MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE COMPANY (MPI)
GENERAL RATE APPLICATION
FOR 2012/13 INSURANCE YEAR

Before Board Panel:

Susan Proven - Board Chairman
Len Evans - Board Member
Regis Gosselin - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 435 to 666

APPEARANCES

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Raymond Oakes	)CMMG
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Jerry Kruk	)
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--- Upon commencing at 9:30 a.m.

THE CHAIRPERSON: Good morning, everyone. Ms. Grammond, I see there are some new people in the room. So I wondered if perhaps you'd like to make some introductions before you proceed this morning?

MS. CANDACE GRAMMOND: Sure. Thank you, Madam Chair, for that suggestion.

To my right, is Bryan Pelly, he's the actuarial advisor to the Board. He's from Eckler Partners. So he'll be with us for a couple of days. And to my left is Nicole Hamilton, she's my colleague from Pitblado and she'll be doing some cross-examination of MPI tomorrow on some operating expense and capital expenditure matters.

Maybe, before we get started, Madam Chair, I'll just let everyone know. I was just having a chat with Ms. Kalinowsky and Mr. Williams with respect to the witnesses for next week. There may be some rejigging of the schedule. We're gonna have to chat and Mr. Oakes is now here. We'd like to have a chat on the break among the -- the lawyers about that and then we'll report back to the Board with respect to any possible changes and when some of the external witnesses will be called.

THE CHAIRPERSON: Thank you very much.

Proceed.

MPI PANEL:

MARILYN MCLAREN, Resumed

DONALD PALMER, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you, Madam Chair. Okay. I'm gonna begin with some questions about claims experience. And we talked about this a little bit last week, but I want to look at the last -- the experience in the last few years. So I'm going to ask you to go to Tab 6, of the book of documents. This is TI-11. This is the document that compares the forecast for last fiscal year, 2010/'11, as presented at last year's GRA with the actual number experienced in that year.

And in particular, Mr. Palmer, I assume this will be for you. I'm going to ask you to go to Schedule 1 of TI-11, which is found at page 4 of Tab 6 in the book of documents.

So this schedule particularly reflects the PIPP and claims experience for that year. I'd ask you to go, Mr. Palmer, to the right-hand side of the page entitled "Claims Incurred." And if you can comment on the -- the numbers that we see there that give rise to a fairly significant change in terms of forecast to actual?

MR. DONALD PALMER: Yes, the total variance was $286.1 million. In fact, more of -- than that total amount was made up of the difference within PIPP. And, as we have discussed, over the last several months there was a large release in PIPP reserves that happened at the evaluation at October 31 and then continued, held until the end of the year. And that was largely the reason for the $224.9 million for PIPP prior years.

MS. CANDACE GRAMMOND: Thank you. So as you testified, there's that adjustment. There was also a PIPP current year adjustment for 79 million. And taking those together with the other coverages the -- the total result was a positive variance of 286 million?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: Thank you. I'll ask you to turn over then to the next tab in the book of documents, which is Tab 7. This is where we fine TI-12, which is for the current year, the 2011/'12 fiscal year that reflects a comparison of the figures presented at last year's GRA compared with the numbers now presented for the current year.

And, again, I'll ask you to go, Mr.

Palmer, to Schedule 1, which is a similar type of document that we were just looking at although be it for the -- the next year. And we see in this schedule there is a significant adjustment for PIPP current year, and that's reflected at some 56 billion. Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And, again, taking into adjustment -- or taking into account adjustments for other coverages, the overall adjustment is about 62 million, as reflected at the -- the bottom of the column?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And what were the driving factors behind, in particular, the 56 billion adjustment -- mi -- million dollar adjustment in PIPP?

MR. DONALD PALMER: There's two (2) sources of -- of that change. 1) Because our forecasts are so inextricably linked with our IBNR review of li -- liabilities, when the ultimate values of the prior years was adjusted downwards, that also means your basis is a lower amount, so projecting forward is also a lower amount. So -- so that impacts your claims going forward.

The other adjustment that we made to our PIPP forecasts is the percentage of injury claims to collision claims has been dropping over the last number of years. We've seen that, and we've revised the forecast. Essentially, the -- the slope of the line going forward is now lower than it formerly was.

MS. CANDACE GRAMMOND: And does the Corporation have any knowledge of why that ratio is dropping at this stage?

MR. DONALD PALMER: Not specifically. There have been some theories, and this isn't something that we are just experiencing in Manitoba, but this is something that has been experienced throughout the industry. ICBC has made a presentation actually at last year's Casualty Actuarial Society annual meeting on the decrease of injury claims that they were seeing.

There was also another presentation at that same -- same meeting from insurers from the US. One (1) of the theories is demographics, that there are more and more people in the fifty (50) to sixty-five (65) years that have the lowest injury frequency. That was one (1) thing.

The -- the other theory is construction of automobiles. There's a lot more safety features, so with airbags, or not just one (1) set of airba -- airbags, but in -- some vehicles have up to twelve (12) sets of airbags. There are other different crash components as well that have improved. So -- so those are the two (2) theories that have been put forward.

And to exactly have that linkage, I don't have that definitive causal relationship, but they're -- they're pretty good theories.

MS. CANDACE GRAMMOND: Thank you. And we already discussed last week for the current year that the forecast -- sorry, not for the current year, but for the year of the application, the current forecast has changed by about 24 billion over that presented last year?

MR. DONALD PALMER: Yes, that sounds about right.

MS. CANDACE GRAMMOND: So that's a -- a less significant variance than for current year, or the 2010/'11 year that we've just discussed. I -- I gather then that the Corporation is not projecting very large variances going forward as we saw in here, TI-11 and TI-12?

(BRIEF PAUSE)

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. Thank you. Related to claims costs, but sort of a specific issue, there was a -- a media release on Friday, just this past Friday, October 7th, I have a copy of it if you -- if you want to see it. But it was a -- a media release from the province advising that there are going to be changes to the Highway Traffic Act that will require less reporting to police of collisions.

Is that something that you're familiar with?

MS. MARILYN MCLAREN: Yes, we're reasonably familiar with it.

MS. CANDACE GRAMMOND: So my question was, does the Corporation expect any change in claims frequency arising from that change in reporting to police?

MS. MARILYN MCLAREN: No, not at all.

MS. CANDACE GRAMMOND: Thank you. Last week we spoke about the Board's recommendation to the Corporation that it come forward with considerations or ideas for changes to Basic coverage, and we spoke about the Corporation's position on that.

Is -- is the Corporation aware of any pending changes to Basic coverage at this stage that it's willing to discuss with the Board?

MS. MARILYN MCLAREN: I'm not aware of any.

MS. CANDACE GRAMMOND: Another piece relating to claims experience that comes up from time to time in this proceeding is the piece of the coverage that extends to all Manitobans when -- when they're hurt in a motor vehicle related accident in North America.

Do you have an indication or can -- can you give the Board an idea of what typically the Corporation has paid out year over year for those kinds of claims? So that's individuals that don't have a registered vehicle that haven't experienced that -- for which they received PIPP benefits?

And if you want to give me an undertaking that would be fine.

MS. MARILYN MCLAREN: Yeah, maybe for the record Manitobans by virtue of their residency are eligible for benefits under the Personal Injury Protection Plan if they're hurt by automobiles anywhere in Canada and the US.

So the vast, vast majority of our claimants, our injury claimants clearly have a driver licence and usually a vehicle registered and insured as well. But occasionally there will be a child, maybe their parents don't have a vehicle, maybe seniors who have given up their driver's licence, something like that.

I can remember a case a few -- quite a few years ago now of a young child that was badly, badly hurt in Montana, a Manitoban, they were visiting with her family. And at -- at the time that was one (1) of our larger PIPP claims, but clearly she was not a policyholder under the traditional sense of the word.

I'm -- I'm not sure the extent to which we slice and dice the data, because, you know, under the legislation they are entitled. They do have access to benefits. So the extent to which we've paid claims to people who meet that definition under the Act and may not have a driver licence, I'm -- I'm not sure we can do that, but we'll certainly go back and check.

MS. CANDACE GRAMMOND: Thank you. I think -- so that's an undertaking, Ms. McLaren, to check?

MS. MARILYN MCLAREN: Yes.

--- UNDERTAKING NO. 4: MPI to indicate what the Corporation typically has paid out year-over-year for those claims involving individuals that don't have a registered vehicle for which they received PIPP benefits

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. I'm going to shift then to a discussion about the

Corporation's reinsured coverage. And to that end I'm going to ask you to look, Mr. Palmer, I assume this will be you, at PUB/MPI-1-99. It's not in the book so we'll maybe take a minute to find PUB/MPI-1-99.

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: Thank you. I'll just wait for the -- the Board to find it.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you. So just for context, there was a brief discussion about reinsurance on day 2 of the hearing. If anyone wants to know that was at pages 260 through 264 of the transcript. And at that time Ms. McLaren it -- it was with you the conversation related to the Corporation's risk profile, and you described the Corporation having two (2) components to the reinsurance: one (1) for catastrophe, which basically is hailstorms, and one (1) for casualty. That's right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: Okay. So if we

look at -- so now this can be for either of you but Mr. Palmer I'm assuming you'll take it. If we look at 1-99(f) there's a discussion there about how the Corporation establishes its reinsurance retentions. So if you could explain that process to the Board I'd appreciate it.

MR. DONALD PALMER: The establishment of the retentions is essentially it's a balance between what we have to pay for the coverage and what we're -- we can assume as a risk for the Corporation. So they're -- we do modelling on expected values of the claims and on a going-forward basis we have discussions with our reinsurance broker. They advise us with -- they have hail models that they use to determine likelihood of coverage and -- and what the possible size of events will be for both casualty reinsurance, the injury protection, and the catastrophe reinsurance.

So we have increased the retention on the catastrophe over the last number of years to -- our retention is now potentially $15 million with a bit of an adjustment and I'll -- and I'll come back to that in a minute. Essentially a level that would not be an unexpected hailstorm. We've seen hailstorms of that magnitude and with the financial health of the organization right now it's -- claims of that magnitude that we feel that we can afford and have built in to our rates on an ongoing basis.

We have had some difficulty placing our re-insurance coverage on the 10 x 15 layer and the 25 x 25 layer and have had some pricing pressures so we couldn't get enough insurers to participate in the layer of the 10 x 15. So we have retained, co-insured essentially, a slice of that -- that particular layer.

MS. CANDACE GRAMMOND: Thank you. Okay. So you spoke, Mr. Palmer, about considering the -- the cost, the coverage, discussions with brokers. I take it as well that the -- the Corporation considers its risk profile when considering reinsurance purchases?

MR. DONALD PALMER: Yeah. Yes, we do.

MS. CANDACE GRAMMOND: As well, the Corporation considers its internal claims forecasts, as well as stochastic modelling at its DCAT analysis?

MR. DONALD PALMER: The latter two (2), yes. The claims forecasting -- struggling with that just a little bit, given that, by definition, the kinds of claims that arise -- would arise to a reinsurance claim, would be out of the ordinary. So, it's not a -- a size of a claim that we would norm -- normally anticipate.

We don't build in that we'll have a $200 million hailstorm. We don't build in that we will have unusual injury events where there's several people injured in -- in one (1) particular accident. We haven't seen that very often in -- in our history and on a going-forward basis, given a -- a one (1) year forecast, we wouldn't necessarily have that built in.

So, we do know it's possible. We do know there's a risk and that's why we buy the coverage, but as part of the claims forecasting, not really.

MS. CANDACE GRAMMOND: Let's talk for a moment about the relationship between reinsurance levels and the -- and the RSR levels. Would it be the case that ample or even excess reinsurance coverage would reduce the need for funds in the RSR?

MR. DONALD PALMER: Yes, I would agree with that.

MS. CANDACE GRAMMOND: Okay. Let's look at 1-99(b). This is a reflection from this year to last year, of the various layers of coverage and the costs for the premiums for reinsurance, is that right?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And if we look at the third chart, which is actually on page 4 of this answer, that reflects the -- the difference year over year, so that's from last year, the 2011 GRA, to this year, the 2012 GRA in -- in premium costs, is that right?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: So in the current year, 2011/'12, the Corporation's paid out 5.6 million less for reinsurance coverage than it did last year. Is that right?

MR. DONALD PALMER: Yes, but there's one (1) very significant reason for that. We have changed our treaty year. We have, in the past, bought our policies to be effective January 1 to January 1. And there are some administrative issues with -- with doing that in terms of -- of keeping track of more than one (1) year.

So we have decided to match our treaty year with our fiscal year. We earn the premiums just on a pro rata basis and this year, as we changed the catastrophe coverage, we actually went bare on our coverage for January and February. So that -- the fact that we didn't have two (2) months' coverage means that your premiums -- you saved that two (2) months' premiums, essentially.

We had talked about that in terms of our own risk pri -- profile. Given that, for our catastrophe reinsurance, our two (2) main perils are hail and flood. The risk -- the added risk in January and February, in Manitoba for those two (2) peri -- perils wasn't significant. And so we decided to go bare -- bare on that coverage and -- and place the -- the treaties March 1st.

MS. CANDACE GRAMMOND: And when you say, "we went bare on the coverage." That means the coverage was less or the coverage was not there?

MR. DONALD PALMER: The coverage that we purchased was not there. Now, again, there's always complexities in reinsurance treaties. We do purchase our catastrophe coverage on a three (3) year rolling basis, so we buy a third of the coverage for each of the la -- next three (3) years.

So, for January and February of this year we in fact had two thirds (2/3s) coverage because we had bought the treaty last year and the year before to -- to cover that.

MS. CANDACE GRAMMOND: Okay. So it's not as though the Corporation's left with nothing during that two (2) month period?

MR. DONALD PALMER: That's correct. In addition, reason for the decrease in the -- in the catastrophe was that, as I mentioned, we have not been able to completely place all of the coverage on the 10 x 15 layer, and that also means that we pay less.

MS. CANDACE GRAMMOND: And according to

the -- the chart here on page 4 that we looked at, by 2013/'14 the premiums are anticipated to level off again, so that transition from the calendar year to fiscal year will be complete.

Is that fair to say?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: Okay. If we go to 1-99(c), which is on the -- the next page, this was a question -- so this is now page 5. This is a question that the Board had asked about claims as against reinsurance coverage, and the -- the Corporation has provided details of that.

So it appears that over the last ten (10) years there's been one (1) claim on the casualty side for about eighty thousand (80,000) in 2001?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And just so that we're clear for the record, what does the casualty coverage cover?

MR. DONALD PALMER: That would be injury claims. Now back in 2001 our retention was $2 million per -- per incident. So we would have had one (1) injury claim likely that was just slightly over that $2 million threshold.

Our retention now for injury claims is $5 million. Very unlikely that one (1) PIPP claim would exceed that $5 million threshold. So, the coverage essentially is what -- what we refer to as clash coverage, which means more than one (1) claimant in one (1) particular incident. So if you had a family that was all seriously injured, that -- that would be an example.

MS. CANDACE GRAMMOND: And do -- can you tell me how much the Corporation has paid out for the casualty reinsurance since 2001?

MR. DONALD PALMER: We -- not offhand, but we can certainly get that.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So that's an undertaking, Mr. Palmer?

MR. DONALD PALMER: Yes, it is. I -- I think it might be in the materials somewhere, but we'll certainly dig it out and -- and provide it.

MS. CANDACE GRAMMOND: Sure. Even if you just provide the reference, that would be fine.

--- UNDERTAKING NO. 5: MPI to indicate how much the Corporation has paid out for casualty reinsurance since

2001 (answered on page 486)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. And looking at the catastrophe side of the table we see that there have been three (3) years over the last ten (10) where there were claims made on the Corporation's catastrophe reinsurance.

Those would all relate to hail claims?

MR. DONALD PALMER: That's correct. The 2001 storm went through a little part of Winnipeg. The 2007 storm, most of the claims we got were in the Dauphin area. And in the 2009 storm most of the claims were in the Brandon area.

MS. CANDACE GRAMMOND: Thank you. Just one (1) moment, Madam Chair.

(BRIEF PAUSE)

MR. REGIS GOSSELIN: Can I ask a question before -- before we move on? Particularly in relation to the book of documents, Section 6, page 4, and this is in relation to the schedule -- schedule that talks to the actual versus revised forecast. I'm trying to wrap my head around the -- the significant difference between numbers in relation to the PIPP current year.

So the revised forecast projected 2 -- 244 million and the actual was one sixty-five (165), for a difference of around eighty (80) thou -- 80 million. So I'm -- I'm just trying to understand. I can understand there was an adjustment to prior years, but I'm not quite sure why there was such a wide difference in the actual versus forecast.

MR. DONALD PALMER: On -- specifically on the current year claims you're talking about?

MR. REGIS GOSSELIN: That's right.

MR. DONALD PALMER: With the way that we have approached forecasting, is taking the results from the actuarial review, which is just -- talking in -- in fairly broad terms on that actuarial review. When you take a look at all previous -- previous accident years, and we know what the -- claims have been reported to -- to date, and then we take the difference between that and we project out to an ultimate value for each accident year. And the difference between that ultimate value and the amount that's been reported to us to date is incurred but not reported, IBNR.

When we have looked at that review and then projected out into the future, and that's really the basis of our claims forecast, if your base is overstated, as ours was, you will also overstate the forecast going forward. And -- and that's basically what happened.

You will also get some amount of variance from year to year whether you have a good winter or a bad winter. So there will be some expected variance from time to time, but the main -- the main source of that difference would be just our projections were based on a higher historical base. If we brought that down and -- and that will mean lower forecasts going forward.

THE CHAIRPERSON: Thank you. Are you ready?

MS. CANDACE GRAMMOND: Yes, thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Mr. Palmer, just one (1) follow-up question before we leave reinsurance. I had asked about whether internal claims forecasts were a consideration to the Corporation in buying reinsurance. And you explained the reasons why you thought not so much that that was the case.

But I -- just so that we -- we understand, in response to one (1) of the IRs posed by CAC, which was 1-124, and that -- that won't be in -- in the book, that'll just stand on its own, CAC/MPI-1-124.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: The Corporation -- or pardon me, the Board had asked -- pardon me, CAC, Mr. Williams, had asked whether the Corporation had considered using information obtained from running the stochastic model to make reinsurance buying decisions and the Corporation replied by saying, Corporation's internal claims forecast, stochastic modelling, and DCAT analysis are already included as considerations in the Corporation's reinsurance buying decision.

So I'm not sure that I understand your earlier answer. Could you clarify that?

MR. DONALD PALMER: Sure. It would be a consideration, but I would say a peripheral consideration.

MS. CANDACE GRAMMOND: Thank you. Okay. I'm going to move then to a -- a different area of cross-examination that deals with the business process review. That was a process that was undertaken in 2005/2006. Is that right?

MS. MARILYN MCLAREN: Sorry, could you repeat the question?

MS. CANDACE GRAMMOND: Yeah, just that the -- the business process review was a process that was initiated in 2005/2006?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And it included a number of initiatives all list, at least some of them, the PIPP infrastructure study, the new service centres, the driver's safety rating, the streamlines renewal process/one-part driver's licences, the enterprise data warehouse, and then as well, project management going along with each of those.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And we know that now the PIPP infrastructure study, the driver safety rating program, and the streamlined renewal process are completed and up and running?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And two (2) of those, namely, the PIPP infrastructure study and the driver safety rating program were funding a hundred percent by Basic?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: Whereas the streamlined renewal process and the enterprise data warehouse were funded partially by Basic?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE GRAMMOND: And then, as I mentioned, we'll see when we go to some of the documents that there were -- there was project management costs that were incurred and then allocated to each of those projects based on the time spent?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: Now there were also some projects that were non-Basic under the business process review.

That's right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And those were the enhanced driver's licences and as well as mainframe decommissioning?

MS. MARILYN MCLAREN: And one (1) part driver licences and the conversion of existing claim centres into service centres.

MS. CANDACE GRAMMOND: And the costs of those projects, so enhanced driver's licences, mainframe decommissioning, one (1) part driver's licences and service centres were not charged to Basic?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE GRAMMOND: and just as an aside there's reference as well to the materials to "DART," D-A-R-T. What does that stand for?

MS. MARILYN MCLAREN: Yeah. The acronym stands for: Driving Ahead in Real Time. And it talks about -- it -- what -- what the heart of the project is is getting rid of the old mainframe computer system. Again, this is a -- a legacy division of driver/vehicle licensing system and under the allocation rules in place when the business process review projects were initiated none of that would be charged to Basic as well.

MS. CANDACE GRAMMOND: Okay. Thank you.

So, I'm gonna ask you then to go to the annual report which is at AI-7.

(BRIEF PAUSE)

THE CHAIRPERSON: Where are we now? Oh, in the report?

MS. CANDACE GRAMMOND: Yes, AI-7.

THE CHAIRPERSON: In the annual report?

MS. CANDACE GRAMMOND: Yeah. It's part --

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: -- of AI-7. It's the Corporation's annual report.

THE CHAIRPERSON: Right.

MS. CANDACE GRAMMOND: It's the bound booklet with a colour cover.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. Everard, what page?

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Page 33 is where I'm gonna go. So this is in -- sorry, AI-7 is in Volume III, Part 1. It's one of the thin binders. Thank you.

Okay. So, Ms. McLaren, we know that the BPR, business process review projects, that are non-Basic are funded by the extension development fund.

Is that right?

THE CHAIRPERSON: Ms. Grammond, what page are you on now?

MS. CANDACE GRAMMOND: Sorry, 33.

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: Page 33.

THE CHAIRPERSON: Thanks.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. MARILYN MCLAREN: That's right, business process review projects not funded by Basic were funded from the extension development fund.

MS. CANDACE GRAMMOND: So it's provided

here on page 33 under the heading of "Retained Earnings." This is in the context of the extension line of business that, and this is in the second paragraph under "Retained Earnings," from its inception in 2007 to 2010, 91.7 million has been appropriated from extension retained earnings and special risk extension retained earnings to fund the EDF projects.

That's right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And we see continuing down in that paragraph looking at the very last part of that paragraph that the activity to February 28th of 2011 has reduced the EDF to 43.2 million.

MS. MARILYN MCLAREN: Yes, that's what it says. Yes.

MS. CANDACE GRAMMOND: So the difference then, about 48.5 million, has been expended?

MS. MARILYN MCLAREN: Yes, approximately. Yes.

MS. CANDACE GRAMMOND: And the -- will the Corporation provide details of those expenditures to the Board?

MS. MARILYN MCLAREN: No, as -- as you started, and you can see on page 32, towards the end of the first column, all of this section in the annual rep -

- the Corporation's annual report, is about the extension line of business and is not relevant to Basic rate setting.

MS. CANDACE GRAMMOND: I take it that you would give me the same answer with respect to the future plans for the extension development fund?

MS. MARILYN MCLAREN: Future plans with respect to any of the non-basic lines of business is really at the heart of the issue before the Court of Appeal.

MS. CANDACE GRAMMOND: Okay. So we see then from this that, just under 50 million has been spent from the extension development fund. 91.7 million was set aside. So if we wanted to know overall to the Corporation, what the expenditures were, we'd have to add what's been spent in Basic. That's right?

MS. MARILYN MCLAREN: The total corporate cost of all the projects that you referenced at the beginning of -- of this section of your cross, would require that, yes.

MS. CANDACE GRAMMOND: Okay. I'm going to ask you then, to go to one (1) of the IRs that the Board posed in the First Round. It's number 63. It's not in the book of documents. So this is PUB/MPI-1-63.

MS. MARILYN MCLAREN: I have it.

MS. CANDACE GRAMMOND: Okay. So this -- at 63(a), the Board had asked for a schedule of all BPR projects. The Corporation provided at 1-63(a), overall corporate costs that had a Basic component and then the -- the Basic pieces of the business process review. Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And I take it that the numbers that we're looking at here in 1-63(a), are external costs to the Corporation -- do -- does not include internal costs?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: If you could just give us a second.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: It -- it might be of assistance -- I -- I think Schedule A, or 1-63(a) is external expenses. 1-63(b) is entitled "Internal and External." So I -- I think 'A' is just external, but -- if that helps.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Yes, agreed. Thank you.

MS. CANDACE GRAMMOND: Okay. So just so that we're clear. These documents at 1-63, do not include any of the projects that were not at all charged to Basic?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE GRAMMOND: And the amounts that are listed would have been expensed in the fiscal years in which they were incurred?

MS. MARILYN MCLAREN: That's right. Yes.

MS. CANDACE GRAMMOND: Okay. So if 1-63(a) is external costs, and 'B' -- 1-63(b) is internal and external, then the amounts in 'A' are effectively included in what we see at 'B'.

MS. MARILYN MCLAREN: Yes, that's correct.

MS. CANDACE GRAMMOND: Okay. So let's look at 'B' then, and review some of the numbers. For the driver's safety rating line -- so I'm -- I'm looking at basic, because it's of course the same. If we look at 1-63(b) we see the amounts for DSR are the same for corporate and Basic, because it was 100 percent allocated. It looks as though, from '06/'07, through to 2010/'11, the cost of DSR is about seven (7) and a half million. I've -- I've just added up the -- the five (5) numbers going across the chart.

MS. MARILYN MCLAREN: That -- that's -- yes. That's about right.

MS. CANDACE GRAMMOND: And, with respect to the PIPP infrastructure study, again we see the same numbers in both charts, because that one (1) was 100 percent allocated to Basic. So adding the four (4) numbers that go across from '07/'08 to '10/'11, we see the total cost about 25.6 million? And again, that number doesn't appear there. I've just added that.

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: Okay. With respect to the streamlined renewal project there was a split in terms of allocation to Basic, not -- not a hundred percent of the costs were allocated. But we see here three (3) numbers from '08/'09 to '10/'11. That's on the la -- last line item of the chart. Those three (3) numbers add to about 4 million. Is that right?

MS. MARILYN MCLAREN: Yes. Subject to check, yes.

MS. CANDACE GRAMMOND: And that would be about an 80 percent allocation because it looks like the overall corporate costs were about 5 million?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And it's my understanding that that allocation for the streamline renewal project of 80 percent, 20 percent was based on revenue dollars. Is that right?

MS. MARILYN MCLAREN: Yes, that's correct.

MS. CANDACE GRAMMOND: Now we see going back to 1-63(b), or staying with 1-63(b), we see the project management costs, which are the first line item in the -- the chart. And the total corporate, if we look at the top chart, appears to be about 30.8 million. And again, that's adding -- adding all of the total costs across the top?

MS. MARILYN MCLAREN: Subject to check, yes.

MS. CANDACE GRAMMOND: And we see in the second chart about 9.4 million of that is allocated to Basic from '07/'08 to 2010/'11?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And that -- so that would be about 30 percent?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And the project

management, as we spoke about, has been allocated on the basis of time spent on each project?

MS. MARILYN MCLAREN: Yes, that's correct.

MS. CANDACE GRAMMOND: So let's talk about the -- the allocations for that. Where -- where can the Board draw comfort that those allocations for project management to Basic are the right ones?

MR. DONALD PALMER: The Basic annual report is audited. We have the allocation formulas that have been provided to this Board. The external auditor verifies those allocations and verifies the Basic statement. So it's part of the audit of the Basic annual report.

MS. CANDACE GRAMMOND: And I appreciate that the auditors are coming to testify next week. Do you have an understanding of to what extent they undergo that review? Do they -- do they interview management? Do they do more than that?

MR. DONALD PALMER: They go through all the standard auditing practices -- through generally accepted auditing standards. So they go through the complete audit of talking to staff and -- and going over the complete allocations project by project --

MS. CANDACE GRAMMOND: Okay.

MR. DONALD PALMER: -- and -- and right down to the transaction level, so all of the invoices, all of the bills, right -- right down to that lowest level.

MS. CANDACE GRAMMOND: Okay. And can you give us a description of what process or controls the Corporation uses when it is doing the allocation? Because, of course, the auditor's reviewing what the Corporation has done. So if you could describe a little bit about the process that the Corporation follows in -- in allocating that time for project management?

(BRIEF PAUSE)

MR. DONALD PALMER: The reports are provided on a monthly basis. They're verified. They're checked against the actual allocation policies, so it's -- it's an ongoing ba -- ongoing structure.

MS. MARILYN MCLAREN: And I can add that our staff working on projects use a project management system that requires them to track their time virtually on a daily basis. So the Board can be assured that we don't ask people four (4) months later, About how much time do you think you spent on 'A', 'B', or 'C'. They do it on a regular daily part of their work. They -- they document through the project management system how -- what -- on -- on where they spent their time.

So it would be clearly obvious to the accounting department which project it was, which aspect of the project it was. So it is -- is tracked at a really granular level on a very frequent basis, on pretty much a daily basis.

MS. CANDACE GRAMMOND: Thank you. Still speaking about the business process review, I'm going to ask you to go to AI-12. So that is going to be in Volume III, Part 1, where -- the same binder where we find the annual report. The very last document is AI-12.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So we've spoken about the three (3) business project -- process review projects that are complete, namely, the streamlined renewal process, the DSR, and the PIPP infrastructure study. And this is what the Corporation calls a preliminary but post-implementation review document.

Is that right?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And I gather that this is a document prepared by the Corporation, it's not prepared by an external person?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE GRAMMOND: And this review, I believe the evidence reflects, was led by the vice-president of Claims Control and Safety Operations for the Corporation?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And who is that person? What's their name?

MS. MARILYN MCLAREN: His name is Ted Hlynsky.

MS. CANDACE GRAMMOND: And he's a CA. Is that right?

MS. MARILYN MCLAREN: Yes, he is.

MS. CANDACE GRAMMOND: But I -- I gather that he personally is not the author of this document?

MS. MARILYN MCLAREN: No, the -- the document was prepared under his direction.

MS. CANDACE GRAMMOND: So he's sort of the person responsible for it if not the actual author?

MS. MARILYN MCLAREN: That's fair, yes.

MS. CANDACE GRAMMOND: So I gather then that it would -- the preparation of the document was sort of a team effort of a department under his direction. And that would be, I believe, the Policy Analysis unit of the Strategy and Innovation department?

MS. MARILYN MCLAREN: That's right. And that's -- that's not actually part of his division. To do a report like this you have to go back to the people who were directly involved in the projects too, because you -- you do it at a, again, a -- a granular level of detail that you need people who were directly involved with it.

The internal auditor was also very involved in providing input to both the process and the report itself to make sure that it would meet his expectations for a robust post-implementation review.

MS. CANDACE GRAMMOND: And --

DR. LEN EVANS: Basically -- basically, he's the editor.

MS. MARILYN MCLAREN: That's fair.

DR. LEN EVANS: Yeah.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Did the internal auditor or the internal audit department test the accuracy of the financial analysis that's here?

MS. MARILYN MCLAREN: I don't know whether the internal auditor actually performed the calculations, but I do know he asked a number of questions about how these would be substantiated and was shown the evidence to -- as to how they were substantiated -- substantiated.

MS. CANDACE GRAMMOND: Okay.

THE CHAIRPERSON: Ms. McLaren, I'm just wondering about, on page 15 there's some streamlining processes by auto-adjudication of low and no-touch claims. What are no-touch claims?

MS. MARILYN MCLAREN: A -- a good number of our injury claims are for nothing more than reimbursement of an ambulance expense.

THE CHAIRPERSON: Okay.

MS. MARILYN MCLAREN: Something very similar like that, which just really requires no case management. You know, it -- it's not something that we actually even have to have any contact with the claimant other than to say, Do you have any other ongoing needs, and if the answer is, No, it's over at that point.

THE CHAIRPERSON: Okay. So they may though incur a cost. Like an ambulance could be, what, two fifty (250), three (3), five hundred (500), who knows?

MS. MARILYN MCLAREN: Sure, rural areas may be more.

THE CHAIRPERSON: Right.

MS. MARILYN MCLAREN: Yeah.
THE CHAIRPERSON: Okay.
MS. MARILYN MCLAREN: Yeah.
THE CHAIRPERSON: So it's not -- it's not to do with value then, it's more to do with the fact that it's a paid expense that's over, kind of -- it's --
MS. MARILYN MCLAREN: Exactly.
THE CHAIRPERSON: Okay.
MS. MARILYN MCLAREN: Yes. Yeah. It -- it -- you know, there are claims where -- where really truly that's the only expense on the file is just reimbursement of the ambulance expense.
THE CHAIRPERSON: Okay. Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:
MS. CANDACE GRAMMOND: So, Ms. McLaren, just speaking about this document as a whole, I gather that its purpose was to examine the three (3) projects and determine how well the objectives for each of the three (3) projects was realized?
MS. MARILYN MCLAREN: Yes, or -- as of today, the ones that have not actually been realized, do we still have a reasonable expectation that they will be? Because, for example, with both the streamlined renewal we are not fully implemented. We have not hit the final

change to broker commissions, for example. And in terms of the injury claims management the -- the PIPP project, the cost savings are really expected to run out over several year -- several years yet into the future. But that's why it's called a preliminary post-implementation review, another one will be done at the very end of those time spans.

MS. CANDACE GRAMMOND: Okay. So the Corporation plans to do a final report once everything is fully implemented but -- as opposed to doing any additional interim reports?

MS. MARILYN MCLAREN: Right. But that doesn't -- you know, for the purposes of something labelled a post-implementation review this is a preliminary and there will be a final. There will not be anymore interim, but we certainly do get lots of interim reports about how things are going and what else we might like to do. And we keep our eye on this at all times but the formal post-implementation reviews would be this one and then a true final one.

MS. CANDACE GRAMMOND: And is it anticipated that the final report will be done by the Corporation again or will it be done by a third party?

MS. MARILYN MCLAREN: I would expect the Corporation would do it given that the -- particularly with respect to streamlined renewals, it's very transparent, it's very clear, and nothing really should muddy the water and require an independent third party.

With respect to PIPP, I think the -- the same is also true given the fact that we do have a little bit more external eyes on PIPP as it is because we have an external appointed actuary. And then, you know, the auditors look at -- at everything for all intents and purposes as well. But unless something really goes awry you can expect it would probably be internal again.

MS. CANDACE GRAMMOND: And when does the Corporation anticipate that the final report will be done?

MS. MARILYN MCLAREN: Well, I think it's about another four (4) years or so before we expect the window to close on the PIPP, so it'll probably be a while.

MS. CANDACE GRAMMOND: Okay. And we see -- and we'll go through some of the particulars here about comparisons between the budgeted amount versus actual. I take it that the numbers in the preliminary report are final in -- in those respects?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: Okay. So the first section that's dealt with here in the report is the streamlined renewal process. Can you just explain that process briefly for the Board? How that compares with the old system.

MS. MARILYN MCLAREN: Until 1995 everyone renewed their vehicle registration and their Basic compulsory Autopac and often extension before the 1st of March of every year. Everyone did it at the same time. In 1995 we staggered all these renewals through three hundred and sixty-five (365) days a year. On every calendar year about three thousand (3,000) Manitobans renew their registration and their Autopac.

What we wanted to do is take that a next step and renew the registration and insurance much like driver licences being enforced for longer periods of time. You can't do that quite as simply.

As, you know, in Alberta you can have a driver licence that's good for five (5) years or something like that, they don't have any insurance on it. It's critically important that, for both insurance, on driver's licences and vehicles we can rate people on an annual basis. So we had to have a way to sort of achieve the efficiencies of multi-year driver licences with the realities of Manitoba and our need to rate both drivers and vehicles every year.

And we introduced a process, took

legislative changes with -- with the support of -- of the legislature. We had lots of Act and Regulation changes to support this, but we basically made it so that every four (4) out of five (5) your Autopac renewal was really just like a payment.

We would rate drivers and vehicles every year but we would just send you a payment notice. You don't have to come in and get new documents. You don't have to come in and get new stickers. You don't have to get another driver licence, it was really just like a payment.

So what that did, when it was implemented about a year and a half ago -- started that process -- was really streamline the process for people and make it that much more simple. Because now they didn't have to go to a broker. They could simply just -- any other kind of people who are doing online banking or, you know, terminal banking, they could just make their Autopac payment just that way.

A -- a large percentage of our customers are on monthly payments. So they didn't have to do anything. Once a year we would send them a statement that says, you know, your forty-two dollar ($42) monthly payment has now changed to forty-one dollars and eighteen cents ($41.18), or something like that. And they had to take no action whatsoever.

So, that was a -- really an important process for us to -- for many years, in a number of different ways, including the introduction of the monthly payments, we've been really trying to reduce low-value transactions. Things that don't have a lot of value to Manitoba motorists.

And we knew the renewal was one (1) of those, because we know the vast, vast majority, 90 percent or more, make no changes. When it's time to come in and make their annual payment before we went to the streamlined process, they don't make the changes.

People make their -- their decisions about what kind of coverage they want, declaring their insurance use and all those other things that you do as part of your first registration, the first time you own that vehicle. And it just doesn't change regularly after that. Unless, of course, someone retires or, you know. It's a very simple classification system and going through that process every year of having to come in and sign all the forms and get new stickers and all of that, really had very low value.

So we've gotten rid of all of that. It's been really well received by the public. The project came in on time, on budget, achieved its objectives. And because we expect to take so much of that more cumbersome work out of broker's offices, the commissions payable to brokers have -- have been, and will continue to be, reduced to reflect the changes to the work that we expect to evolve in their offices.

MS. CANDACE GRAMMOND: Thank you.

MR. REGIS GOSSELIN: Just a follow-up question. So I haven't been to see my broker for a couple of years. He -- he would still get his commission? If he is -- if he -- is the broker that was identified on my file? I guess he still gets his commission even if I don't show up.

MS. MARILYN MCLAREN: Yes, exactly. At the reassessment date, which used to be the renewal when you had to go in there, the broker does receive the commission, even if you don't go there. And we -- we know -- we do a couple of things to make sure that we don't have very many Manitobans going for the full five (5) years without ever going to see a broker.

We know that most people move, or change their vehicle or something, on a fairly frequent basis. People that don't, we're able to get that information from our records and flag it to the brokers to say you may want to check in with, you know, these four (4) customers. It's been a while since they've been to see you. And that's not something we pay again for.

So, when we pay them -- much like a homeowner's policy, right. I mean, I don't -- I don't -- you know, my broker phones me and tells me how much they're going to put on my Visa, I don't have to go and do it all every year for my homeowner's policy. But they do have mechanisms to check in with me, and it's -- we really wanted to make it like that.

DR. LEN EVANS: Excuse me. I would understand therefore, that the income to the brokers would be shrinking because of this change. Has that -- does -- does that affect the viability of their operations?

MS. MARILYN MCLAREN: No, what -- actually what we've seen in the last little while, the -- the accord with the brokers was developed. We did work with the Insurance Brokers Association of Manitoba. The government embedded the new regulation -- the new compensation into regulation.

What we've seen over the last little while is their commission has grown a little more slowly. But we certainly don't believe viability is at issue. You know, we want to make sure that there -- just like we want to make sure that there's a strong, competent body shop industry in Manitoba, we have the same view of brokers. We know Manitobans largely choose brokers to -- to do this business. We don't want to do anything that acts -- that jeopardizes that access for Manitobans.

But we have no evidence that is going to be a -- in -- in fact, as part of the analysis that we did, we expected they -- they would never actually have less dollars coming into their businesses as they did back in -- I don't remember the exact date, maybe it was '07 or '09, something like that.

So it will certainly slow, and there is a staggered implementation and they have some time to make some adjustments. We have some time to work with Manitobans to make sure that that work actually does come out of their offices so that we're not paying them less but they're not doing any less. So we have to work together. We're very committed to work together.

But certainly they are not going to see a significant reduction in actual dollars as they did a few years ago and have got time to -- to accommodate and work with the changes.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Just on that, Ms. McLaren, I was going to ask the panel to go to the document that deals with broker commissions. It's at Tab

14 of the book of documents, so Tab 14 book of documents. It's PUB/MPI-1-9.

And if we look at the schedule at 1-9(a) it does reflect Basic commissions paid from -- or written rather, Basic commissions written from '08/'09 to 2014/'15. And we do appear to see a reduction in the -- the commissions being paid. Can you comment on that.

MS. MARILYN MCLAREN: Basic absolutely is expected to decrease. I was talking more from a corporate perspective. And again, if we go back to the Corporation's annual report on page 48 you can see that, corporately, brokers received almost $80 million in 2011 and 72 1/2 million in 2010.

MS. CANDACE GRAMMOND: So -- so that we're clear, the Basic -- commissions being paid out by Basic will be stepping down, as reflected at PUB/MPI-1-9, which is Tab 14 of the book of documents, and that's from in the 40 million range down to the 30 million range.

But your point is that, overall, brokers' commissions are actually going up, and that's due to the Extension side?

MS. MARILYN MCLAREN: The -- they're going up or they're holding. But in terms of -- some of it would be re -- related to the -- potentially, I'm not sure off the top of my head, related to the driver and vehicle as well as the insurance lines of business.

But -- but clearly in terms of where the streamlined renewals had a significant effect on workload, that is absolutely on the Basic side, yeah, and that's where -- that's where the reductions have been.

And -- and this -- these numbers here that we're looking at at Tab 14 are certainly subject to revision, you know, in the going forward based on -- you know, I think even this year we have a little bit more revenue. I think there's a few more vehicles insured than we expected to have insured this year, and that translates straight through to higher broker income as well.

So these are all subject to the regular revenue forecasting. Generally speaking, it is Basic where the streamlined renewal process really truly enhanced the efficiency.

MS. CANDACE GRAMMOND: And that's where we see the reduction in commission over a period of years from 5 percent to 2 1/2?

MS. MARILYN MCLAREN: Absolutely, yes.

MS. CANDACE GRAMMOND: On the Extension side, and I know it's in one (1) of the IR responses, we have a copy of the regulation that's applicable to the Extension transactions, and that's an 18.5 percent commission?

MS. MARILYN MCLAREN: That sounds about right. I don't have it off the top of my head, but it is in the regulation, that's right.

MR. REGIS GOSSELIN: Could I ask a follow-up question, please. In rela -- relation to Section 14, page 1, and page 48 of the annual financial statement, I'm looking at -- per the statement of commission revenue of 78 billion, and the page 1 of Section 14 talks about total commissions of 37 million roughly.

Why the spread? Why the -- why the thir -- seventy-eight (78) in the annual statement and thirty-seven (37), twice the amount of the...

MS. MARILYN MCLAREN: Basic compulsory commissions have always, always been significantly lower than the competitive lines of business commission rates since the beginning of the Corporation's history.

You know, it -- it's -- they don't have to place the business. They -- they -- we don't even -- if someone renews their Autopac and then cancels partway through the year, there's no clawback of the commission that was paid to brokers, the broker when they first issued that policy at the beginning. So there's any number of significant efficiencies with selling a Basic compulsory product that allows the commissions to be significantly lower than the competitive lines of business.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Madam Chair, I'll just jump in. I think you're -- you're asking if I have more on this topic or if we should take the break now?

THE CHAIRPERSON: Yeah.

MS. CANDACE GRAMMOND: I do have more on this topic, but I'm happy to take a break, because I could just keep going all day. Yes, it'll be a good time and then we can deal with this technical issue. Thank you.

THE CHAIRPERSON: We'll take a fifteen (15) minute break.

MS. CANDACE GRAMMOND: Okay. So fifteen (15) minutes until five (5) to 11:00. Thank you.

--- Upon recessing at 10:39 a.m.

--- Upon resuming at 10:57 a.m.

THE CHAIRPERSON: I think we're ready to go. My mic is fixed. Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Mr. Palmer, I understand you have an answer to one of the undertakings?

MR. DONALD PALMER: Yes, you had asked about the reinsurance premiums versus the re -- the ceded claims going back to 2001/'02. That information is contained in CAC/MPI-1-260, Part C, which includes both the ceded premiums written and the ceded claims incurred for cal -- casualty on page 3 of that answer. And page 4 includes the same information for the catastrophe programs.

MS. CANDACE GRAMMOND: Thank you. Okay. Madam Chair, I'll continue with cross-examination. We're speak -- have been speaking about broker commissions and the streamlined renewal process.

We had looked at Tab 14 of the book of documents and this was 1-9 and this was where the commissions payable from Basic were reflected. At question (b), 1-9(b) the Board had asked a question about a cost sharing arrangement that was previously in place dealing with broker commissions and then was since cancelled.

Can you comment on that, what that arrangement was?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I'm thinking that since 1971 when the Corporation was established, when registration and insurance began to be inextricably linked and you couldn't do one (1) without the other, the government provided a small contribution to the commissions that the Corporation paid to brokers that were -- were always calculated as a percentage of -- of premiums -- premiums written.

So basically it was an acknowledgement that the work that the brokers did, although it was, you know, tied into one (1) step, one (1) transaction, the Government got some value by -- through the collection of the registration fees and issuing the -- the plate and so on as the Corporation did for getting the premium.

I'm just trying to think back. I guess it was probably back in about 2003 it stopped. And the government stopped making that contribution. Generally it -- it amounted to about 1 percent of premiums, is what they were contributing to the Commission for their share of the value of that transaction. But it ended pri -- getting -- getting close to ten (10) years ago now.

MS. CANDACE GRAMMOND: Yeah, I think, Ms. McLaren, the answer or the question actually said that it ended in '04 or '03 and that it was about 5.7 million annually.

MS. MARILYN MCLAREN: At that time that was close to 1 percent of rates, yes.

MS. CANDACE GRAMMOND: In particular the Board has asked the Corporation to confirm that since 2004 if that payment had not been cancelled the -- Basic would have collected about 46 million and the Corporation confirmed that that was the case.

MS. MARILYN MCLAREN: That's right.

MR. REGIS GOSSELIN: Can I ask a question -- a related question? It's more of a general interest question. You know at one time I was working for the Caisse Pops, in Manitoba and there was a -- in the Caisse Pop. in St. Malo there was a -- there was an Autopac dealership there, or at least there was an Autopac licence available to the Caisse, it had been grandfathered with the manager that was there. And I guess when the manager decided to retire we had to sell out that -- that dealership.

Now, is there any reason why we couldn't have a -- a brokerage service out of a credit union or Caisse Populaire? I'm thinking specifically of locations where there might not be a broker in town. Is there any reason why we couldn't have that service available too?

MS. MARILYN MCLAREN: Not -- not explicitly, no. The Corporation through time has really evolved its approach to appointing agents -- sort of in insurance industry terminology an agent sort of sells on behalf of a company. A broker, by definition, has multi lines of many different companies or -- or at least several different companies, that they offer their clients insurance from a number of different companies.

So, strictly speaking, MPI has agents but virtually all it's a -- agents are independent insurance brokers. And that has evolved through time to really focus more on working with and -- and having more stringent standards as to who can qualify for an Autopac appointment.

There used to be not -- not just the occasional Autopac agent in -- in a Caisse, there was also in har -- a hardware store, kind of, you know, dry goods kind of -- there -- I think that at one (1) point there was, sort of a, you know, liquor store/Autopac agent at -- at some small town in Manitoba. So we've really moved away from that and really focussed more on appointing agents who qualify as independent insurance brokers, able to offer more than one (1) line of insurance and to really behave as professional insurance advisors to people.

It -- it -- you know, the more we have -- and in all honesty, I can tell you that we don't really have any concerns at this point about a lack of access to Autopac agents but I -- I think that's certainly possible that that day could come in the future.

There's still about a hundred (100) towns in this province that have one (1) Autopac agent, you know, an insurance broker in town. So they may not have a choice but there is at least one (1) providing access to our -- our services and registration and licensing fees and so on. So it's really because the Corporation has really tried to focus on insurance brokers as the formal access channel for its products and services and licensing and so on.

MR. REGIS GOSSELIN: If you don't mind, another follow-up question to that.

Thinking specifically of isolated communities and namely, Indian reservations, they have trouble accessing a variety of services, and I'm just wondering how they access Autopac services if they want to insure their car. And -- and I'm intrigued about how that is -- that clientele is serviced.

And I guess the second part of the question is: Does your rate scheme allow for higher commissions in -- in recognition of the fact it may cost more money to -- to operate a business in some of those isolated communities?

MS. CANDACE GRAMMOND: Yeah, in -- in our working with the Insurance Brokers Association of Manitoba we've always said that we are certainly prepared, you know, to -- to do what we would need to do to su -- support a broker who was in a location where we really thought that access was important and they could prove to us that they simply couldn't make a go of it. We would absolutely do that. That hasn't happened yet.

In terms of the -- the very isolated communities, the fly-in communities and so on, basically, there is some opportunity for them to, you know, do some of their transaction processing. But I mean, the reality is, you know, other than -- if -- if it's truly a fly-in community, they probably have some winter road access -- access. There are some vehicles there. Sometimes, depending on how far away and how much, there's -- there's not a lot. But there are clearly communities as -- whose access is really dependent on the winter road system. And they, for the most part, end up transacting that business where they buy the car.

And then the rest of it certainly can be done by mail or when they go to the larger centre for -- you know, very few people can really have all of their needs met within those communities. They've got to come out at some point and they -- this is just another one (1) of the things that they do when they come out. But for the most part, they -- they take care of it when they buy the car.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. So, continuing with the discussion with respect to the streamlined renewal process and how that relates to broker commissions, we see on page 6 of the report at AI-12, the post-implementation report, and Ms. McLaren, you've sort of been commenting on this. This is at the bottom of page 6, that the Corporation was seeking to maintain a presence in Manitoba and to maintain an appropriate distribution network throughout Manitoba as well as strengthen its link with the broker network.

Can you tell us -- and -- and you've explained sort of the why, that brokers are the -- the professional advisors and the formal channel to -- to MPI for the public, but what, specifically, did the Corporation do to strengthen that link?

MS. MARILYN MCLAREN: Sorry. Can you -- okay. So, I'm just looking at the bottom of page 6, where it talks -- maintain appropriate presence?

MS. CANDACE GRAMMOND: Yeah. In the second line there's reference to strengthening the link with the broker network to insure ongoing success. And so I -- the question is what was done and then the next question was going to be what, if any, expenditures were associated with that task?

MS. MARILYN MCLAREN: There weren't any specific expenditures, so I can answer that one (1) first.

But -- but generally, it's just really solidifying what has been the approach of the Corporation for I'd -- I'd say a good twenty (20) years now, to really focus on professional insurance brokers as the key distribution channel for our products and our services.

And -- and part of strengthening our link with brokers, ties into other lines of business the Corporation has that are not the -- not Basic, not compulsory lines.

For example, brokers can now register students for high school driver ed. And they get a small commission for doing that. So they're building that connection with young people in their communities as -- as another link that they can build, and that helps us as well.

So anything like that. They can schedule their driver exams, now, through a broker's office. They can pay that fee up front. And so things like that, we've tried to really focus the entire business of the Corporation, so it goes well beyond the compulsory, Basic program.

MS. CANDACE GRAMMOND: And certainly we know that brokers sell MPI extension products, although it is available to them to sell products from other insurers as well.

MS. MARILYN MCLAREN: One (1) of the expectations to be an Autopac agent, is that you do have at least two (2) other lines of insurance in your office. So absolutely every one of them has other choices that they can offer to their customers.

MS. CANDACE GRAMMOND: Now, we talked about this last year at this hearing and -- and what I mean is the percentage of the extension market, so to speak, that is held by the Corporation. We had a document last year from the Superintendent of Insurance -- the same documents in evidence in this proceeding.

And I believe that the evidence at that time was that the Corporation's share of the extension market was about 96 percent. We -- I can take you to the document and we can go through that if -- if you're not comfortable confirming that just by what happened last year.

MS. MARILYN MCLAREN: I don't have any information that anything has really changed in that since the last year.

MS. CANDACE GRAMMOND: Okay. So you'd be comfortable saying that, at this point, the Corporation share of the Extension market is in and around the 96 percent mark?

MS. MARILYN MCLAREN: I think plus ninety (90) -- sure, ninety (90).

(BRIEF PAUSE)

MS. MARILYN MCLAREN: And in the Corporation's view, as we talked about last week actually, you know, it's not so much that it has the lion's share of the business. That it -- the -- the important fact is that it's optional, people buy it by choice.

MS. CANDACE GRAMMOND: And I understand that. I -- I think when we did sort of a detailed walkthrough of it last year it was apparent that over the last couple of years the -- the number was sort of ninety-five (95). And then it, I think, sort of has a li -- little bit slowly edged up, but I think last year it was in the 96 percent range?

MS. MARILYN MCLAREN: I wouldn't argue with that.

MR. REGIS GOSSELIN: I got another question in relation to Section 63, Information Requests -- sorry, the information technology business process review. I'm wondering specifically, in looking at the -- the -- looking at page 1 of that Section 63, it talks to the components of BPR projects, expense components.

It -- it's pretty -- pretty clear to me that IT is a pretty integral part of any process review that you undertake. And I'm trying to understand how you allocate costs in relation to business process re-engineering.

How do you like allocate computer costs in -- in the context of a business process review where IT is just, you know, a fundamental part of that process?

MR. DONALD PALMER: For the -- and maybe I'll just step back -- back a bit. The cost allocation is really one (1) of the sun -- fundamental processes of setting Basic Autopac rates because you have to be able to divide up the various expenses of the Corporation to the lines of business.

Traditionally, the first step is -- is to directly allocate any particular business units that have sole purpose for one (1) line of business or another line of business or are directly charged to that line of business.

For something like IT costs, you can't do that, so we have traditionally used revenue premiums -- premium revenue as the basis of allocation. When Deloitte did their cost allocation study a couple of years ago it was provided to this Board and -- and looked at the whole allocation methodology.

And I think at that point in time, once we got down to sort of -- it was a multi-tiered approach, but the -- the allocation, we thought in fact call centre volume was probably a better indicator of the allocation of certain types of costs to the various lines of business because that's -- because, at the end of the day, it really is our customers that dictate what services are provided, and on that basis the allocation wa -- was done.

For the specific on the BPR cost, that was predetermined before that Deloitte study and, on that basis, we used the premiums written.

MR. REGIS GOSSELIN: I'm still trying to -- still trying to understand. So you initiate a business process review project, and IT is a part of the team around the table, and they are, you know, a

significant player, obviously.
How do you allocate those costs? I mean, do you -- do you de -- the persons -- person working for IT is -- the cost related to that person is part of the project or is part of the IT costs?
MS. MARILYN MCLAREN: I -- I think if we talk about the -- the projects that are listed here in 1-63, that might be a little bit helpful for you, with the example of the -- the PIPP initiative. The only reason we spent that $25 million and did this complete review of how can we better manage PIPP in terms of understanding what the costs are, what the drivers are, where is it likely to go in the future, and how can our case managers do a better job of helping claimants.
We answer that question by -- by spending the $25 million and implementing the system with a new organization, new computer software system, new reports, new everything in terms of managing PIPP.
Personal Injury Protection Plan is a component and is funded by the Basic compulsory insurance premiums and that the entire 25 million was funded by Basic. So all of the IT people around there, the software licensing costs for the FINEOS project, the consultants that helped us come up with a new organization that would better support case managers,

every penny of all of that, Basic pays the entire shot, because there's no benefit to any other lines of business the Corporation has.

If you look at the streamlined renewals, some of the revenue on the renewal process belongs to Extension, 80 percent of it belongs to Basic, so we share the cost of that project, which means the cost of people from IT sitting around, people from communications writing, you know, bulletins to customers to explain the new process, all of that. It's -- it's split basically 80:20, based on premium revenue from those two (2) lines of business.

We can put on the record again this year the Deloitte study. I mean, there's a lot of detail and numbers and stuff, but there is a -- there's a really helpful narrative of several pages at the beginning that sort of explains the entire concept and how we came at cost allocation historically, and how they recommended we do it in the future.

Cost allocation really is fundamental to any business that has more than one (1) line of business, because you always need to know, What does it really cost me for that line of business compared to the other ones, but particularly when -- like with Basic, you know, this Board reviews and approves Basic rates and we have this other stuff going on, how are you assured that Basic is paying the right share when there is all this commingling of effort.

So we could put that on. That might be a helpful resource to sort of understand how we come at this issue, but every single thing we do within the company has some basis of allocating between the different lines of business.

And the actual allocation policies are in the application somewhere, are they not? We'll find that reference for you as well.

MR. REGIS GOSSELIN: I'm not sure I'm looking for that kind of, you know, kind of fine granular picture of what you're doing. I'm more interested in sort of how that relates to the IT optimization fund and so we'll talk about that at some point, I guess, and that's really what I'm interested --

MS. MARILYN MCLAREN: For sure. For sure.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Okay. I just have a couple more questions on streamlined renewals before we leave that part of this post-implementation report, so I'm in AI-12, the post-implementation report, page 7 of 21, where we have the numbers.

And we see here that the actual project costs were about 5 million compared with a budget amount of eight point four (8.4), so it was about three point four (3.4) under. Is that right?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And is it the case that the costs as reflected here do not include the project management costs?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: So should those not be included when comparing budgeted to actual? I guess what I'm asking is why isn't that included here?

MS. MARILYN MCLAREN: Well, I think as long as you leave it out of both it's a fair comparison, right? If it's not in the budget and not in the actual it's still a fair comparison.

But if what you're trying to do is figure out the actual -- a lot of the savings of the streamlined renewals are in reductions of commissions. So if you're really figuring out, have the commission reductions covered off the total project costs including project management, then certainly the project management should be included.

But in terms of what did you budget, what did you spend, I think it's fine that project management is not there.

MS. CANDACE GRAMMOND: And that'll be the case for the other two (2) initiatives as well, that the numbers we're going to see in this document are exclusive of project management costs?

MS. MARILYN MCLAREN: Yes, I believe so.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So is it the evidence then of the Corporation, just so that we're clear, that the project management costs were not included in the budgeted amounts overall or just not included in the budgeted amounts that are reflected in this document?

MR. DONALD PALMER: There was an overall budget for project management costs, but they were not allocated in the budgeting process to each particular project.

MS. CANDACE GRAMMOND: Rather the allocation was done as the actual events unfolded and could be assigned?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: Okay. Thank you.

If we continue on in the post-implementation report I'm not gonna spend a lot of time on the DSR because we've already spoken about that, but if we just look at the numbers on page 20 of 21 we have a similar table as the one we just looked at that relates to DSR. And here we see the budgeted amount at 10.2 million and the actual at six point eight (6.8).

Is that right?

MR. DONALD PALMER: Tha -- that would be page 12 of 21?

MS. CANDACE GRAMMOND: What did I say?

MR. DONALD PALMER: Twenty (20).

MS. CANDACE GRAMMOND: Sorry. The drugs aren't goo -- as good as I thought they were gonna be.

Okay, so page 12 of 21, yes. Thank you, Mr. Palmer, and I apologize if I threw anyone off there. So just to -- to revisit that, the budgeted amount for the DSR project was 10.2 million, actual was six point eight (6.8)?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: Thank you. Now I am gonna ask you to go back to 1-63, which I had asked some questions on and then Board member Gosselin had some questions about it as well. We see there that -- and we -- we spoke about this a little bit earlier, that in 1-

63(b) the costs for DSR reflected at about seven point six (7.6) and we compare that with what's shown in AI-12 at six point eight (6.8). Is that due to the internal/external costs both being included at 1-63(b), or is there some other reason for that difference?

MR. DONALD PALMER: It could be. It could also be a timing issue. The -- the chart on page 12 is as at February 28th. There may have been some costs that were -- came in after that.

MS. CANDACE GRAMMOND: Okay. Thank you. Continuing on in the post-implementation report at AI-12, the next section relates to the PIPP infrastructure study which we've had some discussion about. We see here on page 14 of 21 that the software -- so I'm at the top of the page, page 14 of 21, first full sen -- or first full paragraph:

> "Known as 'BI3,' the Business and Injury Improvement Initiative software successfully went live on September 7th of 2010."

That's right?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And that is, of course, the software that the Corporation is now using to manage PIPP claims?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And we see -- continuing on page 14 through to page 16 -- there's about nine (9) objectives that are reflected as the business objectives of the PIPP infrastructure project?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: I just have a few questions about some of them, I'm not gonna ask about every single one.

On the first item, which is bottom of page 14, we see an objective as listed "Enhancing the customer experience." And under the second bullet of that objective we see that the Corporation has implemented a new case management philosophy that stresses the case manager as the quarterback of the treatment team.

Can you tell us what was the previous practice or the previous philosophy?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: It might be a little bit easier for me to speak about the new philosophy and the gaps that we identified as opposed to -- you know, I think it's fair to say that there was not as clearly articulated a philosophy at all previously. So this is the first time really that the Corporation has formally established a conceptual framework within which case management needs to happen for Manitoba Public Insurance.

And because of that absence, there was some uncertainty with respect to how assertive -- case managers were really expected to pull together what can be a very large, multi-disciplinary team.

There was no real framework for case managers to go back and approach employers, for example, to really work proactively with someone's employer to help prepare the individual to return to the workplace. Often people would need to have their duties restructured, either temporarily, sometimes permanently. And -- and we had no real framework for our case managers to have those conversations with employers.

So that is really at the heart of it. Is -- is understanding that we truly expect the case manager to be going to whoever they need to, always, with the full support and desire from the claimant that they want us, in fact, to do that. You know, we're -- this is certainly always done with the claimant's perspective and -- and wishes in mind. But -- but that is really at the heart of the new philosophy that was not there before.

MS. CANDACE GRAMMOND: So would case managers now also be dealing with medical practitioners?

In terms of discussing the claimant's situation?

MS. MARILYN MCLAREN: Absolutely. That's really necessary sometimes. And, often, when it takes sort of a -- a direct conversation with someone's doctor or -- or in many cases, with more severely injured people, specialists, it also moves into other areas of specialty as well, whether it's physiotherapy, whether it is rehabilitation practitioners.

So getting everyone sometimes in the same room at the same time. But -- but for all intents and purposes on the same page, understanding what the current situation is, what the prognosis is, and how everyone can work together to close the gap between what's possible and where the person is today is really the responsibility of the case manager.

MS. CANDACE GRAMMOND: Okay. Thank you. If we go to the second objective, which is at the top of page 15, this objective was to enhance case management effectiveness. And there -- I appreciate there are some bullet points there. It would seem that that objective ties in with the first one that we discussed.

Can you give us an idea of how, for example, there are built-in tools -- this is referenced at the second bullet -- in the software that provide case managers with consistency that they didn't have before?

MS. MARILYN MCLAREN: Sure. A couple of the easier examples might be, you know, flowing through to the end of that bullet. Talking about work flows, tasks and reminders. The system is designed to give the case manager reminders, in terms of saying this personal care assistance plan has been in place now for three (3) weeks. It's time to revisit it and someone may have become somewhat more independent. Time to check.

So just building in those kinds of structured reminders. But also, the actual tasks themselves, in terms of saying, you said two (2) weeks ago, case manager, that this person is getting out of the hospital next week. Do you have the personal care plan in place? So it actually triggers the components of a case management plan.

MS. CANDACE GRAMMOND: So in the examples that you gave, those aren't necessarily things that the case manager wouldn't have been involved in before, but in terms of the timing and the follow-up, it was a lot less structured. It was left up to the person to just do those things.

MS. MARILYN MCLAREN: Exactly. And I guess the most important thing, it's not only just left up to the case managers and individuals to do these things, our computer system that case managers used before had very, very bare bones financial information and not a lot else. So when they were trying to stay on top of this, and trying to remind themselves to do it, it was with a paper file that, with some claims that last a long time, can easily be 3 feet high.

It -- it was not doable. And, you know, people cannot manage that kind of manual paper-intensive processes.

MS. CANDACE GRAMMOND: And noting your comments about paper and the third objective, organizational and work allocation flexibility -- flexibility, there's reference to a paperless workflow. So can you just tell us a little bit about how the -- the 3-foot-high file has now changed?

MS. MARILYN MCLAREN: It doesn't exist anymore. It is all electronic. Invoices from practitioners come in and they are scanned into the system. Medical reports are scanned into the system. Everything is online. And one (1) of the other really nice advantages is that more than one (1) individual can have access to that electronic file at the same time.

So someone -- a case manager can get some advice from their supervisor. They can both -- they can be in different offices in Manitoba and looking at the same file at the same time, having a conversation about it on the phone.

MS. CANDACE GRAMMOND: Thank you. The fourth objective, the next one, is risk reduction. And there's reference in the first bullet to overtime, the reduction of claims leakage, which is defined as benefits paid to claimants who are no longer eligible to receive benefits.

Can you comment on how that issue is addressed with the system?

MS. MARILYN MCLAREN: And -- and some of that ties to the business case in terms of how we expect the $25 million to pay itself back over time. If -- you know, and a number of assumptions were made in developing the business case. But generally speaking, it's very easy to see how a medical report would come into the Corporation. Eventually it would make its way through, you know, clerical processes and so on. Eventually the case manager would get it.

Eventually they would look at it, decide that that means the person maybe needs a little bit less personal care, make their decision on that, have the letter sent in to typing. And you've probably ended up paying anywhere between four (4) days and two (2) weeks more personal care at the higher level than the person really was entitled to or -- or needed to support their needs.

So it's really just the efficiencies like that to -- to close the gaps between someone -- when someone's needs change and when we start paying at the new level.

MS. CANDACE GRAMMOND: Okay. Thank you.

THE CHAIRPERSON: Ms. McLaren, on that efficiency test, is there -- I'm just curious as to whether you have tracked the time that it takes to process people's claims. And I'm sure it's in these binders somewhere. Maybe I should be reminded of that.

But, you know, you often hear people say, Oh, it took so long and I had to wait. And, you know, is there some kind of a goal the Corporation has for how quickly a person can be dealt with? I recognize that obviously you have to review all the reports, the medical reports, et cetera, but do you sort of aim for a certain time period on these files?

MS. MARILYN MCLAREN: Speaking from memory that occasionally fails me these days, we do try our best to get someone -- someone's income replacement indemnity paid, you know, with -- within two (2) or three (3) weeks, and we take steps.

I don't have the actual benchmarks and -- and our performance against the benchmarks. We're still working to put those in place with the new system. But we've always had a policy of allowing the paperwork to catch up in the interests of service.

So if we know someone has been, you know, badly hurt, they're in the hospital, it's clear they're going to be off work for a quite a while, they produce a pay stub and we confirm that they are still in fact employed there, we'll start cutting them the cheque before we complete all the -- the proper documentation and so on.

That's always our priority. Income replacement is always, always our priority. Some other things do tend to take a bit longer, approvals for -- for certain specialized equipment, things like that.

There's some reference in this documentation that, at the beginning, we had a backlog of invoices. Those are almost all invoices coming from chiropractors or physiotherapists. They're not payments directly to claimants. So the claimants are always first priority, and their income is the very first priority of that.

THE CHAIRPERSON: So I'm hearing you say that within two (2) -- somewhere between two (2) weeks and a month, like no longer than a month would pass, if the person was eligible for income replacement they would have it within a month?

MS. MARILYN MCLAREN: If they work with us to prove that initial eligibility, absolutely. Where -- where it gets more cumbersome is -- where it gets much more challenging for the Corporation is with self-employed people. They do not readily have the wherewithal to produce financial information about what their normal income was, so that's always more difficult. But in -- in the simple cases where someone has an employer and clearly they're injured and they can produce the pay stub, absolutely.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Ms. McLaren, the next objective listed is improved ability to understand the business, and the item at the first bullet is an ability to eventually measure KPIs, or Key Performance Indicators, which would be benchmarks against similar organizations and -- and analyze data to improve decision making.

Can you tell us a little bit about that? I assume that similar organizations means other auto insurers, or does it mean workers' compensation? Can you tell us about it?

MS. MARILYN MCLAREN: Both of those, I

think. You know, and -- and maybe even a little bit broader. One (1) of the real advantages that -- sort of a side benefit of choosing to work with the FINEOS Corporation in terms of the case management software system that we bought is that their clients include the transport accident commission of the state of Victoria in Australia, the New Zealand Accident Compensation Commission.

So they are very like-minded organizations. So -- and we're on exactly the same system. We're also part of a user group that gives advise to FINEOS. These three (3) like-minded organizations, MPI and these other two (2), and we -- we think that that will really help us understand how others do this kind of business, as well as have an influence as to how the FINEOS product evolves through time.

And clearly, although not as easily comparable, because we're not on the same systems, we -- we certainly always work as closely as we can with Saskatchewan Government insurance, the SAAQ in Quebec as well as ICBC.

MS. CANDACE GRAMMOND: So I take it that --

MR. REGIS GOSSELIN: Excuse me, could I -- could I interrupt for a second, just to repeat the names of those like-minded organizations, please?

MS. MARILYN MCLAREN: The Accident Compensation Commission of New Zealand and the Transport Accident Commission, which is the state of Victoria in Australia.

The Accident Compensation Commission has -- has a broader mandate to compensate citizens for a variety of injuries they may sustain. TAC is very much like the SAAQ is in Quebec, where they administer road safety programs, driver licensing, vehicle registration, and injury compensation for road accidents in -- in the state of Victoria.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So I -- I take it, Ms. McLaren, that the bench-marking that's going to be done with these other organizations is going to evolve over time now that MPI is on the system? This isn't a situation where historical information is going to be used?

MS. MARILYN MCLAREN: That's right. I mean, it -- we simply would not have been able to start -- while -- while all of our existing claims are now a part and us -- are using the FINEOS system, we could have not -

- not have gone back through time to start implementing facts and dates and, you know, for claims. Some of them are fifteen (15) years old or more. So this will definitely take time as we move forward.

MS. CANDACE GRAMMOND: And we've had some evidence from the -- the Corporation with respect to the metrics that are going to be used, and I know that there was an IR that the Board had asked that -- that dealt with that.

Can you -- can you tell us where you are with gathering data for the metrics?

MS. MARILYN MCLAREN: In progress. We can maybe refer specifically to the IR -- IR if you want me to elaborate at all, but it's -- it's in progress.

MS. CANDACE GRAMMOND: Yeah, for -- for the purposes of the record, and if anyone wants to look there they can but they don't necessarily need to, it was PUB/MPI-2-43 and that had provided that the metrics were expected to be completed by the summer of 2012.

MS. MARILYN MCLAREN: Thank you.

MS. CANDACE GRAMMOND: Is that still the case?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And can you tell us how those metrics are going to be used?

MS. MARILYN MCLAREN: First and foremost to improve our ability to understand the business. It will be some time before we have a comfort level to actually use those metrics and results to start thinking about how we might change the way we administer the program.

MS. CANDACE GRAMMOND: And there was reference, I believe, as well in that IR that the Corporation was going to undertake a bench-marking study?

MS. MARILYN MCLAREN: This is all part of the same process, yes.

MS. CANDACE GRAMMOND: And is the timeline for the study the same, the summer of 2012, or is there a different timeline for that study?

MS. MARILYN MCLAREN: I wouldn't expect it to be any sooner than that.

MS. CANDACE GRAMMOND: Okay. If we continue on in the post-implementation report, we see at page 17, so this is still dealing with PIPP -- PIPP infrastructure. And this is right at the bottom of page 17 in the report:

> "That as a result of the productivity improvements arising from PIPP infrastructure, the Corporation will be well positioned to realize reductions in

FTE, or full time equivalent, positions over the next five (5) years."

And then we get into on page 18 some of the details of that.

Do you have page 18 in front of you?

MS. MARILYN MCLAREN: I do.

MS. CANDACE GRAMMOND: So if we look at the chart that the Corporation has provided there on page 18, we see that as of May of this year the current staffing injury claims management department was two hundred and eleven (211) individuals?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And then we see an addition for eight (8) syst -- or system support staff and eight (8) call centre staff for a total, what's referred to as, "PIPP staffing" of two hundred and twenty-seven (227)?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And that is anticipated to be reduced to one-seventy-five (175) or a hundred and seventy-five (175) FTEs by 2015?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: Now, reference here is made within this chart to thirty (30) interim FTEs, and there's commentary on this on page 18 below the chart as well that were there to transition into the software and as well to clear the backlog. And I -- I take it that that's the backlog of invoicing and whatnot that you referenced a minute ago?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And is it the case that that backlog is expected to take closer to five (5) years to be dealt with or is -- is that piece of it going to be cleared up sooner?

MS. MARILYN MCLAREN: No, if -- if you continue in that paragraph, the one that starts saying "In order to facilitate the transition," it -- it closes by saying that they will -- the interim positions will be phased out over five (5) years with most by the end of the current fiscal year. So most will be gone this year.

MS. CANDACE GRAMMOND: And those in the main would relate to the clearing of --

MS. MARILYN MCLAREN: That's right.

MS. CANDACE GRAMMOND: -- the backlog?

MS. MARILYN MCLAREN: Exactly. Yes.

MS. CANDACE GRAMMOND: So the -- the two (2) groupings of eight (8) employees that we referenced that are included in the two hundred and twenty-seven (277), are those permanent positions? The eight (8) systems support and the eight (8) call centre?

MS. MARILYN MCLAREN: At this point we anticipate that, yes. Before this system was introduced there was a small group of staff in the injury claims management area that set up new claims. It was almost like a little mini call centre. That work is done in the large main call centre now. We expect as long as injury claims volumes stay fairly stable as they are predicted to, the eight (8) people will continue to be required to do that.

So it's -- it's, again, full-time equivalents. We don't have eight (8) people just handling injury claims, we have about a hundred (100) people spending whatever the math is, part of each day doing one (1) or two (2) injury claims.

And -- and in IT as well, this -- these are the people directly assignable to FINEOS and the other support systems that -- that make up the bodily injury improvement initiative IT aspect of it. We don't see those changing in the near future, they may evolve over time.

MS. CANDACE GRAMMOND: Thank you. If we turn over to page 19 we see a similar chart for PIPP infrastructure that we had for DSR and streamlined renewals that reflects the budgeted versus actual amounts incurred. I'll ask you to look at the line entitled

"Total direct project costs." We see there a budget of 20.7 million and an actual of twenty-five and a half (25 1/2), so that that was over budget. And I appreciate that there's the -- the contingency line and I'll -- I'll come to that. But leaving that aside, this -- this particular one was over budget.

Is that right?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE GRAMMOND: And now coming to the contingency for waterfall method line, that, I gather, was a 30 percent contingency built-in for external labour costs.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: So that's 30 percent of the -- the $20.7 million budget?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And can you explain what -- what the waterfall method means, just in brief terms?

MS. MARILYN MCLAREN: Waterfall method is -- is sometimes called an iterative method as well. As opposed to what some implementations are known as, as sort of the big bang implementation. So that's really the difference.

And waterfall methodology was -- was new to the Corporation. The iterative approach was new to the Corporation. Many -- we generally, historically have used sort of that big bang approach.

So that's why we did believe we needed some extra contingency money to really get comfortable with this new approach. It worked enormously well. It gave everyone a chance to really understand what was coming, to work with it, to tweak it as it came along. So it worked out really well, but it was quite different from what we had historically done in terms of systems development.

MS. CANDACE GRAMMOND: And this is, I understand, a fairly common approach to budgeting for capital projects?

MS. MARILYN MCLAREN: With respect to the 30 percent contingency? Absolutely, yes.

MS. CANDACE GRAMMOND: Now we do have evidence that was per -- that has been presented dealing with the business case for the -- the PIPP infrastructure piece, and that the budget that was used for that analysis was the -- the total project cost budget of 27.1 million?

MS. MARILYN MCLAREN: Yes, I believe so, yes.

MS. CANDACE GRAMMOND: And has the Corporation done a -- an analysis of the actual expenditures as against the business case?

MS. MARILYN MCLAREN: Well, the -- the reduced costs of staffing and the reduced incurred are really expected to go out over a period of time. We fully expect to achieve those savings, but they have not yet all been achieved, as we talked about a few minutes ago, because they are expected to run over the next few years.

MR. DONALD PALMER: I will also add to that that they have been in -- incorporated into our forecasts and our rate requirement.

MS. CANDACE GRAMMOND: So that's something we can talk about in future years as time goes on?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Now the enterprise data warehouse project -- we've had a little bit of discussion about. Can you explain what that project is?

MR. DONALD PALMER: The Corporation has had a data warehouse for a number of years. But didn't fully integrate all the -- all the various systems of the -- of the Corporation in -- in really a -- a user-friendly manner.

As we went -- starting with DSR, it was evident that there was really a requirement to have information from all kinds of disparate systems in one (1) place that could easily be accessed and analyzed. With enterprise data architecture, which is rapidly emerging, we didn't really have a -- a foundation to create that enterprise data warehouse.

So with -- coincident with the -- the DSR project, that enterprise data warehouse was started with -- with a structure that could be -- incorporate all different systems. So starting with DSR, it was all amalgamated into one (1) place with the FINEOS BI3 project -- was another box that was added into the framework of the enterprise data warehouse. And as new systems come on they will be incorporated into that as well.

MS. CANDACE GRAMMOND: So the enterprise data warehouse project, in terms of its establishment, is done at this point?

MR. DONALD PALMER: The establishment and -- and to create the overall structure and framework, is done. But all the data of the Corporation is not yet incorporated into that warehouse.

MS. CANDACE GRAMMOND: And I -- I take it that the establishment or -- of the overall structure and framework as you described, as a project, was not included in the post-implementation report, just 'cause it was, in comparative terms, a much smaller project?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And the costs for

the enterprise data warehouse are allocated to Basic, to the extent of about 80 percent?

MR. DONALD PALMER: That would be correct.

MS. CANDACE GRAMMOND: Okay. So in terms of -- just to conclude the discussion on the -- the business process review, Ms. McLaren, we looked earlier at the annual report and the number of the -- the 97 million that was set aside for the extension development fund. We talked about that if one wanted to know the -- the total cost one could add that amount. And I appreciate some of that is spent and some is -- is future anticipated expenditures to what's been incurred in Basic.

And I believe that the -- the total cost for Basic projects under the business process review at this point are about 47 million?

MS. MARILYN MCLAREN: That sounds about right.

MS. CANDACE GRAMMOND: So just -- just so that we're clear, if we add the money incurred in Basic of about 47 million to the extension development fund, which is about 97 million, we end up with about a hundred and fifty-four (154) that's committed to business -- or business review projects?

MS. MARILYN MCLAREN: Right.

MS. CANDACE GRAMMOND: And if we -- and I know we haven't had a lot of discussion yet about the IT optimization fund, but if we treat that for the moment as a special project, if we take everything globally, the business process review as a whole and the IT optimization project, we're at about 210 million in special projects?

MS. MARILYN MCLAREN: If -- if you add the business process review and IT optimization together, that's about what you get, yeah.

MS. CANDACE GRAMMOND: Okay. Thank you. Madam Chair, those are the questions that I have on business process review. I see it's ten (10) to 12:00. I can -- if I look through my notes I can probably find a fairly short section that I could try to do in the next ten (10) minutes, or do you want to break for lunch now?

THE CHAIRPERSON: Let's proceed and get that ten (10) minutes used --

MS. CANDACE GRAMMOND: Okay.

THE CHAIRPERSON: -- and then break.

MS. CANDACE GRAMMOND: I'll just be one (1) moment.

MS. MARILYN MCLAREN: And if I could just before we move to the new section, Mr. Gosselin, in Volume II of the application, in TI-6 are the expense allocation formulas. It's a little bit of an overview of the overall approach. And then it breaks it down by unit of the

Corporation and how all the different costs are allocated between the lines of business.

On the top of page 5 is the information technology services and business services section, but all -- all the different areas are there, the specific allocations used in this application.

THE CHAIRPERSON: Thank you for that.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: I think actually the -- the section that I'll deal with that I think I can complete in the next few minutes will deal with cost allocation, so that exchange is timely. It would be fair to say that the cost allocation methodology to be used by the Corporation is something that's had significant attention in this proceeding over the last couple of years?

MR. DONALD PALMER: That's fair to say.

MS. CANDACE GRAMMOND: And, as we know, the idea is to deal with the shared or global costs of the Corporation and allocate them among the lines of business in a way that does not give rise to cross-subsidization?

MR. DONALD PALMER: Yes, I would agree with that.

MS. CANDACE GRAMMOND: And in the last

order that the Board issued, and I'll -- I'll say "order" in the singular although there was commentary in a couple of the Board orders last year, the methodology that was put forward and discussed was endorsed but was not implemented?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And I'll ask you then to go to AI-7, which is the annual report. So this is in Volume III, Part 1, AI-7 annual report, page 36 -- pardon me, 39. We have -- yeah, it's one (1) of the thin binders, Volume III, Part 1. And then we find at AI-7 the -- the bound colour-covered annual report. So I'm looking at page 39.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So we have on page 39 -- this is a discussion under the broad heading, "Outlook," so future time. And we have a specific section, right-hand side of the page, called, "Cost allocation," which reflects some of the history.

I'll ask you to go to the second-last paragraph. The Corporation has stated here that it is satisfied that the new methodology better allocates the cost to its lines of business and will therefore implement the new methodology effective March 1st, 2001.

That's right?

MR. DONALD PALMER: That's correct.

MS. MARILYN MCLAREN: 2011, actually.

MR. DONALD PALMER: Two -- 2011, sorry.

MS. CANDACE GRAMMOND: Thank you. Just -- just keep correcting me when -- when I make those missteps. Thank you. And so we see just before that in the -- in the preceding paragraph an explanation from the Corporation with respect to what happened at this Board, and that the Board en -- endorsed the methodology, but did not allow it for rate making purposes.

I see though that the Corporation hasn't given any explanation as to why the Board came to that conclusion. That would be fair to say?

MR. DONALD PALMER: That's fair.

MS. CANDACE GRAMMOND: And we see in the last paragraph of this section that the Corporation has made the statement:

> "In future Board applications the Corporation will calculate the required Basic rates based on the old cost allocation methodology until such time as this Board approves the new methodology for rate making."

That's right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: So how does the Corporation track then, differences between these two (2) sets of materials?

MR. DONALD PALMER: Essentially we're keeping two (2) sets of books.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And so I assume then that the Corporation is envisioning that when this Board implements the new methodology, only one (1) set of books will be maintained?

MR. DONALD PALMER: Yes, that's correct. In -- in terms of for this purpose. As we go through different implementation of -- as we did for IFRS and had two (2) sets of books for comparative purposes, but specifically for cost allocation that's -- that's correct.

MS. CANDACE GRAMMOND: Okay. Let's get a sense of what this -- these -- these two (2) methodologies really mean in dollars. I'm going to ask you to go to PUB/MI-1-51, and that is not in the book of documents. So you'll find it in with the IRs posed by the Board, 1-51.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So we see at 1-51(a), the Corporation has provided a -- a statement of operations that compares the old methodology to the new if implemented. Is that fair to say?

MR. DONALD PALMER: Yes, that's fair.

MS. CANDACE GRAMMOND: And so in terms of dollars we see under the heading, "Net Claims Incurred," there are some differences there in claims expenses as well as road safety and loss prevention, such that under the new methodology there is an increase of total claims costs to Basic of 2.6 million?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And then under the next section entitled, "Expenses," we see there is a swing in operating expenses under the new methodology, this time in the other direction, a decrease to Basic of 6.1 million?

(BRIEF PAUSE)

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: So the net result, according to this statement of operations is under implementation of the Deloitte, the new cost allocation methodology, this is for the current year, the 2011/'12 fiscal year, there would be an additional 3.5 million in Basic as compared with maintaining books under the old methodology?

MR. DONALD PALMER: No, I think it's the other way around. The -- the net income under the new allocation, which is Deloitte, is six point seven (6.7) which is -- it's not the expenses that are more, it's the net income that's more, so in fact the expenses are less.

MS. CANDACE GRAMMOND: Okay. Again, if I misspoke I apologize. I -- that is what I was thinking, that under the -- the new methodology, Basic is in a more favourable monetary position?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And the difference -- or the spread is 3 1/2 million?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: If --

MR. DONALD PALMER: Which, round numbers, is about half a point on rate.

MS. CANDACE GRAMMOND: This analysis, as we see, there is no difference in terms of investment income under old methodology versus new methodology?

MR. DONALD PALMER: No. In last year's

GRA we had put forward a new asset/liability allocation methodology which in turn would dictate what the investment income allocation would be, and that was expect -- accepted by the Board and implemented for this year's GRA.

MS. CANDACE GRAMMOND: Thank you. Coming --

MR. REGIS GOSSELIN: Can I ask a question? Just to clarify, you said a half point difference. What -- half point difference of what?

MR. DONALD PALMER: In -- in rate. Our rate requirement would be about a half a point less if we went with the new Deloitte methodology.

MR. REGIS GOSSELIN: So do you mean instead of -- of six point five (6.5) reduction it would be a seven point zero (7.0) reduction?

MR. DONALD PALMER: Yes. Six point eight (6.8) to seven point two (7.2) or seven point three (7.3).

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: And I'm sure that the -- the Panel is familiar with the reasoning that was presented by the Board in the Orders 122/10 and 145/10 dealing with this issue as to why the Board felt that the methodology should not be implemented?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: In essence, the Board listed certain categories of information that had not been provided to it?

MR. DONALD PALMER: That was listed and we applied for a review and vary order that refuted most of those reasons but that was not accepted by the Board.

MS. CANDACE GRAMMOND: So what is the position of the Corporation this year with respect to information on the record in terms of the Board being able to assure itself that the costs that are subject to allocation are prudent?

MS. MARILYN MCLAREN: I think the Corporation's position can be described in the context of PUB-1-63. Clearly, the Corporation understands that total corporate costs of these BPR projects need to be disclosed to this Board. Basic's share needs to be disclosed to this Board, and the allocation of how we got from the corporate to the Basic needs to be disclosed to the Corporation.

So I think it -- it -- it's very clear to us that it would not have been appropriate for us to answer 1-63 by just talking about Basic's share because what this Board needs to assure itself is that whatever the approved allocation methodology is has been used. So by giving the Board the corporate costs and Basic's share and the allocation policies and then, fourthly and finally, the audited financial statements of the Basic plan, assuring that the approved methodology has been used gives the Board the assurance that the only costs being charged to Basic are the costs appropriately charged according to the approved allocation methodology.

MR. REGIS GOSSELIN: Could I probe a little bit further in respect of the allocation of costs? You know, admittedly there's a significant difference, 3 million is not -- not chump change, difference in costs allocated. So I'm trying to understand the -- the basis for the change. I mean you provided a fair amount of detail about where that three and a half (3 1/2) million comes from. What happens next year?

I mean what -- what has changed in the formula that would suggest to me that that sort of reduction in costs will maintain itself going forward? In other words, it wont swing the other way next year.

MR. DONALD PALMER: No. The -- the philosophy of the allocation methodology from old to new was quite different. In terms of the old method, we looked at the existing cost centres and we chopped them up and -- and said who -- who's doing the work and will in some -- sometimes objective ways, sometimes somewhat subjective ways, decide for each one (1) of those departments who is doing the work and -- and divide it up on that basis.

The new approach is basically looking at everything the Corporation does and say for whoms -- for whose benefit is that work being done. So look at all the different functions that serve Basic. And look to see where those are done and -- and allocate the costs based on that -- that for -- the department or driver vehicle licensing.

Whose benefit -- for anybody who's doing work, because a call centre, for instance, the same call can be done to have a Basic question, an extension question, and a DVA question. So -- so we have to find a way to allocate by function rather than actually who is doing the work.

So the philosophy is -- is different. The methodologies are quite different in -- in terms of how they're applied -- how they're applied. I know in this particular question, there was a -- the question was provide a reconciliation of the two (2) methods.

And you really can't, because they are fundamentally different. We can show the results of the two (2) methods, but reconciling piece by piece, you really can't.

MS. MARILYN MCLAREN: And -- And I guess a little bit further to that is, you know, the basis of the new methodology really, truly is which line of business gets the benefit of that piece of work?

And if it's something like an address change, most of the time it's all three (3). It is the -- you know, the registrar -- the registrar of motor vehicles needs to know where the vehicle -- where the driver is, as does Basic, as does extension. So that's an important premise of the new system.

The allocation -- the costs could -- there could be a swing the other way in future years, if our customers' behaviour changed. If they just completely stopped contacting us with anything related to extension insurance issues or, you know, driver vehicle licensing issues, like vehicle inspection issues, or what's the graduated licensing program -- if they just stopped contacting us and everything the call centre dealt with was all about Basic, then Basic's costs would go up.

But it would be very attributable. You could follow that back and find out why now Basic is -- is paying more.

MR. REGIS GOSSELIN: I guess I'm wondering about call centres. Having managed a small call centre, I know that call centre data can be quite variable. I mean, you've had a fair number of years of experience. I guess your -- your -- you feel that that's probably the best mechanism for allocating costs?

MR. DONALD PALMER: When Deloitte did the allocation -- looked at a number and -- and yes, that call centre contact ratio was the best. And the -- the data has been pretty constant.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: I just want to be clear before we leave this issue with respect to the information that's -- that's been provided and the information that hasn't been provided.

Last year, when the Board made its order, it identified five (5) categories of information and I -- I want to go through those and -- and have commentary from the panel with respect to what's -- what's here and what's not.

The first category of information that the Board identified was that -- that had not been provided was details of expenditures in DVL operations directly assigned to non-insurance for comparising -- comparison and testing purposes.

My understanding that that information is not on the record this year. Is that -- do you agree with that?

MS. MARILYN MCLAREN: It -- it -- it's not on the record, and we fail to understand how that could be considered relevant.

Directly assigned, non-Basic costs have absolutely no bearing at all. They're not shared. By definition they're not shared. So we have a lot of trouble understanding how that could be relevant at all.

As we talked about before, so -- the allocation goes through a hierarchy. Anything you can directly assign, you do that first. We have, for example, driver examiners. They do the road tests. Sometimes they proctor written tests. They clearly are directly assigned to the DVA line of business and has absolutely no relevance whatsoever to anything shared between Basic and the other lines.

MS. CANDACE GRAMMOND: The second item that the Board identified was the details of RB -- all BPR project expenses, in order that the costs and allocation could be tested. And we've already had a -- evidence that that has not and is not going to be provided.

MS. MARILYN MCLAREN: Again, with rationale, absolutely. We believe the appro -- appropriateness of the allocation policies have been adjudicated by the Board and the audited financial statements shows that the approved policies have been followed.

So again, in -- in the review invor -- in the review and vary application that Mr. Palmer referenced there's pages and pages of response to the points that you're bringing up right now.

MS. CANDACE GRAMMOND: The third item on the list was the corporate ride tren -- trend analysis, and that has also not been provided as part of this filing?

MS. MARILYN MCLAREN: Agreed.

MS. CANDACE GRAMMOND: The fourth item was a corporate-wide schedule of reflecting operating expenses and what we refer to as the form of TI-7(b)?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Sorry, just I -- I'm scanning the Corporation's review and vary application while -- while I'm answering this. But with respect to a corporate-wide schedule, TI-7(b), in last year's GRA, in terms of operating expenses, we -- we did provide that information and its answer to Undertaking 24, which was filed late in last year's proceedings.

MS. CANDACE GRAMMOND: We'll -- we'll

track that.

MS. MARILYN MCLAREN: Thank you.

MS. CANDACE GRAMMOND: And we'll come back to that. And then the fifth item that the Board had identified, and this is the last one (1), was that the details of and support for corporate-wide capital expenditures had not been provided, and that would be consistent with this year. Is that right?

MR. DONALD PALMER: The capital expent -- expenditures are corporate. Always have been.

MS. CANDACE GRAMMOND: So is it your evidence that the details of and support for corporate capital expenditures have been provided to the Board?

MR. DONALD PALMER: The -- the totals have been provided, including a fairly large placeholder in the outer years of the forecast. So in terms of details, no, because we don't -- we don't know the details of the capital expenditures going -- going forward.

MS. MARILYN MCLAREN: And in cases where there is a capital expenditure that is directly assigned to a non-Basic line of business, we haven't provided details on it because it's not relevant to the Basic rate application. Anything, again, that's directly assigned has absolutely no relevance to -- to the Basic rate application because there's no allocation required when it's directly assigned.

MS. CANDACE GRAMMOND: This issue of cost allocation methodology that was utilized within the Corporation was something that, as we've said, has been dealt with over the last couple of years. But prior to that, it hadn't been reviewed in a fairly long time. Is that right?

MR. DONALD PALMER: The -- the allocation policies are -- are looked at on an annual basis. But in terms of an overall allocation methodology to -- to look at the underlying principles and underpinnings, no, that hadn't been done for quite a while.

MS. MARILYN MCLAREN: I think it was about the mid 1990s the last time it was done until it was done two (2) years ago.

MS. CANDACE GRAMMOND: Okay. Just one (1) additional brief line of questions before we break for lunch. I referenced earlier a media report that came out on Friday. I'm going to reference a different one that also came out since we were last here, and that is a media report that MPI is opening a daycare centre in the city?

MS. MARILYN MCLAREN: It's pro -- we're providing space for a daycare that -- that will be run by a provincial daycare organization, yes.

MS. CANDACE GRAMMOND: Okay. So MPI is

the landlord?

MS. MARILYN MCLAREN: That's right, and they will run the daycare. People who bring their children there will pay fees, just like any other daycare.

MS. CANDACE GRAMMOND: From the Corporation's perspective, its role is as -- is as landlord for the space as opposed to operator of that facility?

MS. MARILYN MCLAREN: Right, we're not operating the facility, but we have certainly worked out, as was reported, you know, the -- a small minority. Sixty (60) percent of the spaces will be reserved for MPI employees and the rest are available to the public.

MS. CANDACE GRAMMOND: So in terms of costs to the Corporation then what is there for this initiative?

MS. MARILYN MCLAREN: Somewhere in the capital budget material it was identified there as a non-Basic expense. So this is, again, it has absolutely no impact on the Basic line of business and I -- I don't want to speak from memory what the actual amount was, but it is being fully funded by competitive lines of business.

MS. CANDACE GRAMMOND: And those costs would relate to lease hold improvements within the space prior to it being let to the -- the daycare tenant?

MS. MARILYN MCLAREN: Sorry?

MS. CANDACE GRAMMOND: I -- I said the expenditures would relate to lease hold improvements prior to the space being let to the daycare tenant?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE GRAMMOND: Those are my questions, Madam Chair, but --

MR. REGIS GOSSELIN: Just one (1) quick question, looking -- looking at your per employee costs, I'm interested in knowing what the quantum is of your employee's average salary plus benefits. Are -- are we looking at a hundred thousand (100,000) roughly?

MR. DONALD PALMER: Ms. McLaren and I are just coming to a consensus on the answer and we came up with about seventy thousand (70,000), but we can -- we can check that.

MR. REGIS GOSSELIN: Seventy thousand (70,000) for salary plus benefits?

MR. DONALD PALMER: Yes, about that.

MS. CANDACE GRAMMOND: I would say so, yes, as long as the MPI is in agreement with that.

MR. DONALD PALMER: Yes, we'll take that as an undertaking.

--- UNDERTAKING NO. 6: MPI to indicate the quantum of

MPI employees' average salary plus benefits (answered on page 543)

MS. CANDACE GRAMMOND: Okay. So, Madam Chair, if it would please the Board, we could maybe take the lunch break and then when we come back I think the plan from my end would be to work with Mr. Pelly and get into some actuarial questions.

THE CHAIRPERSON: All right. Well, I'm looking at the clock and thinking that we can reconvene then at about 1:15. Would that be enough time for everyone? Thank you.

--- Upon recessing at 12:17 p.m.
--- Upon resuming at 1:21 p.m.

THE CHAIRPERSON: Are you ready, Ms. Grammond?

MS. CANDACE GRAMMOND: Yes, I am, Madam Chair. But I understand that Mr. Palmer is able to answer another undertaking.

MR. DONALD PALMER: Yes. The question with regard to the average salary of the Corporation, it's actually contained in the material CAC/MPI-1-173, and for

'11/'12, it's about seventy-five thousand dollars ($75,000).

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you, Madam Chair.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So I'm gonna move then into actuarial areas. Before I do that, though, I just have one (1) follow-up question on business process review. We see at PUB/MPI-1-63(b) -- this was the -- the IR where we have a chart on corporate-wide external and internal costs for BPR projects, at least the projects that are in Basic as well, and then we have the -- the breakdown for Basic. One (1) of the line items is "project management," and we spoke about the project management aspect of the costs.

Is the Corporation in a position to provide us with a document that breaks down the amount of project management costs per project?

MR. DONALD PALMER: Yes, we can do an allocation of those.

MS. CANDACE GRAMMOND: Okay, perfect. So we'll take that as an undertaking?

MR. DONALD PALMER: Yes. Thank you.

--- UNDERTAKING NO. 7: MPI to provide a document that breaks down the amount of project management costs per project

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. So moving then to actuarial matters. I'm gonna ask you to go to Tab 19 of the book of documents. This is PUB/MPI-1-31. Tab 19, 1-31.

This is an IR where the Board asked the Corporation to provide a series of tables. So what I'd ask you do firstly, Mr. Palmer, is to describe the information that's reflected on these exhibits.

MR. DONALD PALMER: Starting with page 1 of the attachment?

MS. CANDACE GRAMMOND: Yes, please.

MR. DONALD PALMER: for the years 2002/'03 through 2011/'12, we're providing first the original projected amount for each of those years. And that would be the amount that the application was based on. So, for instance, '02/'03 that would have been the 2002 GRA.

The revised forecast would have been the following year, so the amount that we would have put in the current year's forecast. So, for example, this year, that current year, or the revised forecast, would be for the '11/'12 year, and then the actual amount for -- once we got to the year end and did the final year end tallies, that would have been the actual incurredS.

Now, where -- this exhibit is three (3) pages. The first one is the -- the frequency or the -- the count of claims comparison, the second one is the severity comparison, and the third one is the total claims incurred, that's the total dollars.

MS. CANDACE GRAMMOND: Thank you. I see that each of the table has a title that references for the insurance year ended February 28/29. Can you provide to the Board a definition of "insurance year," within that context.

MR. DONALD PALMER: Within this, this would be the fiscal year from March 1st to February 28 or 29, so this would include any adjustments to prior years.

MS. CANDACE GRAMMOND: Thank you. If we look at PUB/MPI 1-31(a) -- so the -- the first table on page 1 that deals with frequency comparison. As you described, if we look within each year, from left to right within that year, we have a -- a indication of the original projected amount, followed by the revised forecast, and then the actual amount, and we can see how those numbers changed in -- in different years.

Can you discuss, for the Board, the -- the forecasting accuracy for each of the coverages that are listed, and in particular, whether there's any evidence of systemic bias in the forecasting of claim frequencies.

MR. DONALD PALMER: Starting back in 2002/'03, for PIPP specifically, we started with fifty-nine thousand (59,000) covers, not quite a claim, but it -- it's really an indication of the number of claims, so -- and that was revised upwards to seventy-seven thousand (77,000) and then settled out at seventy-five thousand (75,000). So we started with an under-forecast.

The following year, seventy-eight (78), then went down to sixty-five (65), when we got to the actual results. So, down somewhat.

'04/'05, from seventy-seven (77) to seventy-three (73). Down somewhat.

'05/'06, seventy-two (72) to sixty-five (65). Went down.

'06/'07, the original was seventy-four (74), came out at seventy three and a half (73 1/2), so I would say that, that was bang on.

Seventy-one six (71.6) to seventy-two eight (72.8), went up a little bit.

Seventy-five (75) to sixty-one (61), went down fairly significantly.

Seventy-six (76) to sixty (60), went down.

2010/'11, seventy-one (71) to seventy-two (72), went up a little bit.

And this year we've gone down marginally in our forecast.

And, of course, don't have the actuals for 2011/'12.

Just from eyeballing that, we did have a couple of years that went down significantly. The rest were kind of up and down. So from a frequency perspective, we may be a little high, but not terribly high.

MS. CANDACE GRAMMOND: And your evidence then would be that you do not see a systemic bias within the forecast?

MR. DONALD PALMER: I do not.

MS. CANDACE GRAMMOND: I'll ask you then to go to 1-31(c), so the -- the claims incurred comparison that we see on page 3 of that tab.

Again, I would ask you to discuss the -- the forecasting accuracy for each of the coverages, first, and then I'll have a few more specific questions.

MR. DONALD PALMER: Again, go through each year and each coverage?

MS. CANDACE GRAMMOND: In the summary way that you did for the other, that would be great, yeah.

MR. DONALD PALMER: For '02/'03, and I -- again, I'm looking at the total of all coverages -- went from 440 million to four sixty-seven (467), so it was an under-forecast.

In the '03/'04 year, went from four sixty-eight (468) to five thirteen (513), so that was an under-forecast, as well.

In '04/'05, original came in at five-o-five (505), and the actual was four fifty-seven point two (457.2), so we had an over-forecast in that perspective.

In '05/'06, we started with a forecast of five thirty-nine (539), the actual came in at five twenty (520), a smaller over forecast.

'06/'07, the original projected was five fifty-six (556), the actual came in at five thirty-five (535), so a small over-forecast there.

In '07/'08, five eighty-two point four (582.4), came in actual about $47 million lower, at five twenty-five point three (525.3).

In '08/'09, six fifteen point nine (615.9), came in at five nineteen (519), so that's a significant over-forecast.

'09/'10, six twenty-four point eight (624.8), came in at five sixteen (516), again a significant over-forecast.

And in the last year, we had projected six twenty-seven point three (627.3), came in at three thirty-three (333), so that's obviously a significant over-forecast.

MS. CANDACE GRAMMOND: Thank you. Can you explain to the Board how this exhibit is affected by reserve releases that are triggered by a new valuation. And an example would be in the '10/'11 fiscal year, we see under PIPP the -- the decrease from -- or te -- the -- the end result, the actual, was a negative 60 million.

MR. DONALD PALMER: All of the reserve releases are incorporated as incurred during that specific year. So, for the 2010/'11 year, when our actual came in at negative 60 million, of course that is all of the new claims that came in that were -- that occurred in 2010/'11, but the differences in all past year's reserves were greater than the new claims coming in, so that would result in a negative amount.

So, all of the reserve releases are included in each particular insurance year as presented.

MS. CANDACE GRAMMOND: And how is this analysis affected by benefit enhancements?

MR. DONALD PALMER: Again, in the year that the benefits were awarded, even on a retroactive basis, that would be included in the insurance year. So, for example, for the 2009/'10 year there was an enhancement to benefits that was given to all open claims at that point in time; that would be included in that '10/'11 year, in this particular schedule.

MS. CANDACE GRAMMOND: Thank you. So, in your view, is there any evidences of a systemic bias in forecasting claims incurred for any coverage?

MR. DONALD PALMER: Yes, there is. On a -- in hindsight, there was an over-forecast in claims over the past five (5) or six (6) years.

MR. REGIS GOSSELIN: Just for clarification purposes, the revised forecast would be at what point of the year -- prepared at what point of the year?

MR. DONALD PALMER: The revised forecast would have been at the beginning of the -- of that fiscal year. So, for 2011/'12, for instance, the original projection would be calculated last year as we were preparing for the GRA, so the final numbers would be completed in about April of -- of 2010 for the revised forecast, that's this year's rate application. So, again, that would have been finished in about April of 2011.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Still discussing claims incurred and forecasting accuracy, we see from the filing that the Corporation forecasts using three (3) methods: financial, exponential, and linear. And we -- we have an IR response from the Corporation speaking to the linear and -- and exponential regression models for several coverages, wherein the Corporation refers to the poor predictive value of those models.

Can you comment on that, in terms of what is suggested then for the reliability of the related aggregate claims incurred forecasts.

MR. DONALD PALMER: Could I have a reference?

MS. CANDACE GRAMMOND: Oh, sure. The particular IR is PUB/MPI-2-15, and that arises from PUB/MPI-1-35. I always like to try to read both together, so 1-35, 2-15.

The -- the first question, the 1-35, asks for regression fit statistics, with respect to epo -- exponential and linear. And then -- the question -- or the quotation, rather, of poor predictive performance, or poor predictive value, was made in 2-15.

MR. DONALD PALMER: From a pure regression perspective, these trend lines have a tendency to miss reversals. So, for example, on our comprehensive claims, we had a significant auto-theft issue. Probably most of the -- or a good percentage of the comprehensive claims were auto-theft.

When we did the immobilizer strategy with the Immobilizer Incentive Fund, funding -- after-market immobilizers, that trend was reversed. So, if you had done a regression fit, whether it be expo -- exponential or linear of that specific trend, you would have missed the fact that, just by blindly looking at the historical statistics, that there was a significant intervention and that was predicted as part of the claims forecast, because we knew the intervention, we knew the approximate -- or -- or what the effect would be, and that was incorporated into the forecast from the financial forecast.

With the -- the PIPP, again, there has been maybe a -- a dampening of a -- a slowing down of the trend on -- on the financial forecast, so we may not get the full effect of that if we don't fully incorporate it through the financial forecast model.

(BRIEF PAUSE)

MR. DONALD PALMER: And just looking at -- we've incorporated some graphs in PUB-1-35 that it -- it really doesn't show too much of a trend; a little bit of a -- a downward trend in the last couple of years.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, Mr. Palmer, if what you're saying is that there is not confidence in the regressions, how does that relate to confidence in the forecast?

MR. DONALD PALMER: That would be that there wouldn't be much confidence in the specifical -- specific regressions of the linear fit or the exponential fit, which, again, those are produced for benchmarking purposes and not used in the actual calculation of the rates.

MS. CANDACE GRAMMOND: The Corporation still considers the regressions though for linear and exponential, does it not?

MR. DONALD PALMER: Considers for benchmarking purposes, not specifically the -- the results aren't used on -- in the rate calculation.

MS. CANDACE GRAMMOND: And -- and I understand that, that it's the financial method that's used, but -- but isn't the point of having a benchmark, that there's some comparative value in that; and if there's not confidence in the benchmark, then what good is the whole thing?

MR. DONALD PALMER: It's -- it's a tool, in order to -- when you're different from the benchmark, it's a tool that you can explain why, and -- and search for the underlying reasons for those. So, it still provides useful information of long-term trends, but if you're different from those long-term trends you have to be able to explain why, and that really helps the forecasting process.

MS. CANDACE GRAMMOND: Okay. Thank you, Mr. Palmer. I'm going to ask then some more general questions relating to the valuation of claims incurred, and the first is: I -- I would ask you to describe for the Board, the nature and extent of the interdependence of a claims incurred forecast in the GRA context, and the results, on the other hand, of the latest fiscal year-end valuation.

MR. DONALD PALMER: Each year the IBNR evaluation -- valuation of policy and claims liabilities that's completed and signed off by the appointed actuary -- external appointed actuary, provides a historical basis of what claims that occurred in each year cost. So, we look at -- for PIPP, the years that -- 1994/'95, for example, we look at what we've reported and recorded on our books as paid or case reserves, and then the actuary calculates an IBNR, which is the -- an amount bringing that reported amount to the ultimate value. That is done for every accident year up to the date of the evaluation.

So, when we did our evaluation, as at February 28th of 2011, that would have included all claims that occurred up to February 28th of 2011, to the extent that those estimates of ultimate claims differ from year to year. So, we would have had an estimate of the ultimate value of all claims up to February 28th, 2010, as at February 2010, to the extent that that estimate differs from the estimate at February 28th of 2011. If the estimate comes down, then that additional amount, with some consideration for discounting and -- and things of that nature, that amount would be completely released in the financial statements.

So, for 2010/'11 year, when there was a significant release, that all flowed through the financial statements, and all through the claims incurred in the 2010/'11 year.

What that means from a forecasting perspective, is you take the ultimate value of all the previous year claims -- and for this rate application we're looking for claims that are or will be incurred for the 2012/'13 policy year. So, in fact, that's -- those claims could be incurred in either the '12/'13 year, or the '13/'14 year. To the extent that your base of the forecast changes, as it did from the 2010 evaluation to the 2011 evaluation, that will bring your forecasts down as well.

So -- so, what we're expecting last year, for the '11/'12 year, for instance, has now been dampened because our historical base is different and we're just running off a different set of numbers.

The -- the key is that really the liability process and the rate-setting process really are very, very tightly intertwined, that whenever you have adjustments in your base you -- they will immediately move forward into your rate set -- rate setting mechanism, so there aren't -- so that evaluation of policy liabilities does serve as the groundwork for the financial forecast.

MS. CANDACE GRAMMOND: So would it be fair to say then that the Corporation works on the assumption that the latest year-end valuation reflects the best estimate for the ultimate costs of claims in those future accident years -- or accident year?

MR. DONALD PALMER: Not quite, but close. It provides the best estimate of claims costs from past years, which are used to project the future years. So, it -- very close, but not quite.

MS. CANDACE GRAMMOND: Previously, in this proceeding, we've talked about the -- the phrase, "prudent best estimate," to describe the basis for the preparation of valu -- of the valuation; that is before the PfAD, or the Provision For Adverse Deviation.

Is that still the case?

MR. DONALD PALMER: I would just refer to as "best estimate."

MS. CANDACE GRAMMOND: As opposed to a "prudent best estimate"?

MR. DONALD PALMER: Yes. I -- I think maybe the words that were used in past years were "prudently conservative," that was -- goes back a few years, so I would just say that the evaluation of claims liabilities use -- comes up with a best estimate, as the forecast comes with a best estimate.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. So, does the fact that there was a very significant release of reserve last year, in 2010/'11, have a -- a bearing on this discussion, with respect to prudent best estimate, or best estimate?

MR. DONALD PALMER: Not directly. The process was always designed to come up with the best estimate. We did have that release of reserves. We had mounting evidence over the last five (5) years that the actual results were a lot less than we had expected, and on that basis, we changed our view of what the best estimate was.

MS. CANDACE GRAMMOND: Okay. I'm going to ask you to go then, to AI-13(b). Okay. So, that's in Volume III. It's the -- the fat binder in Volume III.

(BRIEF PAUSE)

MR. DONALD PALMER: And will we be looking at the February results or the October results?

MS. CANDACE GRAMMOND: (b), February.

MR. DONALD PALMER: Thank you.

MS. CANDACE GRAMMOND: And just before we get into the specifics, if you could just indicate for the record, Mr. Palmer, what we have here at AI-13. We have two (2) documents, AI-13(a) and AI-13(b).

MR. DONALD PALMER: AI-13(a) is the evaluation of liabilities, as at the 31st of October, 2010. At AI-13(b), is the evaluation of liabilities, as at the 28th of Oct -- of February, 2011.

When we do the evaluation of liabilities, with the appointed actuary -- last year, with Mr. Christie -- there is significant analysis that is done, as at October, as a preliminary estimate of what we'll see at year-end.

With the year-end, the timing is -- is quite tight, and generally we have to have a number of financial statements about the end of March, so it gives us a time-frame of about a month. So, it really doesn't provide a lot of time to do a real fulsome analysis of the liabilities. So, we do that full analysis, as at October 31, when we do have some -- some time, and then update it with just the rest of the year data, as at February 28th.

MS. CANDACE GRAMMOND: And certainly if we look at AI-13(a), there's a lot more narrative in the document than there is in AI-13(b)?

MR. DONALD PALMER: Yes. The -- generally, the February report, or as at February 28th report, uses all of the assumptions that have been established in the October report.

MS. CANDACE GRAMMOND: Okay. Thank you. So, I'm going to ask you then to go to Exhibit 1, sheet 1, of AI-13(b).

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, this is entitled, "Summary of Policy Claims Liabilities."

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: So, it's Exhibit 1, sheet 1. I just want to make sure the panel has it, yes.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. So, if we look at Exhibit 1, sheet 1, we see the first section of the table is entitled, "Incurred, But Not Reported, Claims and External Adjustment Expenses," yes?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Can you explain the -- what the incurred but not reported claims provision is.

MR. DONALD PALMER: The incurred but not reported provision is based of essentially two (2) components. What this is, is the difference between what we have on our books as paid in case reserves, the difference between that number and what the ultimate cost will be.

So, that's two (2) components for -- on a claim-by-claim basis for a claim that we have on our books, and we expect a claim to grow over time, or it could decrease over time. The difference would be an incurred but not enough reported. Sometimes it's -- it's called IBNER.

Or there are some claims that just haven't been reported to us at all, incurred but not yet reported. The sum of those two (2) components would our incurred but not reported.

MS. CANDACE GRAMMOND: Thank you. So, that's what we see here in the first portion of the table on this document?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And if we look at the, "Accident Benefits," line we see -- it reflects there, "Accidents Benefits Weekly Indemnity." For PIPP, we see a net number of about 107 million?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And that makes up about half of the total of 214 million?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: So, Accident Benefits Weekly Indemnity contribute the largest share of all of the coverages?

MR. DONALD PALMER: Yes, I would agree with that.

MS. CANDACE GRAMMOND: Okay. Now, underneath the -- the total line, where we see reference to the -- the 214 million that I mentioned, we see immediately underneath that a line item called, "Ultimate Gross Internal Adjustment Expense Provision." Can you explain what that is.

MR. DONALD PALMER: The internal adjustment expense provision would be the amount that would be used to for -- case manage or adjust those claims over time. We're required to hold enough money in reserve to pay out all expenses and claims -- of claims that have already occurred.

So, consider -- I think one (1) way of -- of looking at it, is if the Corporation closed its doors on February 28th of 2011, we would have a number of claims that would be spread over time. We have to have staff that would case manage those claims. Some of them could last for another fifty (50) or sixty (60) years. So, there still is a requirement to make sure that there is staff that would adjust that claim.

So, that's -- that internal adjustment expense provision would provide for those expenses.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And on this particular exhibit, as -- as at February 28th, 2011, we have a provision of just under 120 million for that piece.

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And so, in effect, that adds 120 million to the -- the total number that we see in the first section?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Now the second block on this document is entitled, "CIA Rules Adjustments." Can you explain to us what that relates to.

MR. DONALD PALMER: The Canadian -- CIA standing for the Canadian Institute of Actuaries. The standards of practice require that claims be discounted, and what that means is they are discounted for the pat -- time value of money, and then a provision for adverse deviation, called PfAD, is added. So, the amount of discount for time value and (sic) money and the PfAD, the total effect is that's the discounting effect. And that's what's outlined in Section 2 there.

MS. CANDACE GRAMMOND: And so, in this particular case, the net effect of the CIA rules on a net of reinsurance basis, is to reduce claims liabilities by 18.3 million?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And the reduction then in discounting of about 249 million, which are lines Roman Numeral I and II, are substantially offset by the PfAD that you described, of 231 million, which are lines Roman Numeral III and IV?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. If we go down then to the next section where we see line item number 3, we have the -- the results for the IBNR and the CIA rules, reflected on line 3 and line 4, totalling about 315 million on a net of reinsurance basis. So, I'm adding the one ninety-six (196) and the one eighteen (118).

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And can you explain for the Board what gives rise to line 5 that's entitled, "Adjusted IBNR PIPP Enhancement"?

MR. DONALD PALMER: PIPP benefits were enhanced a couple of years ago and really don't have any underlying data to base the IBNR. So we've done a separate analysis of -- of those enhancements that's included as an add-on exhibit, and line 5 reflects that adjustment to IBNR.

MS. CANDACE GRAMMOND: And that's the -- the 53.5 million that we see there?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Just for the -- the benefit of the Board, when we talk about PIPP enhancements of a couple years ago, you're talking about a legislative amendment that was made to enhance the benefits available to victims of catastrophic injuries?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. We see then at line 6, the next item, adjusted IBNR Section 138 enhancement, which gives rise to another 23.1 million.

Can you explain what that relates to.

MR. DONALD PALMER: Yes, there was a -- an additional enhancement to PIPP -- PIPP benefits, specifically with regard to Section 138.

MS. CANDACE GRAMMOND: That would be Section 8 -- Section 138 of the Manitoba Public Insurance Act that relates to rehabilitation expenses?

MR. DONALD PALMER: Yes. So there was an increase in those rehabilitation expenses that was approved in principle in February of 2011. So, that additional liability was added in as well, and that amount was $23 million.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, for the items at lines 5 and 6 then, relating to the -- the legislative changes, are those numbers that are reviewed fairly regularly and that could be revised up or revised down?

MR. DONALD PALMER: Yes. In fact, the -- the line 5 was originally put in a couple of years ago, at a total ultimate value of about $90 million, I think was the -- the first estimate. That estimate now is about $75 million, which would be the $53 million that you see here, plus any case reserves or -- or amounts that have already been paid out under that particular provision.

MS. CANDACE GRAMMOND: Okay. So, moving then to line 7, entitled "Total Actuarial Liabilities," we have a -- a -- a number on a net of reinsurance basis of about 392 million?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. Continuing on then. Line 8 we have a line item called "Case Reserve Outstanding." Can you explain what gives rise to each of those sub-categories. You can probably actually skip hail catastrophe, but deal with PIPP enhancement, other than hail catastrophe and inter-company -- inter-company recovery.

MR. DONALD PALMER: For the PIPP enhancement, that's what we -- or the case reserves are reserves that are specifically assigned to a specific file -- file. So, each one of the -- a case reserve would have a specific claimant, or claim number, attached to it and would be recorded on our claim system as that.

So, for the PIPP enhancement we have calculated for specific claimants, specifically for the original PIPP enhancement. There are some case reserves that are assigned on the file, and that's the $27 million.

The case reserves, other than hail catastrophe, is our total amount of case reserves that we have. Every case file that we have, if you add them all up, they would total $864 million.

The inter-company recovery is an allocation of an aggregate deductible from our reinsurance reserves. So, it's an internal transfer.

MS. CANDACE GRAMMOND: Thank you. And just going back momentarily to hail catastrophe. I said to skip that one. That, we'll note for the record, is fully reinsured.

Is that right?

MR. DONALD PALMER: Yes, it is.

MS. CANDACE GRAMMOND: Okay. So leaving that line item aside then, the total for the other three

(3) categories that you've described is about 895 million?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: So, if we take it then through to the bottom of the document in line 9, the total claims liabilities, which is the sum of -- of the components we've been talking about, is about 1.3 billion?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Just as I say that, it reminds me it was pointed out to me at the break that I referred to a figure as "billion" at some point over the course of the morning, and I should have said "million". And we're not sure exactly where that is, but I'll track it in the transcript and we'll correct it.

MR. DONALD PALMER: We thought it was your cold, Ms. Grammond.

MS. CANDACE GRAMMOND: Oh, maybe it just sounded like "billion" because my nose was plugged. But thank you. We'll -- we'll see what Madam Clerk has recorded and then go from there.

Okay. So, thank you for that, Mr. Palmer. I'm gonna keep you then within AI-13(b), but I'm gonna ask you to go to Exhibit 5, sheet 1. So, we're gonna need to turn into that exhibit by several pages till we find Exhibit 5, sheet 1.

Yeah, Exhibit 5, sheet 1. This is the

section that deals with internal loss adjustment expenses.

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: The -- the earlier document, just for context, that we were looking at, was a summary of policy liabilities, Exhibit 1. So, this is now Exhibit 5, internal loss adjustment expenses.

Exhibit 5, sheet 1. So, it's within the same document that we were looking at, but you just have to flip past Exhibits 2, 3, and 4, until we find Exhibit 5.

Okay. So, if we take a look at this exhibit, we see at line 13, this is the provision before the CIA rules provision, the -- that dollar amount of about 120 million that we had seen in the earlier document, Exhibit 1, sheet 1, which relates to ultimate gross internal adjustment expense provision.

Is that right?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And that number, that 120 million, is the product of lines 10 and 12, on this particular exhibit.

Is that right?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: So, it's the -- the item, or the dollar amount at line 12, multiplied by the ratio at line 10?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. And that amount at line 12, the 1.14 billion -- and that is billion with a 'B' -- dollar amount, that is comprised of unpaid claims, not including the PIPP enhancement numbers from Exhibit 1, as well as an estimate of pure IBNR.

Is that right?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And can you define "pure IBNR."

MR. DONALD PALMER: In this context, pure IBNR would be what I previously referred to as not yet incurred, but not yet reported; so, an amount for claims that we haven't been notified of yet.

MS. CANDACE GRAMMOND: So, it excludes the incurred but not enough reported components?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. And can you describe how that number at line 7, the 26.3 million, is estimated?

MR. DONALD PALMER: It's just simply an

estimate at 5 percent of ultimate claims.

MS. CANDACE GRAMMOND: And what's the basis for the -- the 5 percent assumption, and how does the Corporation test that?

(BRIEF PAUSE)

MR. DONALD PALMER: This has been a -- a standard estimate for a number of years, in terms of -- it -- it's difficult to test in ter -- we know it's there. We haven't done extensive testing or modelling of it. So, it's been kind of a -- a standard estimate for a number of years.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, the 5 percent figure has been the one used as far back as you can remember, sitting here today?

MR. DONALD PALMER: As far as I can remember, from an MPI context, is twenty (20) years, and it's been 5 percent for twenty (20) years.

MS. CANDACE GRAMMOND: Okay. Line 10 then, we touched on earlier, in terms of the -- the ratio calculation that's there. And, as we see, that's the selected ratio of internal adjustment expenses to direct an agency claim base.

Now, if I understand it correctly, that -- that 10.5 percent ratio for this valuation, is based on a consideration of historical ratios in line 9 that we see, and is the key assumption to the provision.

Is that right?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And what is the basis for the 10 1/2 percent assumption?

MR. DONALD PALMER: The 10 1/2 percent essentially comes from the 8 1/2 percent that we have used in -- in past years, which is pretty close to the observed -- observed ratio of expenses to -- to claims, with an adjustment because we have seen such a large decrease in the unpaid claims reserve this past year.

So, even though the value of the claims has decreased substantially, the value of what it'll cost to case manage those claims has not changed significantly. So, we have put in an allowance about the same amount as the de -- as the decrease in the percentage decrease in the claims, was an increase to the percentage, essentially, so that big decrease in the unpaid claims reserve doesn't affect the -- the allo -- the internal adjustment expense provision.

MS. CANDACE GRAMMOND: Okay. So, the -- the concept that you were talking about was the -- the twelve point three (12.3), which we see at line 9, compared with the eight point eight (8.8) --

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: -- that we see in the middle column?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So, how was ten and a half (10 1/2) choosed? Is that -- or -- choosed -- chosen with -- like I said, drugs.

How is the 10 -- 10 1/2 percent chosen -- oh, sorry, Mr. Palmer.

(BRIEF PAUSE)

MR. DONALD PALMER: It is based on the judgment of Mr. Christie, and an explanation of that is shown in the October report at 6.1.10. It's described there.

MS. CANDACE GRAMMOND: Would you be able to read in the explanation for us?

MR. DONALD PALMER: From Mr. Christie's report:

"In reports prior to October 2008, the

ILAE provision factor was based on paid ILAE, divided by the average of paid and incurred claims. In the October, 2008, and February, 2009 analyses, the factor was based on paid ILAE divided by paid claims

In the October, 2000 analyses we reverted back to the prior approach.

The ILAE provision of 10.5 percent is based on the indicated factor and judgment.

We have based our estimate on the traditional paid-to-paid method that implicitly in -- assumes that ILAE is 50 percent paid when the claim is opened and 50 percent paid when the claim is closed.

ILAE was estimated as 10.5 percent of case outstanding and IBNR liabilities, plus the same percentage applied to 'pure' IBNR to cover claims opening costs. 'Pure' IBNR is estimated at 5 percent of the sum of current year incurred losses, as of eight (8) months, plus one third (1/3) of the prior year incurred losses, to allow comparison of annual figures."

That's the end of the quote.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, did the selection of the 10 1/2 percent originate within MPI, or was that suggested by Mr. Christie?

(BRIEF PAUSE)

MR. DONALD PALMER: That was -- the final decision was Mr. Christie's. There was discussion of that with internal actuarial staff, Mr. Johnston and Mr. Christie. Very difficult to come up with a percentage when you change the underlying unpaid claims reserve by that significant amount. We looked at the amount of provision that was booked and essentially kept it the same.

MS. CANDACE GRAMMOND: Okay. So, you're saying that the final decision was Mr. Christie's. But can give me any more specific an answer about whose suggestion the number was?

MR. DONALD PALMER: I would say that was

arrived at by consensus.

MS. CANDACE GRAMMOND: Okay.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. And -- and we've covered this off, but just to confirm, looking back at Exhibit 5, sheet 1, relating to the internal adjustment expense provision, we talked about the fact that the -- the $120 million number at line 13 is calculated using the 10 1/2 percent ratio.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So, it would be fair to say that what number that ratio is, is a fairly significant contributing factor to the number that we would see at line 13, that ultimately contributes to the whole?

MR. DONALD PALMER: Yes, I would agree with that.

MS. CANDACE GRAMMOND: Okay. We're going to stay within AI-13(b). We've been looking now at Exhibit 5. And I'm going to ask you to turn back to Exhibit 4, so still within the same document, if we just go back to Exhibit 4, and it's comprised of many pages. We'll look at sheet 5. So Exhibit 4, sheet 5.

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: Okay. Thank you. This exhibit is entitled, "Summary of Direct and Agency Ultimate IBNR Estimates." Can you confirm that this document reflects a summary of the results of the various valuation methodologies shown by fiscal accident year from which the selected IBNR provision is built up?

MR. DONALD PALMER: Yes, I can confirm that.

MS. CANDACE GRAMMOND: And it relates specifically to accident benefits weekly indemnity coverage?

MR. DONALD PALMER: Yes, also known sometimes as "income replacement." So, I will use income replacement and weekly indemnity interchangeably.

MS. CANDACE GRAMMOND: Thank you. And just -- just as an aside, before we continue with this document, when we talk about weekly indemnity benefits we assume that that means that those cheques are flowing to claimants on a weekly basis?

MR. DONALD PALMER: I think to -- on an individual claimant basis, they're -- they flow to claimants bi-weekly, but it's for weekly compensation.

MS. CANDACE GRAMMOND: So, in effect, when they get a cheque bi-weekly, it's for two (2) -- two (2) payments of weekly indemnity together?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. Okay. So, looking back then at Exhibit 4, sheet 5, we see the second column in is entitled, "Tabular Reserving Method." If you could describe the basis for those estimates, please.

MR. DONALD PALMER: Those particular estimates are based on a -- an annuity calculation tool. So, for specific -- so, for specific claimants, we have their age, sex, and how long they've been disabled, and we use the actuarial annuity factors to calculate the total amount of -- of reserve for those particular claimants.

(BRIEF PAUSE)

MR. DONALD PALMER: So, going back to our old terminology, for those older years, and that's years that are at least ten (10) years ol -- old, the assumption is that there's no pure IBNR in the context that we've talked about. So, we're -- made the assumption that there are no new claims going to come in as weekly income claims, unknown claims.

MS. CANDACE GRAMMOND: And is it correct

that the tabular reserving method, as shown in that column, it was part of the new reserving approach that the Corporation took in 2005?

MR. DONALD PALMER: We had the tabular reserves before that, but we didn't have it incorporated on a case-by-case basis, so that's what was done in 2004.

MS. CANDACE GRAMMOND: Thank you. Is it 2004 or 2005, Mr. Palmer?

MR. DONALD PALMER: Sorry, 2005.

MS. CANDACE GRAMMOND: Okay. Column 3 then, the next column in Exhibit 4, sheet 5, is entitled, "Incurred Development Method." Could you describe the basis for those estimates, please.

MR. DONALD PALMER: The incurred development method looks at the patterns, historical patterns, of reported claims -- that would include both paid and case reserves -- and looking at the patterns -- historical patterns. And then, based on those historical patterns, just project them into the future.

So, if historically we've seen claims -- reported in claims in -- incurred grow by 10 percent from the end of the first year to the end of the second year, that has been the historical pattern. Then the assumption is that future years' claims will grow by that same amount.

That is projected out until all claims reach their ultimate value, and that's -- establishes the ultimate claims for each year, and then hence the IBNR, as well.

MS. CANDACE GRAMMOND: And you describe, Mr. -- Mr. Palmer, just with respect to the word "incurred" that denotes the sum of the paid losses as well as case reserves?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And conversely, the word "paid", which we'll see in some of the other headings as we move across the page, relates to the amount paid already?

MR. DONALD PALMER: Yes, exclusive of any case reserves.

MS. CANDACE GRAMMOND: Thank you. The next -- one (1) moment.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you, Mr. Palmer. In your description of the incurred development model, you spoke about earlier years and carrying forward to future years. It is the case, though, that there's still an element of judgment involved in the incurred development method, it's not just a -- a strictly mathematical calculation?

MR. DONALD PALMER: There is some judgment. You have to take a look at the number of years that you've got in your -- in your sample, historical sample. There may be a fair bit of fluctuation. You may get some real outliers, especially out in the tails of the later years. So, there are different ways that you can smooth those.

You may see some trends in the data, so rather than using just averages, you may use -- have trends of development factors. You may choose to exclude certain data points. You may use three (3) years, you may use five (5) or seven (7) or nine (9) years. So there are a number of judgments in the selection of what those development factors will be.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you, Mr. Palmer. Moving then to column 4, the next column over on the same exhibit, we see a title "Incurred Bornhuetter-Ferguson Method." It's shortened here to Born-Ferg, which is probably easier than saying Bornhuetter-Ferguson. Can you describe the basis of those estimates under column 4, please, for the Board?

MR. DONALD PALMER: It's also an approach that's based on incurred paid plus case reserve, where starting with a assumed loss ratio -- so using historical patterns to -- to have an estimate of an initial loss ratio, what you think -- or what the estimate of what the initial loss ratio was gonna be for a given accident year. Then using the development patterns that I described before, rather than just projecting out into the future, the assumption is what's happened has already happened and -- and won't affect the future development.

So, the Bornhuetter-Ferguson, the -- the IBNR, is just the product of the expected loss ratio and what your unexpected unpaid would be at that point in time.

MS. CANDACE GRAMMOND: Thank you, Mr. Palmer. Next column, column 5 is entitled "Paid Development Method." We've spoken about the word "paid", but if you could indicate for the record what that method entails.

MR. DONALD PALMER: It would be, essentially, the same as the incurred development method, but instead of looking at the historical paid and case reserve patterns, you only look at the paid patterns.

MS. CANDACE GRAMMOND: Thank you.

Similarly, column 6, which is entitled "The Paid Bornhuetter-Ferguson Method," can you provide a description.

MR. DONALD PALMER: Again, the Paid Bornhuetter-Ferguson would be the same as the Incurred Bornhuetter-Ferguson, except using paid development instead of incur -- or incurred development.

In terms of those two (2) paid methodologies, they bec -- are used and were exclusively used, actually, before 2004, because the incurred development patterns weren't consistent. So if you have patterns, paid patterns that are more consistent then you would probably use those instead of the incurred patterns.

MS. CANDACE GRAMMOND: I was going to ask you, Mr. Palmer, with respect to the -- the five (5) methods that we see referenced on this exhibit and the description that you've given of each, what considerations would go into choosing the results of one (1) method over the other. You've just spoken about consistency.

Is there anything else that you would like to add to that?

MR. DONALD PALMER: I guess what an actuary is always looking for is consistent patterns of data. If you have situations on lines of business that develop very slowly and don't get much paid out in the first year or two (2), it might be difficult to use a paid methodology on something like impairment benefits where there's very little paid out in the first -- first year. And the leveraged effect would cause real inconsistency from year to year. So that would be a consideration.

If -- have changes in your case reserving protocols and really changes your historical patterns, then you might want to go more into the paid methodologies.

For -- for older claims, where you've got everything established, then it's probably best on a claim by claim basis, the best estimate is the tabular reserves. So on older years you might want to go with that method.

MS. CANDACE GRAMMOND: And speaking of that, can you explain to the Board the -- the basis of selection of the I -- IBNR provision by fiscal accident year for accident benefits weekly indemnity for MPI?

(BRIEF PAUSE)

MR. DONALD PALMER: Again, the selection of methodologies is included in the October report at 6.1.8, under "Indexed Losses." But, briefly, for the older years, 19 -- year ending 28 February 1995 through 2001, the tabul -- tab -- tabular method is chosen for the years 2002 through 2008, the Incurred Bornhuetter-Ferguson has been chosen, and for 2009 through '11, we actually choose the greater of the Paid Bornhuetter-Ferguson and the Incurred Bornhuetter-Ferguson.

MS. CANDACE GRAMMOND: And --

MR. DONALD PALMER: Which -- which in every case is the paid method.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Can you explain, Mr. Palmer, how those selections compare with what was used one (1) year before, one (1) -- last year?

(BRIEF PAUSE)

MR. DONALD PALMER: I'll just read in from Mr. Christie's report:

> "In our prior report the selected IBNR was based on the incurred Bornhuetter-Ferguson method for the most recent five (5) insurance years and the paid loss development method for all other insurance years.
>
> The change in selection of method used

for each insurance year resulted in a four (4) point -- $42.1 million increase in that estimated unpaid claims for all insurance years combined.

As a result of the implementation of a new claims management system, FINEOS BI3, described in Section 3.4, approximately $14 million of reserves were added to pay for expenses.

However, the ex -- historic paid and incurred development triangles already included the historic development of these expenses.

Consequently, re -- we removed the 2011 fiscal year reserves from the dated triangles prior to proceeding with the incurred development method. We then reduced the selected IBNR by the amount of the current case reserves for claims expenses."

MS. CANDACE GRAMMOND: And, Mr. Palmer, where were you reading from just now? I know you said it was his report, but which one and what page?

MR. DONALD PALMER: That's the report as at October 31, 2010, Section 6.1.8 on page 16.

MS. CANDACE GRAMMOND: Thank you.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And for clarity, Mr. Palmer, tabular reserving was used last year?

MR. DONALD PALMER: Yes, it was.

MS. CANDACE GRAMMOND: Okay. Let's discuss then the dollar significance of the -- the changes that you've been speaking about. There's in IR response that may be of assistance. It's two (2) dash -- PUB/MPI-2-14. Oh, we should probably go to that.

(BRIEF PAUSE)

MR. REGIS GOSSELIN: Could I ask a quick question in relation to the same exhibit that we were talking about? I noticed that there was a significant increase in valuations irrespective of the method starting in 2010. And I'm just wondering, what was the cause of that change across the methodologies?

MR. DONALD PALMER: That's, in fact, not change in -- in time periods. It's -- it's the accident years. So the more recent accident years we know less information about the -- about the claims, so we have reported claims, but we don't have that many -- that much information regarding those. So there's a much higher incurred but not reported in more recent accident years than there are in older years, where we have all the information.

For example, for serious losses the protocol is to put -- once we know that there's a serious loss, that we sort of immediately put a five hundred thousand dollar ($500,000) reserve on that loss just to get it into the serious reporting protocols, reinsurers are notified and are -- and senior management knows that there's a serious loss there even though it's a little too early to evaluate what the ultimate cost of that claim would be.

You -- you have basically not very much idea in the first six (6) to nine (9) months how much recovery there may be on a specific case, so we -- we put in that five hundred thousand dollars ($500,000). The -- anything above that would be IBNR, and that would be included in the larger numbers that you're seeing in 2010/2011 accident years.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Mr. Palmer, just before we go to 2-14 with respect to the dollar amounts, can you comment on the -- the why, or the reasons behind the change in choice of methods that we've seen from last year?

MR. DONALD PALMER: Again, it would be one (1) of consistency in -- in looking at transcripts from past years. For instance, last year we had a -- in five (5) -- the five (5) year pattern when you flip from one to another that could mean that there was a very large change in reserve just because you flipped methods.

That's the kind of change that we're trying to avoid in terms -- so we've looked at what has been the more consistent method over time and that would be the reason for the change.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Palmer, you told us with reference to Exhibit 4, sheet 5, that for 2009, '10, and '11, the greater of the incurred or paid Bornhuetter-Ferguson methods would be used. What's the rationale for that?

(BRIEF PAUSE)

MR. DONALD PALMER: Our paid development

has been quite consistent over time, but there's an issue with serious lawsuits as I mentioned. The paids-out early on can look very similar, but then you don't know about the serious losses.

So especially that greater of is only the last three (3) -- three (3) years when we don't have all the information regarding the serious losses. So there is real -- can be real fluctuations and so that's why the greater of the two (2) is -- is chosen.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And when you say fluctuations, Mr. Palmer, you're referring to fluctuations in what?

MR. DONALD PALMER: In the reported -- incurred reported claims from year to year.

(BRIEF PAUSE)

MR. DONALD PALMER: So if we had double the number of serious losses, paid might look exactly the same, but after you got into the third year you would all of a sudden see the paids being way bigger than you had expected. So -- so from that point of view it's...

(BRIEF PAUSE)

MR. DONALD PALMER: So essentially you're unsure which -- that the paid will give you the right answer.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Would it be fair to say, Mr. Palmer, that by choosing the greater of the two (2) numbers, there's a conservatism there?

MR. DONALD PALMER: Yes, I -- I would agree with that. And -- and again, I'll also remind the Board that all of the selections of the methods and the methodologies are that of the appointed actuary.

MS. CANDACE GRAMMOND: You said "are that of the appointed actuary"?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, Mr. Palmer, just so that we're clear with respect to that -- that follow-up point, is it your evidence that the methodologies then originate with either the Corporation or the external actuary? Or sorry, the -- the choice of methods, that the -- like the changes, for example, that we've seen from last year to this year, just as an example, were those changes that originated with the Corporation and were then discussed with the external actuary and agreed upon, or were these recommendations received from the external actuary?

MR. DONALD PALMER: These would have been the initial drafts so to speak, would have been from the internal actuary but they would be discussed with Mr. Christie at some length. And then the final determinations of the -- the most appropriate method would be cons -- consensus, but the final opinion would be that of Mr. Christie.

MS. CANDACE GRAMMOND: And I take it that those discussions would take place between Mr. Christie and then from MPI side, Mr. Johnston, sitting beside you?

MR. DONALD PALMER: Yes. And with me being informed sort of every step of the way and if there are -- a third opinion required I would also participate in those conversations.

MS. CANDACE GRAMMOND: So involved as needed?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND:

MR. DONALD PALMER: Okay. So 2-14 posed by the Board. This was a follow-up question to 1-29 in the first round. If you take a look at (d), so 2-14(d), the Board had asked with reference to the October actuary's report, the amount related to the change in -- in selection for accident benefits, weekly indemnity, and the Corporation advised that the change gave rise to a $30 1/2 million increase?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And for accident benefits other indexed, so as opposed to weekly indemnity, there was a $33.6 million increase.

Is that right?

THE CHAIRPERSON: Ms. Grammond, we need to know where you are now.

MS. CANDACE GRAMMOND: Oh, I'm sorry. I'm at PUB/MPI-2-14.

THE CHAIRPERSON: So that's in which book?

MS. CANDACE GRAMMOND: It's not in the book. It'll be in -- if there's a binder of Second Round, the questions and answers.

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: My apologies. I didn't realize that you didn't have it in front of you.

THE CHAIRPERSON: Well, we didn't know

where you were. Okay.

MR. BYRON WILLIAMS: And, Ms. Grammond, are you referring to (d) and (e) of the responses?

MS. CANDACE GRAMMOND: Yeah. I was just going to tell her that as soon as they -- they have it in front of them. So PUB/MPI-2-14(d) and (e), (d) Mr. Palmer has testified relates to accident benefits, weekly indemnity, and (e) to accident benefits other indexed.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So, Mr. Palmer, just so we're clear, these -- the two (2) dollar amounts that I've referenced at 2-14(d) and (e), the 30.5 million and the 33.6 million in the respective categories, those are the amounts that the changes in methodology have given rise to in terms of changed amounts.

Is that right?

MR. DONALD PALMER: Yes, that's -- by changing the methodologies selected, this is the resulting increase. Yes.

MS. CANDACE GRAMMOND: Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: You know, I don't think we know what you're talking about, which is not good.

MS. CANDACE GRAMMOND: Okay.

THE CHAIRPERSON: So that -- we have to stop until we find out what you're referring to. We are looking at a chart on 2-14 but that's not right.

MS. CANDACE GRAMMOND: No. Oh, okay. Yeah, that is the 2-14 --

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: -- (c) attachment.

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: So if you just go across that -- that should be on your right-hand side and then on the left you should have the narrative answers, so A, B, C, D and E.

THE CHAIRPERSON: I'm -- I'm just struggling because we're not finding a two dollar ($2) -- I'm not seeing a two dollar ($2) amount. But --

MS. CANDACE GRAMMOND: No. No, in -- in (d) it's a thirty (30) -- 30.5 million and --

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: -- in (e) it's 33.6.

THE CHAIRPERSON: Okay. Oh, okay. Well, we're on the right page.

MS. CANDACE GRAMMOND: Okay.
THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:
MS. CANDACE GRAMMOND: So just to -- to recap. The -- and Mr. Palmer, correct me if I say this wrong, but the witness' evidence was that those are changes that have arisen from the changes in the methods that we looked at in Exhibit 4, sheet 5?
THE CHAIRPERSON: Okay.
MR. DONALD PALMER: Yes.

CONTINUED BY MS. CANDACE GRAMMOND:
MS. CANDACE GRAMMOND: So, in other words, Mr. -- Mr. Palmer, the -- the Corporation made some changes with respect to the methodologies that it was gonna apply and the 30 1/2 million and the 33.6 million are the financial result that arose from those changes?
MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Madam Chair, I do have a few more lines of questioning on actuarial matters, but I note it is 2:45. Do you want to take the afternoon break and then I should be able to finish with the actuarial --

THE CHAIRPERSON: Yes.

MS. CANDACE GRAMMOND: -- matters this afternoon.

THE CHAIRPERSON: That's a good idea. Thank you.

MS. CANDACE GRAMMOND: So, a fifteen (15) minute break, Madam Chair? Fifteen (15) minutes?

THE CHAIRPERSON: Sure. We'll take fifteen (15) minutes.

--- Upon recessing at 2:45 p.m.
--- Upon resuming at 3:04 p.m.

THE CHAIRPERSON: So, Ms. Grammond, since the panel was struggling to find the right page, and we finally are all -- we're on the same sheet now, do you want to just get that information again so that we can hear it and understand it?

MS. CANDACE GRAMMOND: Yeah, absolutely. I will do that. Just before I do that, I just want to put on the record the discussions that counsel have had with respect to the witnesses and the timing.

So we had initially planned for Mr.

Christie of Ernst and Young, or formerly of Ernst and Young, on Tuesday. And then the KPMG witnesses Tuesday afternoon. We inquired -- Ms. Kalinowsky inquired to see if that timing could be changed and it cannot.

So at present, we are expecting Mr. Christie Tuesday morning, Messrs. Kowalchuk and Parkinson Tuesday afternoon, and then Mr. Geffen from Gartner on Wednesday. That's all of next week, and procedurally what will happen, and we've spoken with Mr. Williams and Mr. Oakes, and I see Mr. Kruk is in the room now for CAA. To the extent that any of the Intervenors have questions for the MPI panel on these actuarial valuation issues, anything that would be asked of the auditors or anything that would be asked of Mr. Geffen relating to the IT optimization project, that cross-examination should be done of the MPI panel first, which means that would be completed today, tomorrow, or Thursday.

And I see Ms. Kalinowsky nodding her head.

MS. KALINOWSKY: Yes, very much. The idea is to ask the panel all questions from all different parties so both Board counsel and then the Intervenors will conduct their cross-examinations on those particular matters as mentioned by Ms. Grammond.

And then the panel, so to speak, would be closed on those particular items. And then they'd be re-open, so to speak -- brought back on Thursday, on other items. That's the, kind of standard process in regulatory hearings. It's gone a bit of a blip there with those Intervenor -- those witnesses coming on those particular days.

THE CHAIRPERSON: Thank you. So proceed and let's just go back.

MS. CANDACE GRAMMOND: Yes, we will. Okay, so I'd ask then for the Board to have two (2) things in front of them. One (1) is Exhibit 4, sheet 5, which I had spent quite a bit of time on, but I just want to make sure we tie the two (2) together. So this is AI-13(b), Exhibit 4, sheet 5. The chart that had the -- the five (5) methods across the top, that we had been talking about.

So -- Board member Gosselin, do you have it? Okay. So Exhibit 4, sheet 5, we went through the -- the methodologies and what the -- the changes were and Mr. Palmer described the changes in methods that the Corporation had chosen and Exhibit 4, sheet 5, relates to accident benefits, weekly indemnity.

The next sheet, which is Exhibit 4, sheet 6, relates to accident benefits, other indexed. Okay. So it's the same information, but for that other line of coverage.

So in the context of that evidence, then, if we go to -- keep that open, and go to PUB/MPI-2-14.

THE CHAIRPERSON: Is -- is that a coloured chart? Like a -- is it a graph?

MS. CANDACE GRAMMOND: It has a colour chart in it --

THE CHAIRPERSON: Right.

MS. CANDACE GRAMMOND: -- which is called page 1, and the page immediately before that, has narrative under the heading "Response," it has 'A', 'B', 'C', 'D' and 'E'.

THE CHAIRPERSON: Yes.

MS. CANDACE GRAMMOND: So, 'D', the corresponding amount as at February 28th, 2011, is 30 1/2 million. That -- that -- okay, sure.

What -- what we can do maybe even just for better context is I'll read -- read in the questions. So if you flip over the page, the question at (d) was:

"Further to the reference in the appointed actuary's report, as at 31st October, 2010, in Section 6.1.6 [and I'll just skip what's in brackets] please provide the corresponding amount with supporting analysis for the appointed actuary's report as at

February 28th, 2011."

So we were asking for an update, an updated amount. So the Corporation said:

"Corresponding amount as at February 28th is 30 1/2 million."

So that relates to weekly indemnity -- accident benefits, weekly indemnity, which were the changes that we looked at on Exhibit 4, sheet 5. Mr. Palmer, if I'm saying anything wrong I'm just counting on you to jump in and correct me.

So Exhibit 4, sheet 5, changes give rise to a $30 1/2 million increase in unpaid claims liabilities. And then, if we move down to (e) -- so are -- are we good with that? Okay. So then PUB/MPI-2-14(e) was basically the same question as (d) but to ask for an updated amount for accident benefits, other indexed.

And we see from the answer to (e) that that change was 33.6 million. So Exhibit 4, sheet 6, the changes that are reflected there carry with them an increase in unpaid claims liability of 33.6 million.

THE CHAIRPERSON: So your next question was: What was the reason behind this $2 million change? Is that what you asked? I just heard a two dollar ($2) figure, but it's actually 2 million?

MS. CANDACE GRAMMOND: I'm not even sure, Madam Chair, where that 2 million or two dollar ($2) amount came from that --

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: -- that you -- that you heard. I'm -- I'm not saying I didn't say it, but I -- I didn't mean to mention an amount of --

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: -- of two dollars ($2). So I -- I mean, I'd have to look on the transcript, but certainly the evidence that I was trying to bring out for the Board's understanding was as I just described it, relating to this 30 1/2 million and the 33.6 million. That's -- that's the point I was trying to get to.

THE CHAIRPERSON: But then there's an explanation, right, of why one (1) is less than the other, right, or what the difference is?

MS. CANDACE GRAMMOND: I think the explanation, and -- and I'll ask Mr. Palmer now to -- to jump back in, but the explanation would be why the Corporation made the changes that gave rise to those increases in the unpaid claims liabilities of -- because if you add the two (2) together it's like 64 million.

THE CHAIRPERSON: That's what we need to hear again, Mr. Palmer, if you don't mind, because we were struggling to find the page and we didn't hear the rationale. Thanks.

MR. DONALD PALMER: In the selections of the IBNR amounts, essentially, the evaluation of what methodologies to choose comes down to the consistency and patterns, the reasonableness of the estimates. I'm looking on Exhibit 4, sheet 6, for instance, where the paid Bornhuetter-Ferguson method yields an IBNR of -- for the most recent accident year of negative $1.6 million, which probably is not reasonable because we haven't seen enough of a paid development to -- and that sometimes the more recent years the paid methods do give aberrant results.

So that's -- in terms of the selection of the greater of the incurred Bornhuetter-Ferguson or the paid Bornhuetter, we'd be looking at $7.8 million compared to negative one point six (1.6) for the most recent year. So that's kind of a rationale of picking the greater of one over the other.

Sort of -- reasonableness of the results can also be -- can take a look at Exhibit 2, sheets 5 and 6, that shows the ultimate value by year. And rather than -- than seeing the -- just looking at the IBNR portion, look at the total amount of incurred by accident year for those two (2) claims coverages, and you'll see that's column 7 on Exhibit 2, sheet 5. And the values over the last ten (10) years even have -- have wavered between 50 and $60 million. So that's kind of -- when you get an answer in that range it looks fairly reasonable.

Similarly, for Exhibit 2, sheet 6, the ultimate claims value for accident benefits, other indexed, are sort of in the 50 to $65 million range. Again, that gives kind of a reasonableness approach of the selected IBNR.

MR. REGIS GOSSELIN: Follow-up question, the method you were using previous to the change were which me -- which method in particular were you using?

(BRIEF PAUSE)

MR. DONALD PALMER: It was based on the incurred Bornhuetter-Ferguson for the last five (5) years, but the factors have changed significantly since last year. So the -- using just that method may not be appropriate.

MR. REGIS GOSSELIN: I'd like to make sure I understood it correctly. You said the incurred Born-Ferg method, is that -- what --

MR. DONALD PALMER: Yes.

MR. REGIS GOSSELIN: Thank you.

MR. DONALD PALMER: For the most recent

five (5) years.

THE CHAIRPERSON: Do you just want to expand on what factors changed? Like what factors changed? Can you list a few?

MR. DONALD PALMER: Sure. I'm referring specifically to the selected development factors, the growth of incurred or paid from year to year. Because we have seen a real change in historical data patterns over the last five (5) years, we have selected much lower year to year development factors, so that has influenced the selection of methods as well.

THE CHAIRPERSON: Okay.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Okay. Mr. Palmer, I do have some further questions with respect to AI-13(b), the February external actuary's report. I'm going to ask you to -- to turn farther into the document. We were at Exhibit 4, so if we keep going in the document we'll find a series of appendices that are lettered, Appendix A, B, C, and so on. I'm going to ask you to go to Appendix E, as in echo, pages 4 and 5.

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, I have it.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Does the Board have it, Appendix E, pages 4 and 5? Okay. Perfect. So, Mr. Palmer, we see at the top left-hand corner of the page that this analysis in the two (2) pages here relates to, again, accident benefits, weekly indemnity coverage. Is that right?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And what I'm going to ask you to do, and I'm going to -- I'm going to get into some specific questions about what we see and in particular the selection factors that we see along the bottom of the page, but can you explain, as best you can in -- in general terms, what this data is, what is it that we're looking at here?

MR. DONALD PALMER: I -- I guess from a lot of the actuarial work these are referred to as lost triangles, which are the cornerstone of a lot of actuarial PNC evaluations. Basically because it's -- the data is in the form of a big triangle.

What a data triangle provides is for each year along the -- the col -- the first column, that signifies the date of loss of a specific group of claims. So for this specific group of claims, for weekly indemnity -- oh, and the -- along the top -- the top row you'll see numbers eight (8), twelve (12), twenty (20), twenty-four (24), thirty-two (32), and so on. That's the point of time that we're looking at the data, so data that -- after eight (8) months, after twelve (12) months, after twenty (20) months, after twenty-four (24) months, and so on.

So specifically for the '10 and '11 accident year, at the end of eight (8) months we had incurred claims of 13 million and forty (40) -- forty-one thousand dollars ($41,000). At the end of the year we had reported claims of $26,774,000.

For the 2009/'10 accident year, at the end of eight (8) months we had reported to us 14.7 million. At the end of twelve (12) months, that was 21.4 million. At the end of twenty (20) months that was 29.9 million. and at the end of twenty-four (24) months, which would have been as at February 28th of 2011, we had $32.3 million.

Going backwards you'll -- you'll notice that each older accident year we have twelve (12) more months of development. So for accidents that occurred in the '08/'09 year, total reported to the end of February 28th of 2011 would have been in total thirty-six (36) months. So that total of thirty-six (36) months is the amount reported to date to February 28th, 2011.

In terms of, again, the valuation exercise, essentially it is to take this loss triangle and fill up the bottom gap using those development factors. That's the ultimate goal.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Palmer, just to be clear and to tie it back to some of the earlier exhibits that we looked at, because this chart reflects incurred data it would impact the incurred development method numbers as well as the incurred Bornhuetter-Ferguson numbers?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. So thank you for explaining the -- the table that goes across the top. Can you now give a description of what we see in the second part of the -- the document with all the decimal numbers?

MR. DONALD PALMER: Sure. That -- those numbers at the next signify the growth from development pattern or development measurement time from one to the next.

So the eight (8) to twelve (12) number signifies the growth of each of those accident years from the eight (8) month time period to the twelve (12) month period. So for the '09/'10 year, for instance, it grew from eight (8) to twelve (12) by 45 percent, that would be 14.7 million to 21.4 million. From the twelve (12) months to the twenty (20) months it grew an additional 39 percent, that would be from 21.4 million to 29.9 million. And then the last period, twenty (20) to twenty-four (24) months it grew from 29.9 million to 32.3 million, or 8.2 percent. So one point zero eight two two (1.0822).

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: I -- I just want to make sure, Madam Chair, that we're -- are you -- were you able to --

THE CHAIRPERSON: Len and I are struggling with that because -- well, it's -- maybe it's just math. But I mean I'm looking at the 45 percent and I'm looking at the 39 percent and it looks like you just took the second two (2) digits there, forty-five (45) and thirty-nine (39). But then you do something a little different in the third one (1), it's 8.2 percent -- from -- so -- I mean, I -- maybe I'm just mathematically challenged but this is the accountant here. So we could ask him if he gets it.

Yes. Oh, I -- I am understanding that. I'm understanding the concept. And -- and at the economist to the right and the accountant to the left, are understanding it too. So I take your word for it. And I -- I do understand how it's translating into a triangle. So. Thank you.

MR. DONALD PALMER: Okay. Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So, Mr. Palmer, in essence we have on the -- the first table, we have the dollar amounts shown at particular points in time for each accident year.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And then in the second table, we have the -- it's shown as a -- as a decimal amount or a ratio, but really it's the percentage change of those dollar amounts.

MR. DONALD PALMER: Yes, so one point four five (1.45) would indicate a growth of 45 percent.

MS. CANDACE GRAMMOND: And the examples that we've been using and looking at, all are increasing over time, but you could also have a decrease from time period 'A' to time period 'B', is that right?

MR. DONALD PALMER: You could, yes. And -- in which case, and I'll find one. For instance, if you look at the 24 to 32 column, for the '03/'04 insurance year you'll see a factor of point eight two five four (.8254). That means that the amount reported at -- after thirty-two (32) months was 82 percent of the amount that was reported after twenty-four (24) months.

MS. CANDACE GRAMMOND: So the dollar amount went down and that is reflected by the fact that, rather than a one (1) there's a zero there in front of the decimal.

MR. DONALD PALMER: And if you slide up, into the upper table, '03/'04 year, you'll see that from twenty-four (24) to thirty-two (32), it went from 66.7 million to 55.0 million.

MS. CANDACE GRAMMOND: Okay. Thank you.

So, that leaves then, Mr. Palmer, the last section of the -- the document, underneath the two (2) tables that we've just been speaking about. We have a series of headings, "Latest nine (9) volume weighted," "Latest six (6) volume weighted," and -- and so on. Can you describe those ratios that are reflected in the bottom part of the document?

MR. DONALD PALMER: By using these

observed factors, we have to select fact -- factors in which to square the triangle, so to speak.

So we use various measurements, "Latest nine (9) volume weighted" means looking at the last nine (9) years weighted by the volume of claims. So it's just taking bas -- basically the total of all the twelve (12) month columns, divided by the total of the eight (8) month column for this last nine (9) years.

The six (6) volume weighted is taking that same volume weighted average for the last six (6) years, latest three (3) volume is taking the -- those totals for the last three (3) years.

Simple average of middle four (4) of last six (6), that's looking at the straight averages from the last six (6) years and taking the middle four (4). I also call that the figure skating method because you take out the -- throw out the low score and you throw out the high score and you're left with the -- the middle.

So a simple average of the middle three (3) of the last five (5). Again, same thing. Throw out the high one, throw out the low one and you've got the middle three (3).

So that's various measurement points that you can identify trends in the data, or you can, with those throwing out the high and the low, you're getting rid of some of the aberrant factors, for instance.

So again, those are basically some -- some measurement tools that you can use that -- and the actuarial -- use judgment to select a selected factor based on some of those.

MS. CANDACE GRAMMOND: Okay. So, if I understand you correctly, Mr. Palmer, the first five (5) lines that we see are restatements or ways of analyzing the actual ratios that appear above.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So now tell me about the last four (4) lines of the table. So we have one (1) called "Selected Feb/'10," "Selected October/'10," "Selected factors," and then "Selected ultimate." Can you tell me what those are?

(BRIEF PAUSE)

MR. DONALD PALMER: The "Selected Feb/'10" is the factor for each of those development pe -- periods that we select or that the actuary selected at -- in the evaluation as at February 28th, 2010. The "Selected October/ '10" is the factor that was selected in the evaluation as at October of 2010.

The "Selected Factor," that's the factor that's selected in this particular evaluation. So it, in most cases, would be the same as that selected in October of 2010. And the "Selected to Ultimate" is multiplying all the factors up to get not only the development to the next time period, but to the ultimate value. So, again, that would be -- the "Selected Ultimate" would be the product of all the development factors going forward.

MS. CANDACE GRAMMOND: Okay. So to make sure that I understand that, so the first two (2) lines, the "Selected February/'10" and the "Selected October/'10," those are basically historical references for the factors that the Corporation used at those two (2) periods of time?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And then the third line, selected factors, is now what the figure or the ratio that the Corporation is using in -- or the Corporation's actuary is using in this particular report?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So if we look at the first column, so the -- it's entitled, "The eight (8) to twelve (12) month column," right. That's about halfway down the page. And if we look straight we down we see that the ratio for that time frame in February of 2010 was one point nine one (1.91). And for the purposes of this report, that's going down to one point seven (1.7). That's right?

MR. DONALD PALMER: That's correct, with one (1) proviso, that the eight (8) to twelve (12) development factor isn't actually used in this evaluation because we've got data to the end of February of 2011. So it's a selected factor. It is shown but it's not used anywhere.

MS. CANDACE GRAMMOND: Okay. If we go across the page under the heading, "Thirty-six (36) to forty-eight (48) months," so I'm now in the sixth column in, and we'll look at the same two (2) lines. We'll look at the selected February, 2010, ratio, which was one point one zero eight (1.108), and then the selected factor for this report is one (1) even. That's right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Can you tell the Board about the underlying rationale with respect to that change? That's the change from the one point one-o-eight (1.108) in February of 2010 to the one (1) even.

MR. DONALD PALMER: Sure. If we look at the actual year-to-year development factors, so back up into the triangle of factors, you'll see one point zero five five one (1.0551) going up to point nine nine-o-seven (.9907) to eight nine seven-o (8970) and so on.

You will see a real break in data one (1), two (2), three (3), four (4), five (5) -- after the sixth factor up. So the factors below from the '02/'03 accident year and newer are from a low of point eight nine four six (.8946) to a high of point -- one point zero five five one (1.0551).

If you look at the development prior to that, all the numbers there are much bigger, with the lowest being one point o-six two one (1.0621) but going all the way up to one point three five nine five (1.3595). That break signifies the year that we did change our case-reserving protocols.

And prior to that, we had real growth in case reserves year, to year, to year. After that, there was not much growth. There were some years that went down somewhat, there were some years that went up a little, but generally the factors were pretty close to one (1) going forward.

In terms of the selection of the -- that factor, with the one point one zero eight (1.108) we relied on older year's data. We knew that there was a change in reserving protocols, but weren't fully relying on that data until this past year.

We've now got six (6) years of -- of observed data and that's why we've dropped that from the one point one-o-eight (1.108) to the one point zero zero zero (1.000).

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And if we stick with that column, Mr. Palmer, the thirty-six (36) to forty-eight (48) month column, and noting the evidence that you just gave about the change in reserving practices in 2005, we see if we look at the -- the volume weighted and the simple average line, so that the restatements that we talked about of the actual data, we see that for the most part for that particular month period, the thirty-six (36) to forty-eight (48), those averages are actually -- four (4) of them are less than one (1), at point nine (.9) of some variation. And then it's only the -- the latest nine (9) volume weighted, that's actually over one (1)?

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Did you hear that?

MR. DONALD PALMER: Yes, there was a -- a reference CAC/MPI-1-8, essentially it's the same -- essentially, line. So yes, the -- there are so -- the observed factors are less than one (1), some -- some cases. The most recent factor is great than one (1), one point zero five five (1.055).

Again, it's a question of does that latest one, is it significant or not? At this point in time we're not willing to -- or the actuary isn't willing to say that our reserves will go down over time, and that's why the -- the selection was at one (1).

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, Mr. Palmer, if the averages then that we just looked at, the four (4) of which are under one (1), if those are accurate and reflect reality, then the selection factor of one (1) is inherently conservative. Would you agree?

MR. DONALD PALMER: I -- I wouldn't agree with that. Again, it's -- it's looking at the historical, but also looking at the month to month across selections. You would generally expect the year to year of the thirty-six (36) to forty-eight (48), forty-eight (48) to sixty (60), and so on to generally follow a pattern of being static or -- or decreasing over time.

So to look at those particular averages, if the world evolves exactly that way in the future, then, yes, I would accept your assertion that one (1) is greater than the averages. It's not the judgment of the actuary that that is going to occur and the best estimate of the data going forward is the one (1).

MS. CANDACE GRAMMOND: And I note that we've been focussing in on the thirty-six (36) to forty-eight (48) month period, but if we look to the right across the page at the selected factors, we see that the factor is one (1), all the way across even on the -- the left-hand page and even onto the next page, all the way up until the last column, and I'll -- I'll come to that in a moment.

And similarly, the averages that are shown, looking to the right across the page, are -- are often less than one (1)?

MR. DONALD PALMER: Yes, I would agree with that.

MS. CANDACE GRAMMOND: So looking then at the last or second-last column -- so I'm not on page 5 to the right-hand side we have the -- the two hundred and sixteen (216) to two hundred and twenty-eight (228) month period where we have a -- a selected factor of one point zero five four seven (1.0547).

MR. DONALD PALMER: Yes, I have that

MS. CANDACE GRAMMOND: And can you confirm that that factor is derived using the results of the 2005 analysis tempered by observed development beyond a hundred and twenty (120) months?

MR. DONALD PALMER: Yes, and there's a little asterisk showing that formula at the bottom of the page.

(BRIEF PAUSE)

MR. REGIS GOSSELIN: Can I ask a question, please? The -- I didn't understand the reference to the -- the definition of selected ultimate. Could you explain that again, please?

MR. DONALD PALMER: The selected ultimate would be instead of having the growth from one (1) period to the next, so from twenty-four (24) months to thirty-two (32) months to thirty-six (36) months and so on, it's the growth from that period of time to the end of the chart or to the end of time. So the product of all the future factors.

MR. REGIS GOSSELIN: And is that -- is that equally true of the next line as well, the one point eight-eight one nine (1.8819)? Is that...

MR. DONALD PALMER: Yes.

MR. REGIS GOSSELIN: Okay.

MR. DONALD PALMER: Yes.

MR. REGIS GOSSELIN: So up again. On that -- on that line is that of any use to you at all in respect of the calculations that are done?

MR. DONALD PALMER: Yes, it is. In fact, in the loss development -- or incurred loss development method we would use the observed incurred to date multiplied by that selected ultimate and that will give you your ultimate value. And the difference between that ultimate value and the reported to date is -- would be your IBNR.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. Mr. Palmer, we were speaking about the column dealing with two hundred and sixteen (216) to two hundred and twenty-eight (228) months, which is on the right-hand page, page 5. It's the second-last column or the second column from the right, and the selected factor there of one point zero five four seven (1.0547). And you confirmed that this was derived using the result of a 2005 analysis and that it was pursuant to the formula that's on page 4 at the bottom next to the asterisk.

Can you comment on the -- the 2005 analysis that we're speaking of and, in particular, why that has not been updated?

(BRIEF PAUSE)

MR. DONALD PALMER: We did have an IR on that, that exact topic. But essentially we have taken a look and haven't seen any observable differences in the case reserves from the tabular methodology, so we haven't necessarily seen a requirement to update that, but we will take a look at it in -- in the future for sure.

MS. CANDACE GRAMMOND: Now, if I under -- if I understand it correctly, that 2005 analysis spread the development over many intervals starting with the hundred and thirty-two (132) to a hundred and forty-four (144) month interval --

MR. DONALD PALMER: Sorry, Ms. Everard --

MS. CANDACE GRAMMOND: Yeah.

MR. DONALD PALMER: -- or Grammond. The references to that was PUB-1-29.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you. Thank you for that reference. So what I wanted to ask about was the 2005 analysis that -- that we've been speaking of, I understand, spread the development over many intervals that we see here, starting with the hundred and thirty-two

(132) to hundred and forty-four (144) month interval. That's right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And can you comment on why the -- the factor for the two hundred and sixteen (216) to two hundred and twenty-eight (288) month period of one point zero five four seven (1.0547), can't be spread in a similar fashion?

(BRIEF PAUSE)

MR. DONALD PALMER: I think essentially that's what we're doing. That one point-o-four -- five four seven (1.0547) that's shown at -- at two sixteen (216) to two twenty-eight (228) is, in fact, the two sixteen (216) to ultimate factor. So it would be spread out over -- over time into the future.

MS. CANDACE GRAMMOND: But it is correct, though, that the two hundred (200), or the 2005 analysis started at a hundred and thirty-two months (132), not at two hundred and sixteen (216)?

MR. DONALD PALMER: Yes. And we have five (5) more years of it -- observed experience.

MS. CANDACE GRAMMOND: And what, in general terms, is that observed experience telling the

Corporation?

MR. DONALD PALMER: It's basically been flat. The observed values have been very close to one (1).

MS. CANDACE GRAMMOND: So, close to one (1), but predominantly downward?

(BRIEF PAUSE)

MR. DONALD PALMER: In CAC-1-8, the overall average was point nine nine five five (.9955), so that's less than one (1), but only very, very slightly.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Palmer, just so that we're clear. The point nine nine five (.995) that you mentioned, does appear here on page 5 as well. So that -- that isn't CAC's number, that's the Corporation's number.

MR. DONALD PALMER: That's the actual average of the last two (2) diagonals of six (6) -- the sixty (60) plus -- sixty (60) plus months. The last two (2) diagonals, if you take a look at all of the observed -- observations of the last two (2) diagonals, the average is point nine nine five five (.9955).

MS. CANDACE GRAMMOND: And -- and as you say that's very close to one (1), which is the factor that we see for many of these intervals. But we also see a number of factors that are more than one (1). A number of selected factors that are higher than one (1).

MR. DONALD PALMER: Only the tail factor.

MS. CANDACE GRAMMOND: At -- at that end.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Palmer, are you ready? Okay. Just to -- to try to get this point clear for the record, we've spoken about the 2005 analysis, and, in fact, the -- the factors pursuant to that analysis are reflected in Mr. Christie's report. And they're all more than one (1), higher than the number 1.

You -- you agree with that? That is the factors for the period starting at a hundred and thirty-two (132) months to ultimate.

MR. DONALD PALMER: From the 2005 report? Yes. Yes, I agree with that.

MS. CANDACE GRAMMOND: And if I understand your evidence correctly, what you're telling us is that the Corporation is still utilizing the 2005 analysis although tempering it by selecting the point nine nine five (.995) factor that we've been speaking about.

Is that fair to say?

MR. DONALD PALMER: That's fair to say, yes.

MS. CANDACE GRAMMOND: So I guess what I want to understand is why the Corporation would be taking that approach by basically tempering the 2005 numbers rather than replacing them with current numbers. And -- and the -- the point being that the -- the 2005 numbers are showing a downward -- okay, sorry. The 2005 numbers are showing an upward trend in development.

MR. DONALD PALMER: We are running off that factor as it exists from that '05 report, and we will be updating that in the future.

MS. CANDACE GRAMMOND: Okay. Well, do you know when you'll be updating it?

MR. DONALD PALMER: We've committed to do that in October of this year.

MS. CANDACE GRAMMOND: So do you agree then by continuing to use those factors for this year there is an element of conservatism there that, in all likelihood, will not be there by this time next year?

(BRIEF PAUSE)

MR. DONALD PALMER: Can I refew -- fer you to PUB-1-29, please?

MS. CANDACE GRAMMOND: Yeah, definitely. So that's PUB/MPI-1-29 Mr. Palmer has asked to refer to?

MR. DONALD PALMER: That's correct.

(BRIEF PAUSE)

MR. DONALD PALMER: And the question to 1-29(d) was:

> "Why hasn't the 2005 analysis been updated with more current experience and when is this scheduled to occur?"

And the answer was:

> "The 2005 analysis has not been updated because the Corporation has analyzed the emerging experience on an annual basis and found no evidence that the tables require a revision. The paid and incurred runoff expected by the new reserving methodology is consistent with the actual runoff.

As le -- outlined in AI-13(a), page 15,
there's been minimal annual case
incurred development. This inca --
indicates that the tabular reserving
methodology is reflective of the actual
experience. Therefore, there has been no
requirement to update the case reserve
tables.
On an ongoing basis, we will continue to
monitor the runoff and if changes are
required the reserve calculator and
associated mortality and morbidity tail
-- tables will be updated."

MS. CANDACE GRAMMOND: And that's fine. I appreciate you bringing that response to the attention of the Board and -- and reading it in. But I guess the point is is that, as we discussed a minute ago, the 2005 analysis reflects an upward trend, an upward development pattern.

And if that were not the case and if pursuant to a new analysis there was, for example, a downward development trend or a flat trend, the factors that we are dealing with would be less, would be lower?

MR. DONALD PALMER: Yes, I will agree with that.

MS. CANDACE GRAMMOND: And lower factors gives rise to smaller unpaid claims liabilities?

MR. DONALD PALMER: If an incurred development method is chosen, yes.

(BRIEF PAUSE)

MR. DONALD PALMER: I...

(BRIEF PAUSE)

MR. DONALD PALMER: There are a few accident years where that selected has been an incurred method. In the older years, the balance of it, it is the tabular method that is selected, and in the more recent years it's the -- a development method that has been selected.

So in -- in terms of -- of the difference in the -- in the result, in the resulting, it's -- and we haven't calculated the exact impact, but it's not very much.

MS. CANDACE GRAMMOND: Okay. Thank you, Mr. Palmer. You had asked to go to PUB/MPI-1-29 and we -- you write in the answer to (d). I'm now going to ask everyone to turn to (h). So PUB/MPI-1-29, same IR, but instead of looking at (d) let's look at (h).

And what (h) reflects, and I'm looking at the attachment, which is a set of three (3) charts. It's on pages 2 and 3 of the answer to the IR.

(BRIEF PAUSE)

THE CHAIRPERSON: Are we looking at the charts or the table?

MS. CANDACE GRAMMOND: The charts.

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: The three (3) charts that are --

THE CHAIRPERSON: Tables, three (3) tables.

MS. CANDACE GRAMMOND: I'm mixing my lingo then.

THE CHAIRPERSON: Right. Not the --

MS. CANDACE GRAMMOND: Table. Fair -- fair comment. Fair comment. So the tables at pages 2 and 3, which relate to (h), PUB/MPI-1-29(h).

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So we see, Mr. Palmer, in the third table that's entitled "Impact of change," and we'll -- we'll talk about what that change is in a minute, but we see that there's an impact here of about $25.6 million?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Now it's my understanding that that $25.6 million impact relates to the use of the selection factor of one point five (1.5) -- one point zero five four seven (1.0547) that we discussed from Appendix E, relating to IBNR.

Is that right?

(BRIEF PAUSE)

MR. DONALD PALMER: Sorry, what was the question again, please?

MS. CANDACE GRAMMOND: The question was, when we were looking at Appendix E, with all the selection factors, we saw a selection factor for the two hundred and sixteen (216) to two hundred and twenty-eight (228) month period of one point zero five four seven (1.0547).

And it's my understanding that that selection factor or tail factor gives rise to the 25. -- $25.6 million figure that we see in 1-29(h)?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: What comfort is the

Corporation able to provide to the Board that the observed development beyond a hundred and twenty months (120) as seen on Appendix E is not evidence of residual conservatism in that selection factor?

MR. DONALD PALMER: And again, the -- the answer to that basically is 1-29(b). And I'll just read that in:

> "The nature of PIPP gives rise to two (2) situations which can result in increases incurred beyond a hundred and twenty (120) months of development. First, the relapse can result in a claimant who is not receiving benefits to start receiving these benefits again. Second, there is the possibility that the health of a claimant currently receiving benefits might deteriorate such that higher benefit levels than that which are currently reserved for are required.
>
> In light of these two (2) situations a tail factor is still rev -- relevant for this coverage. While the tail factor is relevant, the magnitude of the tail factor is reviewed annually."

So we've essentially got sixteen (16) years of observations. We still think it's relevant that there could be growth in -- in observed beyond the sixteen (16) years. So that's why we've got a tail factor above one (1).

As we continue to observe we'll -- we'll bring that down be -- beyond as we get more observed data. But right now because there are claimants, this program can pay benefits for up to sixty (60) years in -- in some case, so we're still trying to evaluate claims that have a sixty (60) year tail with twenty (20) years of data or sixteen (16) years of data.

So we're just not sure in terms of -- of what -- what that eventual outcome may be. So from that standpoint we're comfortable with the -- with the 5.47 percent tail for development on that last forty (40) years of possible claim growth.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. Thank you, Mr. Palmer. I'm gonna continue in Exhibit -- or pardon me, Appendix E. So we were looking at Appendix E, pages 4 and 5, with respect to these selection factors. I'm gonna ask you to turn forward to page 9. So Appendix E, page 9.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And just for everyone's convenience, people may want to keep PUB/MPI-1-29 open. That was the IR that we were looking at, we'll probably look back at that. So let's keep that open and we should have Appendix E, page 9 in front of us.

So we see, Mr. Palmer, on Appendix E, page 9, we're still dealing -- and I'm looking in the upper left-hand corner -- with accident benefits, weekly indemnity. So same coverage that we've been speaking about in -- in these other documents, right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And the title of this table is "Development of the Bornheutter-Ferguson Initial Expected Loss Ratio," right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And we see in column 11 the title "Weighted Initial Loss Ratio." And that is derived, if I understand it, as a weighted average of the results of the incurred development analysis and a second fitted expes -- expected loss ratio.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And just for

clarity of the record, those would be the figures that appear at 8 and 9 -- columns 8 and 9. So 8 and 9 give rise to 11?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. Can you explain for the Board the rationale of varying the averaging weights by fiscal accident year?

MR. DONALD PALMER: The --

MS. CANDACE GRAMMOND: Sorry, just before you begin. Those are the weights that appear in column 10?

MR. DONALD PALMER: Yes. The -- the rationale is that the more recent years, you can rely less on the -- the raw data of the observed incurred development, multiplied by the projected to ul -- selected to ultimate factor.

So, we give the more recent years that are not as credible, less weight. And the older years, that are fully credible, for these purposes, to get more weight to the -- to the actual ultimate projected loss ratio.

So we have a curve fit that we rely for the more recent years, and the actual projected loss ratio that rely on for the oldest years, and then we have a -- a grading in the middle where we have a step-up of the credibility that's assigned to the actual observed values, as opposed to the fitted curve.

MS. CANDACE GRAMMOND: Okay. Now with respect to column 8, the fitted expected loss ratio, can you explain the rationale for averaging the trended estimated ultimate losses for three (3) prior years, and then relating that average to the subsequent year's earned premium.

And, just before you answer that, I had said we should keep 1-29 open. There may be some reference to (f) of 1-29, with respect to this answer.

(BRIEF PAUSE)

MR. DONALD PALMER: It's just a way of fitting a more statistically stable value to the curve. So, just so we -- you don't get as much year to year fluctuation. Gives more stable estimate.

MS. CANDACE GRAMMOND: And within the ratio at column 8, can you explain how the numerator relates to the denominator, and -- for example, are there not forces acting on the denominator, like rate group drift, that have very little influence on the numerator?

MR. DONALD PALMER: No, I -- I think the -- in the denominator, you'll have some rate group drift, which would include -- could include a drift in injury claims. You'll have some volume drift, or volume growth, which means you've got higher volume, so you've got -- will -- you've got more -- higher volume, so you'll have a higher volume of claims. We've talked that one (1) follows the other.

So could there be a -- a possibility of a slight mismatch? Maybe, but it would be very, very slight. And -- and I think from -- for these purposes, in order to smooth the statistical aberrations, I think it's valid.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Palmer, what -- what we were getting at with the question is that the -- the coverages that are referenced in this chart -- table -- table. Coverages that are referenced in this table are accident benefits, as opposed to collision, wherein rate group drift would be a much bigger factor.

And the -- the premium though in column 2 is for all coverages. Is that not right?

MR. DONALD PALMER: Yes, that's correct. And with the CLEAR system, there is still a -- a clear evaluation -- an accident benefit rate group, so there's still an influence of rate group on the accident benefits.

MS. CANDACE GRAMMOND: But most of the drift -- the rate group drift impact is physical damage as opposed to accident benefits?

MR. DONALD PALMER: That's probably a bigger factor. I'll -- I'll grant that, yes.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. And, Mr. Palmer, again, you may want to have reference to 1-29(f), which I appreciate is a longish narrative answer. But I wanted to ask a question about the -- the fitted regression underlying the trend assumption.

And if you could please characterize for the Board, the strength of the fitted regression underlying the -- the trend assumption used in the process described.

(BRIEF PAUSE)

MR. DONALD PALMER: Just because it's easier to look at pictures, I would ask you to look at 1-29(e). And there's an attachment to that, and it's a set of graphs with regression lines.

MS. CANDACE GRAMMOND: Sorry. Does the

Board have 1-29(e)? This is the -- the coloured graph.

THE CHAIRPERSON: Yes.

MR. DONALD PALMER: Now -- now, this particular chart, the red line is really what we're going to be focussing in on, is the losses using the selected incurred loss development method.

And there is -- if you fit a line, there is a slight downward shift in that line, but it does waver up and down rather erratically.

And over the last -- maybe from four (4) years ago to last year there was a real downward slope, and then it popped back up again. If you fit the regression line to that red line it does come up with a slight downslope, but because it -- there is a lot of volatility in it, you really can't rely too much on the fit of that particular line.

So in terms of the -- the selected trend, we have said that it's flat and based our initial loss ratio selections on a zero trend.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: And for the reasons you've described, the Corporation is comfortable with that trend assumption?

MR. DONALD PALMER: Yes, we are.

MS. CANDACE GRAMMOND: Okay. So we've been looking at 1-29. I'm going to ask you now to go to 1-23, which I think we looked at briefly earlier, so 1-23. We're just going to -- yes?

DR. LEN EVANS: I'm a little dull late in the afternoon, but could Mr. Harper (sic) explain why is the green line going up while the red line is substantially below it? I know one is incurred and the other is paid.

(BRIEF PAUSE)

MR. DONALD PALMER: The green line is the paid development factor, and we have a different developing trend in -- in paid. We've relied less on that trend. Using not very many data points, it can fluctuate a fair bit. So for -- in terms of this -- the -- the purpose of this exercise, the -- that initial loss ratio, the ultimate incurred development is just more stable, uses more data.

DR. LEN EVANS: So there's no -- no direct relationship between the two (2) then? I -- I guess --

MR. DONALD PALMER: Not direct, no.

DR. LEN EVANS: Yeah, because the -- the incurred is incurred, but the -- that paid out relates to previous -- in many ways, to previous developments.

MR. DONALD PALMER: The -- the two (2), they're pretty close up until about, insurance years, about three (3) years ago and then they separate and that's really when you can rely less on the paid development patterns.

DR. LEN EVANS: Okay. Thanks. Thank you.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. So 1-23, PUB/MPI-1-23 and in particular (g).

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So this was a question that the Board had asked of the Corporation to provide the details of and supporting rationale for each change in valuation assumption responsible for a significant contribution to the runoff that we had last year.

And so the Corporation has answered and provided three (3) changes that were made to valuation assumptions. What I'd ask you to do, Mr. Palmer, is provide a description of how the process this year has changed from the process last year.

(BRIEF PAUSE)

MR. DONALD PALMER: Okay. First just the observed lost development factors have been selected using the last five (5) years of data, so have been significantly decreased; that's -- that's the first one.

The second was just the method in which we used the selected initial lost ratios for the Bornhuetter-Ferguson, and -- and now they're based on weighted loss ratios using the incurred analysis.

(BRIEF PAUSE)

MR. DONALD PALMER: And it was based on the three (3) years as opposed to all years, so that -- that was a difference.

And then we made a difference to the selection of the methodologies that we've referred to in your questioning from before.

MS. CANDACE GRAMMOND: Okay. Thank you. Still at 1-23, so we were just looking at (g), I'm going to ask you now to go to (d), 1-23(d), and I think we did have reference to this earlier, but the -- the question that the Board had asked with respect to last year's runoff was to provide a separation of the total amount of the runoff into the portion attributable to changes in experience compared with changes in valuation methodology, compared with changes in valuation assumptions. So the three (3) categories and to provide commentary.

And so the Corporation has given us some information at the answer to (d). So if we can go through that, the Corporation has provided that arising from changes in experience there was favourable runoff last year of about 33 million?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And changes in valuation assumptions, just to skip, because the -- the second item has a zero (0) effect, was 232 million?

MR. DONALD PALMER: Yes, that's correct.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And so just to -- to clarify for the record, the Corporation in this answer included in the 232 million, the change arising from valuation assumptions, any changes arising from changes in -- dollar changes arising in changes from -- or to the valuation methodology.

So the -- the second line is, in effect, included in the third?

MR. DONALD PALMER: Yeah, and -- and we struggled a little bit in terms of what's an assumption and what's a methodology. We ended up, and we've got them, those three (3) outlined in terms of different valuation methods is an assumption to choose which -- assuming which one is the most valid.

Methodology would be getting all the data together; the internal actuary doing the analysis; discussing with the external actuary; that's what we call the methodology.

So in terms of whether it's an assumption or a methodology, I think it's basically semantics.

MS. CANDACE GRAMMOND: And the -- the 232 million in favourable runoff that we see attributable to valuation assumptions would be derived from the changes -- the three (3) changes that you just discussed and that are listed at (g) of this answer?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: Okay. Now it...

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Earlier this

afternoon, Mr. Palmer -- Palmer, you will recall we had evidence at one (1) of the IRs, I believe it was number 2-14, where we -- we saw and we tied in with Appendix -- or Exhibit 4. We tied in with Exhibit 4 those two (2) answers that we went through with the Board that had -- one (1) showed a -- an alteration in the numbers of some 30 million and the other was 33 million and change. You'll recall that? The -- the numbers that we looked at.

So, now to tie those two (2) numbers which totalled about 64 million, as the evidence reflected, in with this 232 million that we're looking at in (d), it's my understanding that that $64 million total revised or -- or caused this 232 million to exist in that if it wasn't for that 64 this 232 would actually be increased accordingly and would be 296 million.

Is that correct?

MR. DONALD PALMER: There's lots of up and -- ups and downs within that change in valuation assumption. So yes, I would agree with that.

MS. CANDACE GRAMMOND: Sure. And I -- I don't mean to suggest that that's the only one, but just for context and to tie together some of the different pieces that we've been looking at for those two (2) numbers that was an offset?

MR. DONALD PALMER: Yes, that's correct.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. In terms of the current fiscal year valuations, we -- the Corporation, I believe, has put on the record in reference to the first quarter review that there has been no indication of significant favourable runoff this year.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Can you give the Board an idea of the level of rigour that was applied in terms of the selection of methods and assumptions in the first quarter review that gave rise to that statement?

MR. DONALD PALMER: In the first quarter review, we relied on the assumptions that we -- we didn't change the assumptions for the first quarter review.

For the second quarter review that the Board hasn't seen as yet but will in -- in very -- very short period within the next few days, we have taken a look at those assumptions and those factors and have seen no significant changes.

MS. CANDACE GRAMMOND: So it's not anticipated then that there will be changes reflected in the second quarter review that's gonna be coming soon?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And do we still think that that's coming this week?

MR. DONALD PALMER: Yes, we do.

MS. MARILYN MCLAREN: I can tell you that the second quarter report was tabled by the Minister earlier today. So we will have copies available for distribution and a number of other documents as well tomorrow morning.

MS. CANDACE GRAMMOND: Thank you for that update, Ms. McLaren.

Okay. I'm gonna ask you then to go to -- oh, one moment.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Mr. Palmer, we spoke about potential changes in the second quarter review. Isn't it correct that there is going to be a change in approach to this year's second quarter, than last year's second quarter review? In terms of more rigour being applied by the Corporation?

MR. DONALD PALMER: Yes. I -- I think that's what I just said.

Yeah. In -- in the past, the second

quarter was just applying the same factors without really taking a -- a real hard look at them. We've -- we've certainly attached more rigour to that analysis in this -- in this review.

MS. CANDACE GRAMMOND: Okay. Thank you.

Okay. I'm going to ask you to go then to Tab 17, of the book of documents, which is PUB/MPI 1-24. So, Tab 17 of the book of documents, PUB/MPI 1-24.

This is a multi-part question and in (b), we had asked that an email be provided -- be filed that was from Mr. Johnston of MPI to Jim Christie, who we'll be hearing from next week. And that was an email sent November 2nd of 2010. So this is part of 1-24(a). Yeah, sorry. I said (b), it's (a). 1-24(a), attachment A. So it's a copy of an email from Luke Johnston to Jim Christie, and you were cc'd, Mr. Palmer, November 2nd of 2010. Does everyone have that?

Okay, so we see Mr. Johnston speaking to Mr. Christie, so he says,

> "Hi Jim. In regards to the issues arising in the October IBNR report, we're definitely going to be looking to move the development estimates closer to our actual experience."

Then he says,

"It has been very hard to defend our PIPP forecasts as best estimate assumptions, when the prior year's actual development is consistently coming in 50 percent to 70 percent below our forecasts [see attached results for prior years]. Our prior year's forecasts have been off by a cumulative total of more than 200 million in the last four (4) years [mostly from PIPP]."

So, first question, Mr. Palmer, is: Can you tell the Board about the motivation for the changes in reserving assumptions? Were it -- were they really driven by a difficulty in defending the favourable runoff year after year, as seems to be implied here?

MR. DONALD PALMER: Over the last number of years, we have seen forecasts -- incurred forecasts being greater than what the actual results were.

But what we also saw, and we filed it last year with -- and also included in my pre-filed testimony, is that our at twelve (12) months development, ignoring that the -- the runoff patterns that initial year looking at twelve (12) months, those forecasts were pretty good.

Because our -- the ultimates that come from the IBNR review are used as the basis of the future forecasts, we have seen that, that divergence in actual versus expected experience. And it comes from the runoff.

When we were at these hearings last year, we did supply runoffs at five (5) months, and that was showing the same pattern. Our expected was a lot more than the actual observed. We did provide that to the Board.

And on that basis -- and that was a repeat of a pattern from previous years as well. And so with that pattern of -- I guess we saw that pattern for a period of five (5) years, that it really -- the assumptions that were selected in the actuarial report really didn't reflect the assumptions that were -- or the realities that we were seeing later on.

So I guess the purpose of this particular email was just to alert Jim to that point, and not so much that we were -- difficulties defending the assumptions, but just they weren't coming -- coming in and seemed to be providing biassed results.

MS. CANDACE GRAMMOND: Okay. And did the decision to change the assumptions that were changed originate with an MPI, or did those come from Mr. Christie?

MR. DONALD PALMER: Whenever we start the evaluation process, we have a meeting with the appointed actuary. And, essentially, the topic of the meeting is what's going on with -- with the data. And that's an observation, saying, you know, our -- our expected runoff hasn't matched with the actual runoff. We should look at the underlying assumptions.

So whether that's us initiating or Mr. Christie initiating, we have the data first. We have the observations. We had the six (6) month data to provide to Mr. Christie.

So, those were the observations that the forecast that stemmed from the actuarial report were overstated.

MS. CANDACE GRAMMOND: Mr. Palmer, you commented about information that was provided to the Board last year, and I have a couple of documents, and it's reflected, I believe, within PUB/MPI-1-24. If we look at the narrative part of that answer, it's 1-24(c), where the Corporation has put some information on the record with respect to what was provided. And at the end of that first paragraph the Corporation says that:

"The evidence was provided to the PUB during the 2011 GRA hearings in Exhibits 12 and 19."

That would be -- would those be the documents that you were referring to a minute ago in your testimony about what had been submitted to the Board?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: Now I have copies of both of those exhibits. I think they probably -- since you probably don't remember them off by heart, or maybe you do, I don't know, it would probably be appropriate, Mr. Simonsen, to have those circulated. So that's -- one (1) is one (1) page and the other one's two (2) pages.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: That one's one (1) page and the other one's two (2) pages. Yeah, so everyone should get one (1) of each.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Sorry. Mr. Palmer, these are Exhibits 12 and 19, as referenced in PUB/MPI-1-24(c).

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And we see Exhibit 12. We'll look at that one first, so that's the single sheet. This was provided to the Board. It's entitled, "Net runoff for fiscal year 2010/'11," as of July 31st of

2010, and it reflects total basic runoff of 38.1 million. Is that right?

MR. DONALD PALMER: Yes, and a negative is favourable runoff as is shown at the bottom.

MS. CANDACE GRAMMOND: Thank you. So that -- that would have been an indication to the Board that -- that there was an extra quote/unquote "38.1 million" at that point in time?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And if we go to Exhibit 19, that's a two (2) page document. It's in a different format. We see in the first box, the one that deals with net claims incurred, we see 42 million, a favourable runoff relating to PIPP and 14 million of unfavourable runoff relating to physical damage.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: So if we net those two (2) out, this Exhibit 19 would reflect 28 million of favourable runoff?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And so would that have been 28 million of favourable runoff in addition to the 38 million shown in Exhibit 12, or would it have been an -- an amendment of the number?

(BRIEF PAUSE)

MR. DONALD PALMER: The -- the two (2) aren't directly the same. Given that there are other factors in terms of -- we talk about the discount rate, we talk about the change in actuarial provision also has to be included.

There are other reconciling items. I think if you look at the forty-two (42), the fourteen (14) is twenty-eight (28) plus the four (4), you get to thirty-two (32). I think that's more or less comparable to thirty-eight (38), but there's other items that would influence that as well.

MS. CANDACE GRAMMOND: The -- the point is that at last year's GRA hearing, these were two (2) exhibits that the Board had from the Corporation dealing with favourable runoff in what was then the current year, the 2010/'11 fiscal year?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Now if we go back to 1-24 at Tab 17, we looked at the email from Mr. Johnston to Mr. Christie of November 2nd. But just before that in the tab, immediately before the November 2nd email, we have a -- a different email also from Mr. Johnston to you, Mr. Palmer, and it's dated March the 28th of 2011.

Does everyone have that?

So I'm at -- still at Tab 17 of the book of documents, PUB/MPI-1-24(a), Attachment A, it's an email from Luke Johnston to Don Palmer, March 28th, 2011.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Does the Board have it? Okay. Great. So, Mr. Palmer, this is an email that Mr. Johnston sent you March 28th. Mr. Johnston says to you:

> "This email is the first time Jim [obviously Jim Christie] had evidence on the actual size of the release, i.e., first draft IBNR analysis. It was subsequently adjusted through conference call discussions."

And then Mr. Johnston has forwarded to you an email that he received on November 23rd, 2010, from -- and I -- I know I'll pronounce it badly, so I'm not going to -- not going to try, but it's evident there.

Is that individual with MPI?

MR. DONALD PALMER: Yes, that's Tai Tong Phoa. He is an actuarial analyst that works for Mr.

Johnston.

MS. CANDACE GRAMMOND: Thank you. So Mr. Phoa, which makes sense, because it's phonetic, but like I said, I didn't want to attempt that. So Mr. Phoa emailed Jim Christie November 23rd, 2010, and -- and discusses in his email a number of things and we see about halfway down the page Mr. Phoa says to Mr. Christie:

"We've made the following changes for October 31st, 2010 from the February 28th, 2010 report."

And then he lists five (5) things.

Is that right?

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE GRAMMOND: And then he says at the top of the next page:

"In total, the above changes resulted in a decrease in total actuarial liabilities of 214.2 million; a decrease of 218.3 million in claims liability including PIPP enhancement; and an increase of 4.1 million in ILAE provision. From our position we -- had we not changed any of the assumptions used in the February 28th, 2010 report."

So it's -- it's apparent then on -- that on

November 23rd of 2010, the Corporation had a good idea of the significance of the favourable runoff that would be resulting from the October 2010 valuation?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And I appreciate that some evidence was given on the first day of the hearing with respect to this issue but can -- can the Panel advise the Board of why this insight with respect to the quantum, which is obviously very significant, was not shared with the Board as it was deliberating after last year's hearing?

MR. DONALD PALMER: There was still a lot of work to be done in terms of -- this was the 20 -- 23rd of November, the report wasn't actually finalized until February 22nd -- or February 2nd. We certainly had to advise our Board that there was large adjustments that were going to be made. That's really the protocols that we have to -- have to follow, as was shared by Ms. McLaren I think on the first day.

The -- the meeting from the external appointed actuary with the Board, which is required under the Standards of Practice, didn't occur until March the 23rd and we shared those results with -- with the Board on March the 24th, as soon as there was real assurance that that was going to be an influence on the final year end results.

So up till then they were all preliminary, they didn't have management input. It was -- it was just too preliminary.

MR. BYRON WILLIAMS: Madam Chair, might I -- and I -- I hate -- I apologize for interrupting my learned friend's cross, but just in terms of how long we're going to proceed for the afternoon, if the Chair could -- and my learned friend could give us direction. I may have some meetings I have to cancel, so I just need -- would appreciate some advice.

THE CHAIRPERSON: Could we stop now? Because we have gone ten (10) minutes over and I know that people will have plans. So if we could leave this on this note and pick up tomorrow on this. Would that be okay?

MS. CANDACE GRAMMOND: That will be fine, Madam Chair. The only thing I would ask before we close the record just so I don't forget is, I would like to enter the three (3) pages that I've provided from last year's exhibits as the next PUB exhibit. So I think that would be PUB Exhibit 11. Mr. Simonsen can confirm that in due course and if that's wrong, we'll correct the number later on the record.

THE CHAIRPERSON: Okay. We'll have those entered and we'll meet again tomorrow at 9:30.

--- EXHIBIT NUMBER PUB-11: Three (3) pages from last year's exhibits

MR. BYRON WILLIAMS: And, Madam Chair, just -- again, I apologize for interrupting. Just in terms of the discussion between counsel in terms of attempting to finish the cross-examination of -- on actuarial subjects prior to Mr. Christie's appearance, I -- I would just note we have had filed three (3)pre-asks with MPI last week and our ability to close our cross-examination on -- on that -- that -- that particular issue will depend on when we receive the responses and what the responses are; so; that's one (1) caveat that I would just add.

THE CHAIRPERSON: Well, that's noted I'm sure.

Yes. Tomorrow we do have to finish at 4:00 because Mr. Evans has a commitment that he has to get to it so our day will be a little shorter. I just thought I would announce that. So, we'll go from 9:30 till 4:00 tomorrow. We're trying to make up with it by shorter noon hours. But, anyway, we'll see how it goes.

MS. KATHY KALINOWSKY: If -- if I could offer, we -- Madam Chair, we are certainly able to start at 9 o'clock, if that would assist the Board?

THE CHAIRPERSON: Yes. Mr. Evans says he has a problem getting here by 9:00, so I think that's why we're starting at 9:30. I know many of the rest of us could, but he has some -- I think it's some traffic problems.

DR. LEN EVANS: That's right.

THE CHAIRPERSON: Right Okay. Thank you.

(PANEL RETIRES)

--- Upon adjourning at 4:44 p.m.

Certified Correct,

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Cheryl Lavinge, Ms.