE SCARFONE: Yes.

21 PANEL CHAIRPERSON: -- and thank you
22 for the offer, we will adjourn and consult with our
23 Counsel and respond back into this hearing room as
24 quickly as possible.

25 MR. STEVE SCARFONE: Thank you.

1

2 --- Upon recessing at 3:13 p.m.

3 --- Upon resuming at 3:33 p.m.

4

5 DECISION ON MOTION:

6

PANEL CHAIRPERSON: Thank you,

7 everyone. We've had an opportunity to review the

8 motion that's been made by MPI and the response by the

9 Consumers Coalition. And we are supporting the motion

10 that's been made by MPI.

11

I think that the -- or we think that

12 the information that has been included could have been

13 included in the report so that there would have been

14 notice earlier, and also could have been raised with

15 the Investments Panel.

16

Also, recognizing that Ms. Low was not

17 with the Corporation in 2017 and has not had the

18 benefit of hearing the discussion with regard to Mr.

19 Violo's recommendations at that time.

20

So, if you would please proceed with

21 the exclusions -- exclusion of the slides that were

22 mentioned.

23

MR. CHRIS KLASSEN: Thank you, Madam

24 Chair. We can certainly do so. And for purpose of

25 the presentation this afternoon, if it's -- if it's

1 sufficient, we'll just invite Mr. Viola and Ms.
2 Schubert together to skip over those slides. And we
3 can file an amended version likely this evening.

4 PANEL CHAIRPERSON: Certainly. Thank
5 you.

6 MR. CHRIS KLASSEN: Thanks very much.
7 I just had a couple more questions for Mr. Viola.

8

9 CONTINUED BY MR. CHRIS KLASSEN:

10 MR. CHRIS KLASSEN: Sir, you'll confirm
11 that your paper "Performance Attribution" is filed in
12 the record of this proceeding as Exhibit CC-7.

13 MR. VALTER VIOLA: Yes.

14 MR. CHRIS KLASSEN: And you prepared
15 responses to Information Requests on the contents of
16 your paper, which are filed as -- as Exhibit PUB-9?

17 MR. VALTER VIOLA: Yes.

18 MR. CHRIS KLASSEN: And you've also
19 prepared slides to support your testimony today?

20 MR. VALTER VIOLA: Yes.

21 MR. CHRIS KLASSEN: And you'll confirm
22 your understanding, sir, that all these submissions
23 form part of your evidence submitted to the Public
24 Utilities Board?

25 MR. VALTER VIOLA: Yes.

1 MR. CHRIS KLASSEN: And you'll confirm
2 that in preparing these submissions and in appearing
3 here today, you're complying with your duty of
4 independence owed to the Board?

5 MR. VALTER VIOLA: Yes.

6 MR. CHRIS KLASSEN: Madam Chair, we'll
7 have the presentation before you, of course, as
8 amended to be filed later today, filed as Exhibit CC-
9 11.

10

11 --- EXHIBIT NO. CC-11: Presentation, as amended

12

13 MR. CHRIS KLASSEN: And with that,
14 I'll be -- invite Mr. Viola to begin.

15 MR. VALTER VIOLA: Thank you. If you
16 could please go to page -- slide number 3. Thank you
17 very much.

18 As mentioned, this is my third
19 testimony. I'm delighted to be here. And this year
20 we're -- we're pivoting. Again, I'm going to -- I may
21 be a bit visual sometimes, but when I pivot, I turn 90
22 degrees, and that -- that becomes important when I
23 talk about risk in a -- in a moment.

24 But we are focused on the value added.
25 I first -- just by way of background, I did counsel

1 the Consumers Association of Canada ten (10) years
2 ago. And, again, the focus there was on policy asset
3 mix decisions, asset liability studies. And now I --
4 now I advise both the Consumers Coalition, the
5 Coalition of Manitoba Motorcycles Groups on investment
6 related matters.

7 So, the important thing to note and we
8 -- we raise it at the very bottom is we -- we did talk
9 about keeping the performance attribution paper as
10 simple as possible because it was really designed to
11 set the stage and enable better questioning by
12 Interveners, support the PUB, of course, and, again,
13 recognize that value-added active management is
14 relative to the policy portfolio.

15 And I don't think MPI would agree, but
16 I'm not going to put words in their mouth, but the
17 primary risk of the fund, MPI and most institutional
18 investors, is that they don't -- is the risk they run
19 relative to the liabilities.

20 So, it's assets versus liabilities and
21 a secondary risk. And then they want to grow the
22 assets relative to liabilities. And they can do that
23 by selecting a good asset mix, and also engaging in
24 active management.

25 But the point that's important to make

1 is to keep the perspective that active management,
2 trying to outperform the passive policy portfolio, is
3 not sufficient to be -- to guarantee success in the
4 program. If you -- if you -- so that's why it's
5 important to recognize that this is a pivot.

6 We don't have a new asset liability
7 study, so there -- there aren't a lot of questions
8 from us -- from -- from me, for example, to support my
9 clients on those matters.

10 So, over a decade, we haven't really
11 focused on active management and -- but now that we
12 have an opportunity to do so, as a secondary goal,
13 it's still important, but it's not the primary
14 importance.

15 And the other thing to recognize is
16 that risk is complicated. And -- and while returns
17 add, you could wait them and say if you have 50
18 percent weight here and 50 percent weight there, and
19 the value added or the return is 'X' and 'Y', you
20 simply multiply those things, and it's a linear
21 combination. The lines are straight.

22 Risks -- but that's why the Efficient
23 Frontier bends, is because the risk equation -- the
24 risks don't add because things aren't perfectly
25 correlated.

1 When one market goes up, the other one
2 might go up, but it might not go up exactly all the
3 same time that way, or it might be negatively
4 correlated, in which case, it acts as a hedge.

5 So, risk is very complicated. And we
6 did debate whether the Active Management Program,
7 which is really what we're talking about -- we're
8 trying to say -- we want to, as Interveners, as Public
9 Utility Board, I believe, wants to make sure there's
10 accountability for performance regardless of its
11 source, whether it's asset mixed decisions, decisions
12 to deviate from the policy asset mix. And this has to
13 be seen, I believe, in an integrated fashion.

14 So, when we wrote the -- when I wrote
15 the performance attribution paper, it was designed to
16 just focus on the numerator, the top of an important
17 ratio, the information ratio, which is the ratio of
18 the value added, alpha, they call it, as opposed to
19 the beta risk.

20 So, it's the alpha, the value added,
21 divided by the tracking error, which is possibly the
22 worst word you could pick other than hedge fund. So,
23 tracking error is not very descriptive. It sounds
24 bad. It's like an error. It's really -- if we're
25 trying to add value relative to benchmark, the

1 tracking error is an active risk that's a resource
2 that needs to be consumed with the hope of adding
3 value. So, it's -- it's a good. It's a resource that
4 needs to be consumed.

5 In response to the PUB'S questions,
6 However, as again, we caveated the paper to say we
7 don't -- we recognize that risk is important, but
8 we're not going to go there because we don't have the
9 data to just talk about the numerator, the value added
10 in that.

11 We want to decompose it and see where
12 the security selection value added comes from, or --
13 or if it's from asset mix or currency hedging or --
14 and to differentiate between skill and luck.

15 So, the purpose was to focus on the
16 numerator, but in the response to the PUB's questions
17 that talked about -- at the bottom here we see in blue
18 that PUB said it is important. And I agree that we
19 understand how MPI's decisions align with their
20 appetite for risk.

21 And that appetite for risk is
22 presumably expressed in terms of surplus volatility,
23 but also possibly in terms of tracking error, or the
24 impact that a tracking error has on surplus
25 volatility. And I'll show in a moment that it's not a

1 big deal when you look at it in the margin.

2 And so, there's different types of
3 risks. And it's important to differentiate between
4 the two (2), but also integrate them.

5 And -- and one (1) of the questions
6 that the PUB asked was -- I'm not going to -- I'm
7 paraphrasing, but it basically related to best
8 practices. And certainly, bringing risk into the
9 equation is important, especially when the ultimate
10 goal is to assess whether the value-added program is
11 adding value through skill or luck.

12 And so, if you don't bring that bottom
13 half of the equation in, look below the line, below
14 the belt, you haven't -- you haven't looked at it all.

15 So, my quick answer is to say that
16 you've asked for the full monty, and we're sort of
17 opening it up to say this is more disclosure than we
18 put into the performance paper, but we need to talk
19 about risk to do a better job. If we could jump from
20 slide 3 to 5, please.

21 This gives it a perspective. The --
22 the Utilities Board is familiar with these Efficient
23 Frontiers. And here, this is surplus at risk. So,
24 this is taking a step again backwards in the primary
25 scope of what matters the most to the fund, which is

1 making sure that the assets can meet the liabilities,
2 whether that's through decision 1 or decision 2,
3 decision 1 being the blue dot, picking an asset mix
4 policy once every three (3) to five (5) years,
5 whenever you do an asset liability study, for example,
6 and that gives you a certain set of characteristics.

7 And so, that measure of surplus risk is
8 what you see in the Mercer studies, and it's a big
9 number. The important thing to note here is that the
10 actual portfolio will deviate from the policy because
11 most funds like MPI engage in what's called active
12 management. They decide to not hold the MSCI
13 (INDISCERNIBLE) the international equities in the
14 proportions that those stocks exist outside of North
15 America, or the world, if you will, whatever market
16 you happen to be.

17 It could be the S&P 500 in the US
18 stocks or for bonds. It could be one of the footsie
19 (sic) corporate or provincial bond indices, for
20 example. You might hold things in different
21 proportions of which case, the red dot, which is the
22 actual portfolio, will differ from the blue dot. And
23 the presumption has to be that the red dot is above
24 the blue dot; otherwise, you wouldn't engage in active
25 management.

1 And what you'll note, which is
2 hopefully evident here, is -- this is a stylized
3 version. There's no numbers here. But basically,
4 what you'll note is the -- the green vertical is the
5 value added. And even a small incremental alpha value
6 added is worth pursuing if you're not simply flipping
7 orders and hoping that you get heads if heads is a
8 good strategy and tails is a bad one because over
9 time, the -- the law of large numbers plays out.

10 But if you have scale and the
11 opportunity to add value, you should pursue that
12 active management, get that extra few basis points, 5,
13 10, a hundred would be ideal, net of fees of engaging
14 those extra managers.

15 But the really important thing to note
16 here is that if -- if it's properly designed, that red
17 dot's not going to be very far different from the blue
18 dot on the horizontal, the risk dimension. In other
19 words, that red dot's not quite straight up, but as
20 long as not -- you're not engaging in tactical asset
21 allocation, which is changing the asset mix,
22 directionally saying, I want to be in stocks versus
23 bonds, in which case the surplus at risk moves a lot.

24 If you find uncorrelated programs,
25 which is the hope that a lot of funds hope to do is,

1 if you can find a manager who can add value in an
2 equity portfolio, public equities, and a bond
3 portfolio, and those are unrelated, then the math
4 works out really nicely and the risks in the -- in the
5 extreme -- if you could find enough of these
6 uncorrelated programs, that active risk actually goes
7 to zero in theory.

8 The problem is you can't find that many
9 and it would cost too much to do that. So, there's
10 tradeoffs, but the -- the really important thing is,
11 if you believe you have value to add, you should back
12 up the truck and take that risk because it's not going
13 to move the primary risk that you ought to be
14 concerned about, funding risk, paying the liabilities,
15 but you can save a lot in cost to consumers.

16 So that was the point of that. If we
17 could go to the next slide, please.

18 Oh, and before I go there, this is
19 important I think to -- to understand why that is the
20 case. And if you don't mind, I'm just going to
21 illustrate this in a minute.

22 I -- I don't know that I've talked
23 about it at these hearings or in the papers, but I
24 think of the risks as arrows, and it will simplify
25 discussions in future hearings if it goes on record.

1 If the policy risk is designated by
2 this arrow -- and every arrow has both a length -- a
3 size and a direction. Both are important dimensions
4 of that arrow or risk.

5 If the beta risk, the policy risk of
6 not hedging all the liability risks, the inflation
7 risk, et cetera, by putting stuff in whatever --
8 equities, real estate, et cetera -- that risk is this
9 big.

10 When you engage in active management,
11 you're essentially -- if it's uncorrelated, it's at
12 right angles. If it were -- if we're engaging in
13 tactical asset allocation, you could be exacerbating
14 the risk and making the risk twice as long, or you
15 could hedge it completely and make the risk go the
16 other way, in which case you're back to the beginning.

17 And so if, for example, that's --
18 that's important. If -- if it's uncorrelated, it's
19 like this, and the thing to remember from your high
20 school math is that this diagonal -- we all remember
21 the formula, right, the beta and the alpha, 'A'
22 squared plus 'B' squared equals 'C' squared -- this
23 length isn't that much longer than this one, right?

24 And so, the punchline is, if you
25 believe you can add value, you can actually take a lot

1 of yellow active risk and not change the total risk.

2 So this blue pen, this blue dot you see
3 there, it has a certain amount of risk. If you engage
4 in active -- active management and it's uncorrelated
5 at 90 degrees, you're not hedging, you're not taking
6 tactical bets, you're basically picking RBC versus TD
7 Bank, et cetera, right, then if you can demonstrate --
8 this is just the risk equation, but this risk here
9 isn't that much difference.

10 The blue and the red aren't that much
11 difference. So that's an important thing to remember
12 in the -- in the grand scheme of things.

13 The performance attribution paper -- we
14 can go to the next slide -- is really talking about
15 the value added piece. So -- so tracking here -- just
16 to repeat very briefly, tracking here is a desirable
17 risk at funds we worked -- you know, I didn't come up
18 with the -- the phrase 'risk budgeting', but if it
19 should be budgeted, you should have some notion as to
20 what's a reasonable amount you need to take given the
21 skill that's reasonable to assume and the
22 opportunities to add value.

23 And so just like in asset liability
24 studies where we take one thing as given and we
25 optimize, we take the capital market assumptions, the

1 volatility of equities, bonds, real estate, et cetera,
2 and the correlations, and then we get Mercer to help
3 us, for example, because they've got great models, and
4 then we solve for the efficient frontier.

5 What is the dot that gives us this
6 optimal return? So, you're solving for maximum return
7 at a given level of risk or minimum risk for a given
8 level of return. And in terms of the active risk,
9 it's the same thing kind of in reverse.

10 The asset mix -- the asset mix decision
11 comes from say a Mercer study. Once that policy asset
12 mix is -- is decided -- 'cause there's no value added
13 assumption in those AL studies except for a small
14 amount that's due to things where you can't get rid of
15 the value added risk like illiquid assets, like
16 private equity, and real estate, for example, you just
17 can't strip that out 'cause you can't be passive. You
18 have to be active.

19 So, you've got that small blend in
20 there. But aside from that, when it comes to active
21 management stuff that we did at Ontario Teachers for
22 seven (7) years, at CPP Investment Board for five (5),
23 we basically -- you know, we may have done it a bit
24 differently, but the way I think of it is we're
25 flipping the asset liability study in reverse.

1 We're taking the asset mix as given and
2 then we're solving for, given a return target, what's
3 the least amount of risk I can take and how should I
4 allocate that?

5 Should I be active in asset allocation?
6 Is there breadth of opportunities to add value? How
7 many bets do I have? Is it a hundred or is it two
8 (2)? Is it currencies? Is it picking stocks? Is it
9 picking bonds, et cetera?

10 So that's the -- that's what we're
11 trying to do. And you can show -- and we won't --
12 that if you crunch the numbers and you do the AL
13 equivalent in active management space, you might find
14 it unintuitive.

15 But if you're trying to achieve a
16 certain goal, what you want to do is, if you believe
17 all programs -- picking stocks, picking bonds, hedging
18 currencies -- if you have neutral views, they have the
19 same information ratio or return per unit of risk in
20 isolation, then what you should do in an optimal thing
21 is be hyperactive in the least funded programs.

22 So, if someone's got 1 percent instead
23 of 30 percent in an asset class, take that hyper risk
24 in that small amount. That's how the math works out.

25 So, anyways, we can do that kind of

1 stuff, but that's just getting us a bit ahead of -- if
2 we could go to performance attribution. So that's the
3 -- the big picture on integrating the risk equation,
4 again responding to the PUB's request to how do we do
5 this and what are leading practices.

6 The purpose of the attribution paper is
7 really to drive -- to develop or propose a simple
8 framework. We don't need a Mercedes when a simpler,
9 cheaper car will suffice. And again, we're trying to
10 just -- we -- we know what the value added was. We
11 just need to have more clarity on where it came from.
12 Was it through security selection or asset mix
13 decision or something else?

14 And again, the ultimate goal is to
15 position us as Interveners, as a utilities board to
16 say, was that value added or lost due to skill or good
17 or bad luck? And that's the challenge.

18 And then once we answer that, which we
19 can't today 'cause we don't have enough data,
20 granularity, there's -- you know, we -- we wanted to
21 take the first step of getting the information, the
22 next step is what do you do about it as those same
23 stakeholders?

24 And the simple approach we -- we
25 outlined -- and it's not our creation or my creation;

1 it's something that's intuitive and used in the
2 industry -- and it's really breaking it down into
3 those three (3) building block effects.

4 And the paper goes through and it
5 basically says if value added is a difference between
6 'A' and 'B', the actual and the benchmark, when you
7 have an equation like that where you're looking at the
8 difference in performance, you can add and subtract
9 the same number to both sides of the equation and not
10 change the total value added.

11 The challenge in attribution is where -
12 - where do you draw the line and the boxes? And one
13 of the -- and in the paper that I put forth, we -- we
14 put labels on them. And again, I didn't create it,
15 but it's pretty intuitive.

16 Page 8 we -- I don't think I have to go
17 through this in detail other than to note that I do
18 mention in the paper this notion of quality. And in
19 this testimony had a little bit more time and we
20 wanted to plant the seed, and we were struggling with
21 whether we put square roots before the committee -- we
22 know people don't like square roots -- but sometimes
23 you can't.

24 And so, the reality is we've got a
25 couple of equations, and what this quality is giving

1 us is a metric that says, essentially, what's the
2 probability -- if we use the formula, as an example,
3 it's telling us what's the probability that that
4 performance ex-post after the fact realized of that
5 information ratio, how likely is it that that
6 performance was due to skill and luck?

7 So, it's telling us the probability
8 that it was due to skill, and I don't -- I can't take
9 credit for that. It's a former colleague of mine, Dr.
10 Don Raymond, who was head of public markets at CPP.
11 There's a paper that we quote in a minute. He has an
12 amazing ability to take complex topics and simplify
13 them in ways that I -- I can only dream I could do it.

14 Let's go to page 9. So, I can skip
15 this, but essentially, those are the three (3)
16 complete sets of questions. What data do we have?
17 Let's get -- let's get it reported. Let's get more
18 granularity on where the value added came from or was
19 -- where it was negative. Then let's figure out, is
20 that skill or luck? Do we have enough data? Do we
21 have enough granularity?

22 Let's keep the private markets outside
23 of this equation because with private valuations,
24 they'll drive returns, and there's going to be a lot
25 of subjectivity. So, we don't want to enter the can

1 of worms that is associated with private market
2 assets.

3 The reality is we'll, never know until
4 those assets get sold whether they added value or not
5 relative to a passive alternative. So, we're going to
6 have to wait a long time. Until then, we just have
7 best estimates. The longer we wait, hopefully the
8 better -- the more confidence we have about whether
9 those valuations are as accurate as they ought to be.

10 And then in terms of benchmarks,
11 there's a footnote in one of the -- in one of the
12 pages about -- that's coming up that basically says,
13 you know, if you pick the poor benchmarks, well, then
14 the quality of the difference between the benchmark
15 performance and the actual is questionable. And
16 again, the last thing is, what should we do about it?

17 Page 10, I don't have to go through
18 this in detail, but at the end of the day, hopefully
19 the -- the diagram in the paper illustrates that we're
20 simply saying -- in the case of the performance
21 attribution paper, we were looking at one asset class
22 and we did a visual saying if on one dimension you
23 measure the weights of the actual and the benchmark
24 portfolio and on the vertical axis -- vertical axes
25 -- and perhaps you can flip just to show that one box.

1 It's in the performance attribution
2 paper, just so it's clear. Oh, can you split up?
3 Sorry. It's -- you'll see, there you go. Thank you.
4 If you could go -- go down a few boxes, I'll -- I'll
5 just -- just to be clear, the first box is fine. Keep
6 going. There we go. There.

7 Again, that's the policy portfolio,
8 which is -- sorry, it's the policy portfolio. Sorry.
9 Sorry. That's the portfolio. 'P' stands for
10 portfolio.

11 That big box is basically saying, for
12 this asset class -- I believe it was equities -- the
13 total portfolio is simply the product of the weight
14 you have in that asset class -- in this case, 90
15 percent on the far right -- and it earned 5 percent.
16 So, the contribution of equities to that was 90
17 percent times 5 percent is four and a half (4 1/2)
18 contribution. That's what the portfolio P gave you.

19 The brown box is the benchmark. And if
20 you go to the next page, I think we might quantify it
21 and say, look in this case, in equities, you didn't
22 put the full -- you were actually overweight.

23 So, the policy said you only had --
24 should have 70 percent and that benchmark for Equities
25 was only 3 percent. So, the contribution that the

1 benchmark did for equities was 70 percent times 3
2 percent is two point one (2.1).

3 The punchline is, if you take the big
4 outer box P and the smaller box 'B' take the
5 difference, there's really the sum of three (3)
6 squares --rectangles, not squares. And that's all --
7 that's attribution is doing.

8 There's a multiplicative version of
9 this that gets rid of this joint effect, which is that
10 upper right. But ultimately, let's go back to my
11 slides. All this -- there's no -- there's no set of
12 rectangles here, but if you make this maybe a little
13 bit bigger -- yeah, and there we go. We're basically
14 -- embedded in that main table there is the series of
15 those rectangles.

16 The far -- and this is for -- and I
17 used the performance, which was -- you know, 322 basis
18 points is a huge value added. In this case, it was
19 2002 for the Basic total portfolio. And the question
20 really boils down to, well, where did it come from?
21 Next question will be, was that due to skill or luck?

22 And in this case, the attribution
23 simply breaks it out into security selection on the
24 left, picking the right bonds within a corporate bond
25 portfolio or provincial bond portfolio.

1 The asset classes here are all fixed
2 income, so it's not surprising when you look at the
3 return sub-'B', which is the return of the benchmark
4 in that middle column on the left, asset allocation,
5 the red 'RB', that's the benchmark return. And if you
6 look at it, they were all negative except for cash.

7 So, it wasn't a very good year, fiscal
8 2002, but that's what the benchmark did. MPI actually
9 did better, and they did better because they either
10 overweighted at least worst asset class because it
11 wasn't a good year, they did less bad by picking that,
12 for example.

13 So, in terms of bonds government, for
14 example, they were -- they were underweight almost 11
15 percent. It says negative ten point six (10.6), and
16 when you're underweight something that has a negative
17 return, that's a green. That's a good product, right?
18 Two -- (2) -- two (2) negatives when multiplied give
19 you a good number.

20 That's how the math works, and simply -
21 - and it is simple. So we -- we provided a
22 spreadsheet. And again, we're just -- we've been
23 asking for this and we think it's important to know
24 because we -- we -- I personally have views on whether
25 some markets are more efficient or not, have more or

1 less breadth. And knowing whether some value is
2 coming from asset mix drift or tactical asset mix
3 changes is important. So that's the whole point.
4 That's all I wanted to say on that slide.

5 Now, the next -- the next material
6 really is going beyond what the performance
7 measurement paper was meant to do, which was set a
8 framework for just getting more information about why
9 we added value or subtracted value for the three (3)
10 portfolios: Basic number 1, the RSR portfolio ,and
11 the EFB or pension portfolio. EFB stands for -- I
12 always forget it -- employee future benefits, EFB.
13 Every fund has a different acronym.

14 But ultimately this is where a little
15 bit of the math comes into play. And -- and
16 ultimately again, we're responding to the PUB's
17 questions, which were here in PUB/CC-12, where the PUB
18 asks for description of how the risk analysis would be
19 incorporated and how you could use results.

20 And, you know, I think I said it
21 before. Basically, this information ratio, the ratio
22 of value added to risk, is important. And to get an
23 intuitive sense of how important it is, think of the
24 information ratio as a speed.

25 If we were driving a car and we've got

1 two (2) dimensions -- this is the distance we want to
2 travel and this is the time we have -- then the slope
3 of the line is the speed. How much distance do we
4 travel in a period of time?

5 And so, the information ratio is a
6 measure of speed, right? Are you top gun flying at
7 Mach 1, or are you basically not moving? You don't
8 have any skill, you have a low information ratio, and
9 regardless of -- because you're flat, it doesn't
10 matter how much time you take, you're never going to
11 get to the 'D', right?

12 So, if your distance is your value
13 added, you want to add a hundred basis points. You
14 want to go a 100 kilometers, and you translate --
15 you're going a hundred kilometers an hour, that's the
16 slope, and it's going to take you an hour. If you go
17 up Mach 1, it's going to take you a nanosecond to get
18 there, right?

19 So, that's all the information ratio
20 is. It's the speed where the resource to be used
21 isn't time; it's tracking error. And the goal is to
22 deliver a certain value added. That helps me keep it
23 as simple as possible for myself.

24 If I go to the next slide 12 briefly,
25 this is what we did at Ontario Teachers. There's a

1 quote for the paper we had. It's 25 years old, but I
2 think it stands the test of time. Simply put, they
3 use a different measure. They don't use tracking
4 error.

5 They call this thing called 'Mirror
6 Management Effect At Risk' instead of calling it
7 tracking error. They focused on the 10 percent tail,
8 which is 1.6 standard deviations. The punchline is,
9 if you focus -- if you measure risk as tracking error,
10 it's always track -- it's always an active risk
11 relative to benchmark.

12 This happens to use a different -- you
13 use Celsius instead of Fahrenheit; that's the only
14 difference. But the punchline is, the world is
15 normally distributed as we assume. When we're
16 calibrating and thinking of budgeting risk, and
17 figuring out where we want -- how much risk to take,
18 and where we ought to take it, this is the curve we
19 had in mind.

20 We said that the average, or median
21 manager, adds no value. And so, it's centered on zero
22 (0) with a normal distribution, two-thirds (2/3) of
23 the observations are within one (1) standard
24 deviation. So, you've got one third (1/3) in the two
25 (2) tails in each tail, therefore, there's one sixth

1 (1/6), one half (1/2) of one third (1/3).

2 So, the top right tail at a one (1)
3 Sigma event tracking error is - is your -- your top 83
4 percent. Sorry, top 17 percent, you beat 83 percent.
5 The one thing that's not clear, and I should have done
6 it was you can graph this curve on a cumulative basis.

7 You can move from left to right and
8 say, Hey, half of the observations are below the mean
9 or average of zero, zero value added. This is always
10 before costs. Costs are separate. Cause, you have to
11 remember -- I -- I try to always remember that costs
12 are pretty predictable. Returns relative to -- to
13 value -- value added relative to benchmark or absolute
14 are less predictable.

15 So, costs we don't want to factor in
16 here because they're just going to pollute stuff.
17 This is all before fees. So, it's important to
18 distinguish between fixed costs, variable costs that
19 might relate to a variable, but these are before
20 costs. But ultimately, on a cumulative basis, you
21 could think of what the graph looks like.

22 It starts off with no observations on
23 the far left. Ultimately, all the observations are on
24 the far right, a hundred percent (100). And when you
25 get halfway there, you're fifty percent (50). So,

1 it's kind of like this s-shaped curve, the very
2 elongated s-curve, and that's a very important curve.
3 It's the cumulative normal curve.

4 And, as I said, a colleague of mine, if
5 you can go to the next page, he starts thinking about
6 things in a really simplistic way and I -- simplistic
7 -- he simplifies the complex and, therefore, makes it
8 practical. So, this is -- and he didn't -- this is
9 Dr. Donald Raymond. So, Don had a private -- public
10 markets rather at CPP Investments. While I was there,
11 we overlapped for about four (4) years, I think.

12 And he borrowed the language of Grinold
13 and Kahan paper. A paper they published on active
14 management in 1999. I'm not sure if their professors
15 or simply academics. I think they were money managers
16 as well. It may have been both. I don't know, but
17 one of the things -- can you rotate this? I gave you
18 a heads-up. Can you rotate it a little bit? Yeah,
19 because I like to -- I like to always -- other way.
20 So yeah, keep going. That same rotation, one more
21 time, one more time. I think that's the way it --
22 yeah. Okay, so just show -- perfect.

23 So, I know we're not going to ask you
24 to lie down, but I always like going to the North West
25 Territories. We always want to go up and left.

1 Right. So just like your Efficient Frontiers, we want
2 more return, less risk. We want to be blessed.

3 There's four (4) types of managers, going from the
4 top. You're not lying down top right. We'll start at
5 three o'clock and go around the clock, clockwise.

6 You've got blessed managers who are
7 skilled, but have been lucky. I would put Don in that
8 category, brilliant man. And I think he's been lucky.

9 Forlorn, I don't know, I think I'm
10 smart, but maybe I'm unlucky. You might feel the same
11 as it relates to what you do for a living.

12 Doomed is -- is the manager who has
13 neither skill nor luck. I have a name for that
14 person. It's Homer Simpson. Right. So, this is
15 somebody who should not be in charge of a nuclear
16 power plant. No skill, very unlucky. That's why the
17 story's funny.

18 And then there's the insufferable
19 managers who, despite having no skill, have been very
20 lucky, right? I think in my -- in my speak, I think
21 of -- the way I think of the next thing I'm about to
22 talk about is, in terms of flipping a coin.

23 So, if you're at a wedding, and you
24 have two hundred fifty (250) guests, if you play the
25 game of, do you guess heads or tails, you flip the

1 coin, all the two hundred fifty (250) guests stand up
2 and you either pick heads, or you put your hands on
3 your hips, and say tails; after one round, half (1/2)
4 the people roughly not exactly will have picked
5 right. So, you go from two hundred (250) guests
6 standing, to a hundred and twenty-five, (125) to half
7 (1/2) of that.

8 And after a few rounds, you've got one
9 (1) person standing after 7, 8, 9 flips, whatever.
10 They have no skill and they've just been lucky. And
11 yet, that's the performance we see in value added.

12 Our challenge is to know, does that
13 person have skill in picking the outcomes or -- or are
14 they just flipping coins? And we just haven't waited
15 long enough to see that this is just a random process.
16 And that's essentially as simple as I can make what
17 we're trying to do as -- as me supporting Interveners.

18 We can flip this back so we're not
19 lying on our slides again. Thank you. If we go to
20 the next slide. Here, Don's just describing what I
21 just said. If we go down to the next slide, that's
22 figure 1. This is where the square root comes in. Go
23 to figure 2.

24 So, figure 2 is simply taking this
25 information ratio, the speed that we observe at

1 different times. At times zero, we don't have any
2 history. We don't have any value-added history.
3 We've just started the fund say, and the quality
4 factor that this measured is, essentially, a
5 probability.

6 And we know probabilities range from
7 zero to a 100 percent. And what we -- all we have is
8 a sequence of years, or periods, going from no
9 periods, no performance, to one year, two years to 10
10 years. And this is just an example. The numbers are
11 based on an equation, but the 2.0 is a very skilled
12 manager, or we're presumed to have skill.

13 And after one period, it's almost
14 certain that, given that information ratio that's
15 realized over one year, that it's more likely that
16 that was -- given that they had a high value added in
17 the numerator, and a low tracking error in the
18 denominator, but somehow that ratio was big. It's
19 more likely that they're skilled and not just lucky.
20 They're not flipping coins.

21 If you go to the next slide, we don't
22 want to go into the proof of this thing. But,
23 ultimately, this is what Don's paper says, and this is
24 how he -- he compensated his external managers. He
25 basically had this system where, first we had to

1 develop, -- well, we had to monitor their performance,
2 but, ultimately, he engaged them on the basis of
3 whether they wanted to stick their necks out, in terms
4 of base fees, et cetera.

5 But that's -- that's going to be
6 relevant for here -- but the punchline is, we start at
7 the very bottom with a quality factor of 50 percent
8 with no performance. Any manager or fund like MPI or
9 any other institutional investor, we've got to assume
10 that they're just flipping quarters. There's a 50
11 percent probably they have skill; over time, we have
12 some performance; and then we're going to get some
13 confidence that they're either skilled or unskilled
14 based on the numerator and denominator size. We'll go
15 to the next slide, please.

16 And so, the only comment, I -- I think
17 I've already made this comment so we can really skip
18 it. It's really in the context of this fund, we don't
19 have a lot of private equities, but there are these
20 things called MUSH Bonds, and they're private. I
21 haven't looked at it. It's sort of beyond scope.

22 There are other things that we have
23 looked at, but one of the questions I would ask in the
24 future, for example, if you go to the next slide is,
25 when you look at the performance -- and maybe you can

1 blow up the far right. You can see this is the same
2 approach I use. So, there's the middle column where
3 I've highlighted in yellow, that's the security
4 selection. That's looking at, given the policy weight
5 WB, what was the Alpha?

6 So, for each asset class in the case of
7 bonds non-marketable, I'm looking at it. My
8 eyesight's terrible. Is it about 8.93 percent in
9 2002? That's a huge outperformance, but there was
10 only 20 percent of the portfolio. So, the
11 contribution was only 179 basis points. That's the
12 yellow.

13 But if you look at the -- excuse me,
14 the yellow down the column, those are big numbers.
15 And in the end, maybe let's go down to the bottom left
16 boxes, that summarizes -- so the colours co --
17 correspond in the bottom big box, to those on the far
18 right. So, there's yellow or purple.

19 The yellow is what the MUSH bond
20 portfolio did for just security selection. It's
21 taking what Alpha they had in that asset class, and
22 then multiplying it by the 20 percent weight. It's
23 not giving them any credit for being overweight or
24 underweight, that's -- that's the other column, the
25 asset allocation effect. But what this says is

1 basically that if you go to the very bottom, there's-
2 there's a row cutoff. If you could make it a little
3 smal -- yeah.

4 The average, if you focus on the
5 bottom, I've just basically said, what proportion of
6 the total basic purple claims alpha value added, 92
7 basis points. How much of it came from the MUSH
8 security selection? And it's -- it's a lot.

9 It's stood out to me, and not only do
10 you have to look at bad outcomes, but we have to look
11 at the really good ones and say, hey, maybe there's
12 something there I want to make sure it -- it's true
13 quality, or are we -- the only question I have, is
14 there -- when -- whenever I see non-marketable, I had
15 non-marketable bonds that on Ontario Teachers, non-
16 marketable bonds at Canada Pension Plan. We did our
17 best to value them but, ultimately, till you sell
18 them, you don't know what they're really worth.

19 So, because returns depend on
20 valuations, I would just question the quality of the
21 performance, only in so far as I want to make sure
22 that the valuation processes are reasonable. That's
23 the only thing I want to comment there about.

24 And then I think I put a footnote on
25 this one related or somewhere else. I did put a

1 footnote. You don't have to go to it, but it related
2 to the benchmarks. Make sure that they're -- they
3 have good qualities of benchmarks. And as far as I
4 can see MPI's chosen benchmarks that are investible,
5 and they have all these attributes that are -- are
6 good.

7 Now, so in terms of the conclusions for
8 focused, again, just on active management in
9 isolation, ultimately, the performance paper simply
10 just said it would be nice to have, 'A' the
11 information, and 'B' the framework, we did develop or
12 proposed was a simple one just for illustration, but
13 it's good enough. It might be a Pinto. We don't need
14 a Mercedes.

15 It's going to be informative. We
16 didn't have the time or desire. It's not worth going
17 through and looking at longer history, monthly data,
18 but I think in a steady state, that's the kind of
19 information that's useful and it's available.

20 So, we propose or recommend that for
21 total portfolio -- we do this for the other
22 portfolios, for the bond portfolio, for example. The
23 manager, we -- we do get reporting of their security
24 selection and other effects. We just say total
25 portfolio should be the focus, not any single manager,

1 even though that's single manager's performance
2 attribution is helpful.

3 We want to focus on total portfolio.
4 Those three (3) that I mentioned: Basic claims, the
5 RSR and the pension portfolio, EFB. And again, just
6 something simple. And -- and again, because we've
7 talked about tracking error in response to the PUB's
8 questions about that. If we have the performance, the
9 value added, the tracking error, which is simply the
10 volatility or standard deviation of that value added
11 that's available.

12 That information ratio represents a --
13 a -- it wi -- it is related to the probability that
14 over time it is due to skill. And that is an
15 important number to have from a governance
16 perspective, from I think a regulatory oversight
17 perspective, as an Intervener perspective. And I
18 think that's -- brings us to 19.

19 So, 21 was not -- wait, you're a lawyer
20 not a -- you're quant guy picked it out. Good, thank
21 you. So, page 21, if I could jump to it.

22 So, the -- if -- if -- if we were asked
23 to implement a system -- I mean, the simple quick
24 cheaper solution is to simply use the data we have.
25 The simple technology that's required in Excel

1 spreadsheet, and simply fine-tune it to go back as far
2 as is reasonable. Four (4) years isn't as long a
3 period of time as would be ideal. So, the minimum,
4 and have the granularity at a monthly basis, twelve
5 (12) observations in a year, not two (2).

6 When I crunched the numbers in the
7 paper, I used ending period, only one month, the end
8 of the month -- end of the year rather, March for
9 simplicity. I wanted the math to be simple. I didn't
10 want you to -- if you wanted to torture the numbers, I
11 didn't want you to take the average of the beginning
12 year, end the year. I just kept it simple. Use the
13 end.

14 My numbers would've been a little more
15 accurate if I'd used the beginning, and the average
16 weight of the asset class. But, if you do monthly,
17 the adjustment factor, I -- I calculated based on the
18 fact that we don't have as granular a data as we'd
19 like; that will go to a much smaller number. The
20 alternative is you buy the Cadillac. You've got to do
21 a search. It's going to take you a while. I don't
22 recommend that. I don't think you need that.

23 MR. CHRIS KLASSEN: Thank you. Mr.
24 Viola. Ms. Schubert, if you could take us briefly to
25 page 10 of Mr. Viola's presentation, and we'll see

1 when the transcript comes out later tonight, Mr.
2 Viola, but I may have heard you refer to the data that
3 you used in preparing this slide as being from 2002.

4 But you'll confirm that this data is
5 from the Basic claims portfolio in 2022, correct?

6 MR. VALTER VIOLA: Oh, sorry. Yes,
7 2022, sorry.

8 MR. CHRIS KLASSEN: And the only
9 reason I ask is for purpose of clarity in the
10 transcript.

11 MR. CHRIS KLASSEN: And, lastly, Ms.
12 Schubert, if we could go to Exhibit CC 7, which was
13 Mr. Viola's report and page 4 of that document under
14 the heading, 'Statement of Independence'.

15 And, Mr. Viola, you'll just confirm
16 that before you, you've got a page from the report
17 that you prepared and filed in September?

18 MR. VALTER VIOLA: Yes.

19 MR. CHRIS KLASSEN: And you'll confirm
20 that in this section on the page before us, it states
21 and confirms that you're participating here as an
22 independent witness. Correct?

23 MR. VALTER VIOLA: Yes.

24 MR. CHRIS KLASSEN: Thanks very much.
25 Madam Chair, that will conclude the direct

1 presentation. Thank you.

2 PANEL CHAIRPERSON: Thank you very
3 much, Mr. Klassen. I note that there is a slide 30.
4 I don't know whether it's something that you wish to
5 speak to, Mr. Viola, and it was not one of the slides
6 that you mentioned, Mr. Scarfone.

7 MR. VALTER VIOLA: I'm happy to speak
8 to it. It was simply a reference. I didn't -- I
9 didn't talk to slide 4, which I skipped or was -- just
10 -- I skipped it. Slide 4 makes reference to my past
11 appearance before the committee, before the Board.
12 And these are just references. If you click the
13 hyperlinks, it'll take you to the PUB's website where
14 my past two (2) evidence papers, which were focused on
15 the passive asset mixed decisions following various
16 studies, those are there along with the testimonies I
17 made before the committee. But again, that's what
18 those are for.

19 PANEL CHAIRPERSON: Thank you, Mr.
20 Viola.

21 MR. VALTER VIOLA: You're welcome.

22 PANEL CHAIRPERSON: Given the time I
23 propose that we adjourn now and start tomorrow morning
24 with cross-examination by PUB followed by -- I'm
25 sorry, MPI followed by PUB and CMMG.

1 So, we'll see everybody tomorrow
2 morning. Thank you.

3 MR. VALTER VIOLA: Thank you.

4

5 --- Upon adjourning at 4:17 p.m.

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9 Certified Correct,

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14 Wendy Woodworth, Ms.

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