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 848 to 1046

APPEARANCES

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--- Upon commencing at 9:31 a.m.

THE CHAIRPERSON: Good morning. Well, we broke yesterday in sort of midstream on your question, so we'll go back, finish those, and then carry on.

MS. CANDACE GRAMMOND: Yes, thank you, Madam Chair. I have a few more questions for the panel with respect to the IT optimization project.

MPI PANEL:

DONALD PALMER, Resumed

MARILYN MCLAREN, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Yesterday, we were looking at Tab 22 of the Board's book of documents, so I'm going to go there again. This is a collection of several IR responses dealing with this topic.

I'm going to ask you to turn to PUB/MPI-1-62, Attachment A. So that's within Tab 22 of the book of documents. It's the first IR that appears there. And Attachment A to 1-62 is the HP presentation that appears on a series of slides. So I'm going to page 15, and the page numbers are in the bottom left-hand corner.

So there are two slides on page 15. The

top one's called, "IT Optimization Road Map," and the second one's called, "Recommended Initiatives." Does everyone have that? Okay.

Okay. So we spoke yesterday with respect to the initial $77 million budget provided by HP to the Corporation, and then some adjustments that were made, and the ultimate budget for the one (1) time expenditures was about 71 million as approved by the Corporation's Board.

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

MS. CANDACE GRAMMOND: So if we look at this bottom slide on page 15, we see that there are one (1) time charges listed, but there are also recurring charges listed. And at the very bottom row of the table we see the heading, "Total Recurring," and then several dollar amounts to a total of about 29 million.

Are those expenditures going to be, or expected to be, incurred in the years indicated?

MS. MARILYN MCLAREN: Yes, they are. And they are in the financial information, the budgets and the forecasts going forward in this application.

MS. CANDACE GRAMMOND: And we see from this document a breakdown with respect to applications recurring, infrastructure recurring, and so on.

These sums are to be paid through HP, or in -- in some instances will the Corporation make payment directly to other provides of the -- the items listed?

MS. MARILYN MCLAREN: Absolutely payments to other providers. And, you know, thinking about this last night, the conversation yesterday with respect to trying to explain the concept of our master agreement with HP, if I can speak to this point in a little bit greater context with respect to the conversation yesterday.

The master agreement that we have with HP is really for their role with us as a systems integrator, which means sometimes they help us build custom software. Often -- more often these days they help us configure and -- and bring in other off-the-shelf software and bring it into our environment. They were part of the team, a smaller part but a part of the team, that worked on the FINEOS bodily injury initiative.

So they provide that kind of oversight programming services, project management services. They help organizations. This -- the branch of HP that we have our master services agreement with is for systems integration functions which helps us change and maintain the applications that serve our customers.

So again, because most -- a -- a good piece of the IT optimization budgeted amounts are for hardware it's very unlikely that any significant amount would go to them.

Earlier -- since we met yesterday, I have asked staff back at the office if they can put together a schedule of pieces of the IT optimization project that have already been executed, the RFPs that we've issued, the items that we've bought, and schedule that and show you how -- how did we acquire it, what, if any, did HP get, how much went to others.

And we'll -- we'll bring that forward and -- and show you because it's important that the -- the Board understand that this is not a -- in any way, shape, or form a $75 million initiative that HP came up with and HP will receive. It -- it's not how it works and I will continue to find better ways to articulate but I think if I can show you when we've spent so far that will help put -- put that into context.

MS. CANDACE GRAMMOND: Thank you. We'll take that undertaking.

--- UNDERTAKING NO. 13: MPI to provide a schedule of pieces of the IT optimization project that have already been executed, and show how they were acquired, what HP

received, and how much went
to other companies

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. With respect to the $29 million forecast that's contained on page 15 for the -- the five (5) year period, does the Corporation have an indication of what, if any, cost there will be beyond 2015 into 2016 and onward?

MS. MARILYN MCLAREN: No, not specifically. We know there will be some recurring costs moving forward. This is not dissimilar to things we've had in our IT budget for -- for many years, you know, it would be licensing and so on. But this also doesn't show -- it doesn't show the net effect of any other licences we may get rid of and things like that as well. So no, we have not run it out beyond 2015 but it -- it would not be dissimilar to this and it would not be dissimilar to what we've had probably for the last couple of decades.

MS. CANDACE GRAMMOND: Okay. We spoke yesterday about the chronology and the -- the internal review that the Corporation had done and then the HP report that was presented to the Corporation's Board. And we spoke about the fact that Gartner was retained in July of this year to provide its services. I -- I gather, though, that the -- the Board approval for the project came before Gartner was retained in July?

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

MS. CANDACE GRAMMOND: Now let's talk a little bit about the costs with Gartner. There is reference in the -- the material that Gartner provided that the cost for its services will be about $2.8 million over the next five (5) years?

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

MS. CANDACE GRAMMOND: And is there a contract or a retainer letter or anything of that nature with respect to the Corporation's engagement of Gartner?

MS. MARILYN MCLAREN: I believe so but we'd have to go back and check.

MS. CANDACE GRAMMOND: Would you undertake to do that?

MS. MARILYN MCLAREN: We will.

--- UNDERTAKING NO. 14: MPI to provide a copy of retainer letter or contract between MPI and Gartner

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: And the costs that will be paid to Gartner, how will those be allocated among the lines of business? Is it on the same basis as the whole of the project?

MR. DONALD PALMER: Yes, based on the approved cost allocation methodologies.

MS. CANDACE GRAMMOND: We talked earlier in the hearing when we looked at the retained earnings schedule about the piece of -- of retained earnings that the Corporation has set aside for this and we -- we sort of went through that schedule. Did the Corporation consider alternative approaches to funding the IT optimization projects, for example, from operations rather than from retained earnings?

MR. DONALD PALMER: Yes, there are many ways of considering that in terms of -- of funding if there are ongoing costs that have to be undertaken, so we would have looked at variant options on that.

MS. CANDACE GRAMMOND: And why did the Corporation conclude that -- that this project should be funded from retained earnings rather than operations, as, for example, the BPR was?

MS. MARILYN MCLAREN: A couple of reasons. First of all, part of the explanation as to why the state of the IT infrastructure, I -- I think it's fair to use the word "deteriorated," over the last few years, was not maintained, was not kept up because the IT budget had -- had generally for the last several years been underspent.

Funds were approved and then not spent. So if you think about it in that context some of the excess retained earnings came from not spending the approved IT budget. That's not quite a pure accounting treatment, remembering I'm not an accountant, but that's the way I think about it. And, also, because this is not only -- we are really re-platforming the organization's IT for the future, which will have significant benefit beyond the actual expenditures themselves.

So it -- it is like a capital investment, so I think for those two (2) reasons because, you know, we -- we did not do what we should have done in the last few years and underspent the budget because we didn't do it, and because this is really going to have a long-term positive effect for the organization and those customers it seemed appropriate to us.

And we, you know, discussed it with auditors and so on and it seemed like a fair approach to do it. We -- cer -- certainly we could have done it through operations, but thought, given the context of the recent past and the long-term future, this seemed like an appropriate approach.

MS. CANDACE GRAMMOND: Okay. In terms of

next steps, and -- and I appreciate the undertaking with respect to what's been done and -- and what's on the go at the moment, the Corporation filed in AI-11, and we don't necessarily need to go there, although you can if you want to, but for the purposes of the record it's AI-11, page 2, where the Corporation lists a bulleted list of the items that are the deliverables under this project by 2015. That's right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And that includes, I'll -- I'll paraphrase, a risk framework, improved network infrastructure, revised business continuity plan, revised disaster recovery plan, a new green data centre, a more robust infrastructure, and an ability for the IT to stay current?

MS. MARILYN MCLAREN: Yes. And if I can just for a moment tie that back to the discussion we had yesterday as well about cost-benefit. And if we can again just for a minute or two go back to PUB-1-62, Attachment A, and this time, page 17 through to 19, you'll see there are five (5) slides there titled, "Cost-benefit of the Recommended Initiatives."

And you can see that -- that it is a very discrete level. There are -- there are initiatives in here for, when it comes to disaster recovery, $15 million. There's an initiative in the top slide for three thousand dollars ($3,000). So it -- it's at a very discrete level of projects all tied back to the large categories of applications, disaster recovery, infrastructure, networks. So clearly it's not like the issue of costs and benefit were not on our mind.

And as I said yesterday, as we go forward with charters and more specific discrete initiatives the expected benefits will clearly be articulated for the more significant projects, but this was part of the very first look we had, clearly, a description of the benefits were for each of those discrete small and large project expenses.

MS. CANDACE GRAMMOND: Okay. So these slides reflect sort of an allocated or a specific cost estimate to each of the benefits listed, but it doesn't, at least at this stage, attach a dollar amount on the benefit side?

MS. MARILYN MCLAREN: No financial benefit, that's right, at this stage.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: While we're on this piece of the presentation, Ms. McLaren, the -- the five (5) schedules -- or the five (5) slides that we've just looked at with the -- the specific dollar amounts, if -- if one added those together it would total the $77 million budget proposed by HP?

MS. MARILYN MCLAREN: I believe so, yes.

MS. CANDACE GRAMMOND: And the two (2) applications that were removed, and we spoke about that yesterday, those are which two (2)? The -- the AOL financial and AOL modular -- modularization --

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: -- which are in the first slide?

MS. MARILYN MCLAREN: Those are the two (2) on the first slide, APPS-6 and APPS-7.

MS. CANDACE GRAMMOND: Okay. Thank you. Okay. Madam Chair, those are the questions that I have with respect to the IT optimization, and I see Board member Gosselin has a question.

I'll just state for the record, that with respect to whatever undertakings arose from this line of questioning, we may have questions when we get those. And the other thing I wanted to -- to confirm for the record with respect to actuarial matters is that our cross in the main is done, but there were some filings provided yesterday. And so Mr. Pelly is working on that and we will have some questions on that. But -- but we'll put those on the record before the end of the day today. So I just wanted everyone to be clear about that.

THE CHAIRPERSON: Thank you.

MR. REGIS GOSSELIN: My question is about how you have decided to fund this particular optimization project from -- from reserves. In other words, you -- you allocated $75 million to -- to fund the opt -- IT optimization initiative. I guess what I'd like to know is -- is how you funded the previous significant initiative to optimize IT in the past.

In other words, did you -- had you allocated a certain amount of money in your reserves to pay for that IT optimization project that's been completed?

MS. MARILYN MCLAREN: The -- we -- we've never done something like this in the past where it's really about -- through the IT environment, the footprint. Everything else we've done through time has certainly had a large IT component, but it has been business driven, more specifically business improvements, whether it is a new driver rating system, streamlined renewals, anything that we've talked about under the BPR, or even historically moving -- 1995 moving to the Autopac-Online system what we wanted -- what the business wanted was an online real-time processing system in broker's offices where renewals were spread throughout the year.

And -- you know, so it was -- it was based on some of those very specific business initiatives. So we've never really re-platformed the en -- the IT, like is necessary now. And so the issue of how did we fund it, it -- it didn't give us the same pause for consideration. We did it as a business going forward, changing for the future, and it was funded on the going-forward capital initiatives that were amortized down the road.

Within our sister automobile insurance Crown corporations there's -- there is a model for this. Insurance corporation of British Columbia has embarked on, I think it's about, a $500 million initiative to revamp all of its IT business systems, IT platform, much like this plus what we did with the BPR and they've done that from -- from retained earnings.

Saskatchewan did that a few years ago when they did a -- a similar more scalable, much like this is, given the size of our organization compared to ICBC, but -- but they did it as well from retained earnings.

So there -- there's that model that we -- we thought about when we considered this, but it's the first time we would have done it.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you. I think now we're turning to Mr. Williams, Byron, for cross-examination.

MR. BYRON WILLIAMS: Yes, and good morning, Madam Chair and Board member Evans, Board member Gosselin. Just a couple of introductions.

Perhaps, for the first time in history I have my own back row today. Ms. Desorcy, who's the executive director of the Consumers' Association, I -- her level of trust in me has diminished so she wants to move a little closer, so she can keep an eye on - - on me. For the reporter, that's D-E-S-O-R-C-Y. She was here yesterday, as well, live --listening with rapt attention to a discussion of IT optimization.

I have an additional back row today, persons that you don't normally see in the hearing room. Two (2) of my colleagues, Ms. Suzanne Knowles, K-N-O-W-L-E-S, and Ms. Amanda Houlind, H-O-U-L-I-N-D. We're not billing for their time, so the -- the Board shouldn't worry about that.

Just to assist the Board, for the next sec

--the first section of my cross, there will be three (3) references. I'll ask the Board secretary to hand out two (2) of them. And also you'll want to pull out what I'm told by My Learned Friend Ms. Grammond -- Grammond is the -- Volume III, Part 2, the fat one (1), which -- which should have AI-13(a) in it.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: It should be -- my understanding is Volume III, Part 2, and it should have AI-13(a) and (b) in it, if you're looking at the -- the tabs. And we'll only be making a brief reference to that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Materials have been distributed to the rest -- rest of the -- the room, with the possible exception of Mr. Palmer.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And, Madam Chair, I -- I'm hoping to minimize the shuffling between --

between the documents, so once this section of my cross is done I have a couple of additional exhibits, but I won't hand them out until that point in time, just to minimize the -- the paper that's -- that's going on your desk.

And I have consulted with My Learned Friends from MPI. I -- I don't anticipate any objections to the exhibits I present.

The first one (1) you'll see, it -- it should have a long sheet included with it. And it is an -- the cover page should -- should say, "AI-13(a)," being the -- and -- and it'll -- it'll say -- indicate in a point, "Actu -- Actuary's report as at October 31st, 2010." And essentially what this is, Madam Chair, and -- and Board members, is a very small excerpt from -- from the record. We've blown up the second page so it's a little easier to read, but these are -- are simply pulled -- pulled right from the document.

And I would suggest that this be marked -- marked as CAC/Manitoba Exhibit number 6.

--- EXHIBIT NO. CAC-6: Excerpt from the record

MR. BYRON WILLIAMS: And secondly, Madam Chair, you should have a document titled, "Excerpt from the appoint -- from the appointed actuary's report at October 31st, 2010," in bracket, "Cheat sheets."

And I just want to assure the Board that these again are taken directly from AI-13(a), and because there's so much -- there's so many numbers, so much material, what we've attempted to do with these cheat sheets is draw together some of the information in -- in one (1) package.

So our -- our hope is that the Board and other persons in the room can -- can follow it more closely. And we'd suggest that be marked as CAC/Manitoba Exhibit number 7.

--- EXHIBIT NO. CAC-7: Excerpt from the appointed actuary's report as at October 31st, 2010 (cheat sheets)

MR. BYRON WILLIAMS: And, Madam Chair, I -- I'm ready to proceed. Is the Board?

THE CHAIRPERSON: Yes, we are ready.

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And good morning, Mr. Palmer and Ms. McLaren. And Mr. Johnston's in the front row as well. So good morning to you.

MR. DONALD PALMER: Good morning.

MR. BYRON WILLIAMS: Again, just by way of preamble, Madam Chair, my preambles are sometimes longer than my questions, but my -- My Learned Friend Ms. Grammond had an extensive discussion on actuarial issues on Tuesday, we -- on behalf of our clients we will be going back to some of the similar areas. We are anxious certainly to minimize duplication but we're going over the same material but with a slightly different tact.

And our experience with this material, because it is fairly complicated, is that there's some value in going over it a couple of times to assist. So that's -- that's our purpose.

Mr. -- Mr. Palmer, you talked about this in your discussion with Ms. Grammond on -- My Learned Friend Ms. Grammond on -- on Tuesday, but in terms of the reports of the appointed actuary of Manitoba Public Insurance filed in their totality on -- on this record, in the AI-13 section there would be two (2) I will suggest to you. First of all the appointed actuary's report as at 31 October, 2010, and secondly, the report as at February 28, 2010.

Would that be fair?

MR. DONALD PALMER: Yes, that's correct

and the reason for two (2), and I think we discussed it, is somewhat is there -- is a full analysis of all the factors. Aft -- as you've alluded to these are very thick documents, there's a lot of numbers, there's a lot of analysis especially...

MR. BYRON WILLIAMS: I may have misspoken. I may have said 28th of 2010 when I meant to say 28th of 2011, so I'll interrupt you just to correct my statement, sir.

MR. DONALD PALMER: Yes. And -- and the analysis that is done and -- and especially this year with some of the changes that we were observing in the underlying data and the releases that were indicated certainly there is -- have to ta -- be very careful, not that we're not careful every year, but -- but certainly with that amount of -- of release it took a little extra time. And then we simply don't have the time to do that same extensive analysis at the end of February. So the February report essentially is an update from the October just filling in with the rest of the year data.

MR. BYRON WILLIAMS: And -- and I certainly didn't mean to invite a -- a lengthy explanation but I appreciate it, Mr. Palmer.

And the point that we can agree on is that this report as of October 31st, 2010, the appointed actuary's report, while it only relates to eight (8) months of information is the report in which a lot of the heavy analytical lifting is done for the purposes of the estimates of ultimate incurred, would that be fa -- or ulti -- ultimate claims, sir.

Would that be fair?

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

MR. BYRON WILLIAMS: And generally the assumptions that we find there find their way into the appor -- appointed actuary's report as of February 28th, 2011 as well.

Would that be accurate, sir?

MR. DONALD PALMER: With the update to the year-end data. But, yes, that would be correct.

MR. BYRON WILLIAMS: Mr. Palmer, I'm going to ask you to turn to CAC/Manitoba exhibit number 6, and in particular to the lengthy sheet, the long sheet, which is the second page of that exhibit. And first of all, Mr. Palmer, you'll agree with me that this -- this appears to be a page simply drawn from Appendix E to the report of the appointed actuary, pages 4 and 5?

You'll agree with me, sir?

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

MR. BYRON WILLIAMS: And what this -- we'll get into the details of the table so I'm not looking for a lengthy explanation now. But what this deals with at a very high level is -- is the -- it deals with accident benefits, weekly indemnity, incurred losses and -- and this is an im -- an important page in the ultimate development of the IBNR calculation with regard to in -- weekly indemnity using the incurred methodology. Would that be fair, sir?

MR. DONALD PALMER: It's one (1) of the important pages, yes, I will -- or two (2) of the important pages, yes.

MR. BYRON WILLIAMS: And we're going to go into this -- this table -- or the -- these two (2) pages in -- in detail in a second, but I -- I just want to make sure, Mr. Palmer, that we're agreed on a couple of definitions. And, first of all, in terms of paid claims, Mr. Palmer.

I -- I would suggest to you that paid claims are the amount of -- just as a working definition, are the amount of claims that have been paid out for each insurance year at points in time since the beginning of each insurance year, taking into account any recoveries. Would that be fair, sir?

MR. DONALD PALMER: And just expanding on that, when you say, "insurance year," that would be the period of time from March 1 to February 1 of -- or

February 28th of each year. And in this particular triangulation, as you have described, it would be accidents that occurred in that twelve (12) month period.

MR. BYRON WILLIAMS: And I thank you for that, Mr. Palmer. And I just do want to, with that amendment or clarification, you're confirming that the definition I presented to you was a fair definition?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: One we can work with?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And in terms of a working definition of incurred claims, I would suggest to you that incurred claims are the amount of claims that have been paid out plus the amount of case reserves that have been set for each insurance year at points in time since the beginning of each insurance year, taking into account any changes in reserves as well as recoveries. Would that be fair, sir?

MR. DONALD PALMER: Yes, that would be fair.

MR. BYRON WILLIAMS: Now turning you to pages 4 and 5, Mr. Palmer, there's a lot of numbers, there's a lot of information on this -- this page. So what I'm going to suggest to you, Mr. Palmer, and -- and you'll agree with -- you'll agree to work with me on this or not, but the -- at the top of the page we see that -- we'll see a line running across in black.

And I'm going to suggest that -- that for the purposes of communication we label that first top third of the page "loss triangles." Are you -- are you prepared to do that with me, Mr. Palmer?

MR. DONALD PALMER: Yes, I am very prepared to call this a "loss triangle."

MR. BYRON WILLIAMS: And again, just because we're going to be flipping back and forward I want to make sure people know where we're going. That second third of the page, again there's a line running across it. I'm going to suggest we label that "loss development factors." Does that work for you, Mr. Palmer?

We can pick another word. I just want to agree on a word, sir.

MR. DONALD PALMER: I think I would prefer to -- to call it "observed development factors." "Loss development factors" also would refer to the bottom sheet, so just in terms of difference between observed and selected and averages, "observations" or "observed" is probably a little clearer.

MR. BYRON WILLIAMS: Mr. Palmer, I thank

you for that. So we'll label that "observed development factors." And for under those observed development factors I'm going to suggest, Mr. Palmer, that last bit of the page starting with, "La -- Latest nine (9) volume weighted," we label as "average and selected development factors." Does work for you, sir?

MR. DONALD PALMER: That's fine, yes.

MR. BYRON WILLIAMS: And just for those following along, we're calling that "average and selected development factors." Just taking you back to the top of page 4 and 5, Mr. Palmer, to those famous loss triangles of which we've heard so much, on the extreme left of page 4, simply what we've got there is the -- the insurance year that is set out there. Is -- is that correct, sir?

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

MR. BYRON WILLIAMS: And running along the top we see a heading, "Evaluation in Months." And I would suggest to you that what is set out in -- along the top are columns showing the development period, for example, development at eight (8) months, twelve (12) months, out to two hundred and twenty-four (224) months.

Would that be fair, sir?

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

MR. BYRON WILLIAMS: And I want to focus you, sir, on the '94/'95 insurance year. And I want to take you way across that to the page 5 under one hundred and forty (140). Do you see that, sir, the -- the figure sixty-seven one seven two (67,172) on the -- towards the right-hand side of page 5 at the top?

MR. DONALD PALMER: Yes, I have it.

MR. BYRON WILLIAMS: And would I be correct in suggesting to you, sir, that the number sixty-seven one seven two (67,172) is a representation of the amount of incurred claims for ni -- the '94/'95 insurance year after one hundred and forty (140) months have passed since the beginning of '94/'95.

Would that be correct, sir?

MR. DONALD PALMER: Yes, that would be correct.

MR. BYRON WILLIAMS: So I want to go one (1) column to the right, Mr. Palmer. And do you see the number five nine nine three six (59,936)? Sorry, does -- does Mr. Johnston want to talk? Just teasing.

MR. DONALD PALMER: Fifty-nine nine three six (59,936) would be the correct number.

MR. BYRON WILLIAMS: And I'm sorry, I wasn't suggesting Mr. Johnston wanted to talk, I -- I didn't want to interrupt his conversation with you, Mr. Palmer, so I apologize.

And that number, that fifty-nine nine

three six (59,936) I'll suggest to you is the -- represents the amount of incurred claims for 1994/'95 after a hundred and fifty-two (152) months have passed since the beginning of the '94/'95 insurance year, fair enough?

MR. DONALD PALMER: That's correct, yes.

MR. BYRON WILLIAMS: And one (1) thing we'll note when we compare that sixty-seven thousand (67,000), excuse me, that sixty-seven one seven two (67,172) to the fifty-nine nine three six (59,936) is that the fifty-nine nine three six (59,936) is less. Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes, fifty (50) -- and these -- it's probably in the ori -- original -- one (1) of the earlier pages, but these are all depicted in thousands of dollars, so we're talking $67.2 million going down to $59.9 million.

MR. BYRON WILLIAMS: That's why I corrected myself, Mr. Palmer. We're -- we're talking pretty big numbers here, correct, sir?

MR. DONALD PALMER: Yes, these are big numbers.

MR. BYRON WILLIAMS: The point I wanted to make to you and I'll ask you to confirm is that at one hundred and fifty-two (152) months of development the figure is less than at one hundred and forty (140).

Is that correct, sir?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, that is a decrease. And we have talked in some length over the past five (5) or six (6) years about the implementation of a reserving calculator, which from a case reserve perspective basically took two (2) years of im -- implementation.

So you had talked about the decrease from sixty-seven (67) to fifty-nine (59), there had also been an increase -- or decrease the year before from seventy-seven (77) to sixty-seven (67). So that whole period of time would be the implementation of the reserving calculator.

MR. BYRON WILLIAMS: And, Mr. Palmer, I don't want to be critical about you, I just -- we're agreeing that there's a negative development portrayed there, sir?

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

MR. BYRON WILLIAMS: And I just want to talk for a moment about what the concept of negative development is, Mr. Palmer. Would I be correct in suggesting to you that negative development occurs where a development period shows, whether it's paid or incurred, an amount for a particular accident year and development period that is less than the paid or incurred am -- amount for the same accident year at the prior development period? Would that be correct, sir?

MR. DONALD PALMER: That would be correct. I think another way on an incurred development triangle that would occur if you had a decrease in the total case reserves, or in the case of a paid triangle that you had a recovery amount -- an -- an amount that would be recovered either through subrogation from a third party, or from a claimant, yes.

MR. BYRON WILLIAMS: And I thank you for that. And I -- I just want to follow up on that point just so that we can understand. And let's focus -- first of all, this is not a paid page, but let's focus on page -- on paid claims.

And what you're telling me, or what you're telling the Board -- you don't have to tell me anything -- what you're telling the Board is that for paid claims there could be a negative development when there, for example, have been a salvage recovery.

Would that be fair, sir?

MR. DONALD PALMER: That is one (1) case.

I -- I think salvage recovery would be very difficult in an injury claim as we're talking about. We claim indemnity but in physical damage claims that would certainly be true.

MR. BYRON WILLIAMS: And in -- and the example was poorly chosen, Mr. -- Mr. Palmer. In terms of paid and -- and a negative development on a -- on a physical dam -- weekly indemnity type, what -- what might result in a negative development in that area?

MR. DONALD PALMER: Two (2) that come to mind. If there was some sort of overpayment to a claimant and that was recovered, or if there was a subrogation amount by a third party responsible that paid back some of the claim.

MR. BYRON WILLIAMS: Okay, and I thank you for that.

MR. DONALD PALMER: That would be specifically from an out of province insured.

MR. BYRON WILLIAMS: And I thank you for that, and I apologize for interrupting you. In terms of incurred develop -- in -- incurred and -- and negative developments, I think you've indicated already one (1) example might be when case reserves were perhaps higher than considered necessary later on, and were -- were taken down.

That might be one (1) example where there might be...

MR. DONALD PALMER: I just want to clarify what you mean by, "greater than necessary."

When new information comes about then new case reserves will be set, which could be decreased. The -- the case reserves at each point of time would be set using all the data and information at that point in time. So to say that "if necessary," I -- I just wanted to make sure that that's not a correction of a mistake, it's new information coming to -- to bear.

MR. BYRON WILLIAMS: My words lack precision, Mr. Palmer. I apologize for that.

What you're telling us is that one (1) factor that might drive a negative development on the incurred side would be based upon new information, the case reserves were lowered, correct?

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

MR. BYRON WILLIAMS: And because incurred, the calculation also takes into account paid, the same factors that might drive -- on the incurred side, if paids were lower for -- for whatever reason, perhaps subrogation, again that might drive a negative development on the incurred side, correct?

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

MR. BYRON WILLIAMS: So on the incurred side, Mr. Palmer, if either the paid or the case reserves go down this could result in a negative development, correct?

MR. DONALD PALMER: It could, yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: No one's falling asleep yet, Mr. Palmer, so we're -- we're making -- we're making good progress.

I want to move from the top of the page being loss triangles to the middle of the page, "Observed development factor." And development factors, as we've agreed we're going to call that -- that particular section.

And I do want to stay, Mr. Palmer, with that -- that '94/'95 year, and that one hundred and forty (140) to a hundred and fifty-two (152) period at -- in terms of development.

So, Mr. Palmer, do you see the figure on the right-hand side of page 5 in -- under one-forty (140) backslash -- or hyphen one fifty-two (152) being zero point eight nine two three (0.8923).

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes, I have it.

MR. BYRON WILLIAMS: And I'm just hoping the Board sees it -- has it as -- as well. I'm -- I'm seeing heads nodding.

And, Mr. Palmer, I'm going to suggest to you that that factor is calculated by -- if -- if we go up to the loss triangle for a second, by dividing the figure fifty-nine nine three six (59,936) at one (1) -- one hundred and fifty-two (152) weeks -- one hundred and fifty-two (152) months of development, by the figure of si -- sixty-seven one seven two (67,172) at one hundred and forty (140) months of development.

Would that be fair, sir?

MR. DONALD PALMER: That would be fair and correct.

MR. BYRON WILLIAMS: That is so rare for me, I appreciate that -- that concession Mr. -- Mr. Palmer. Just teasing you.

So -- and -- and just to -- to reinforce what -- what is going on here. If we go down one (1) line under the "Observed development factor," still in that one forty (140) to one fifty-two (152) period, we see the figure, I'll suggest to you, of zero period nine nine eight two (0.9982).

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And if I were trying to figure out how that was calculated -- if I was trying to figure out how that was calculated I'd go back up to the loss triangle for the '95/'96 year and I would take the one hundred and fifty-two (152) months of development, sixty-eight comma eight-o-one (68,801), and divide that by the one hundred and forty (140) months of development, sixty-eight comma nine-two-five (68,925), and that would yield that result, correct, sir?

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

MR. BYRON WILLIAMS: We're going to -- just very quickly and then we'll come back to it, but move down to the third part of the page which we've label -- labelled -- which we've labelled "averages and selections." And again, Mr. Palmer, without going in to any details at this point in time, on the left-hand side of this part of the table we'll see rows such as "Latest nine (9) volume weighted," "Simple average of middle four (4) of last sict -- six (6)," and "Selected factors." These are some of the -- the labels that appear on the rows on the left-hand side, sir, correct?

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

MR. BYRON WILLIAMS: And the theory -- Mr. Palmer, I'm going to suggest to you that the theory behind the calculation of certain development factors using averages and -- let me back up, I'm gonna try this again.

The theory behind the calculations of -- of development factors, whether they're averages or observed, is that they show us how losses for a particular coverage have historically developed over time.

Would that be fair, sir?

MR. DONALD PALMER: That would be fair in terms of a specific year and a specific development period. That would be the observation, yes.

MR. BYRON WILLIAMS: And making sure I make the caveat that if nothing significant has changed with the coverage, the historical development can be used to -- to a certain degree to predict what the development pattern of claims will be in the future, correct?

MR. DONALD PALMER: Given that there have been no other significant changes in case management protocols, reserving protocols, then that -- that's true. It's not only dependent on no change in coverage, it would be dependent on no change in underlying processes.

MR. BYRON WILLIAMS: Fair enough. And again, when we go down to the bottom third of the page and look at certain averages, whether latest nine (9) volume weighted or latest three (3) volume weighted, it would be accurate to say, sir, that generally for each development period several types of averages are calculated using the observed historic loss development factors.

Would that be fair, sir?

MR. DONALD PALMER: That's fair, again, when that in fact is possible. So for this particular development period, this one-forty (140) to one fifty-two (152), when you look at the latest nine (9) volume weighted or the latest six (6) volume weighted. In fact, it's not possible to calculate the latest nine (9) because we simply don't have nine (9) years of data.

So when we have limited data those labels would only be correct to the extent that we have that much data. So you'll notice that the latest six (6) and the latest nine (9) are in fact the same, and the reason for that is -- is that's probably in fact the latest five (5) for -- for both of those because that's all of the data that we have.

MR. BYRON WILLIAMS: And that's helpful, Mr. Palmer. For -- for example though, for that particular time period the latest three (3) volume weighted, the complete data would be available for that, correct, sir?

MR. DONALD PALMER: Sorry, could you repeat that.

MR. BYRON WILLIAMS: Yes. And I certainly didn't want to interrupt any of your conversations. For the -- you see the -- the row, "Latest three (3) volume weighted," and all that data would be available for that in the one-forty (140) to one fifty-two (152) period, correct?

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

MR. BYRON WILLIAMS: And if we go down a couple more to the simple -- simple average of middle three (3) of last five (5), again the information needed for that calculation is there in its totality, correct?

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

MR. BYRON WILLIAMS: And what you're telling me in terms of latest nine (9) volume weighted and la -- latest six (6) volume weighted is because there's not that number of observations. The number that is produced is most likely the average of the latest five (5).

Would that be fair, sir?

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

MR. BYRON WILLIAMS: I do appreciate that clarification. When -- we're going to get to ultimates in a moment, but I'm going to ask you to agree that these averages, along with a review of all of the observed historical development factors and actuarial judgment, allow the actuary to select a loss development factor for each development period which is used in the calculation of projected ultimate losses for each accident year.

MR. DONALD PALMER: To a point I will agree with that, Mr. Williams. The difficulty in terms of going to those observed averages is simply the volume of data that we're -- we're looking at.

These injury claims going out that are still open after ten (10), twelve (12), fifteen (15) years is a very small number. So it's not just the observed development-to-development that we look at. It's looking at the whole payment stream, not each factor, but -- but how that fits in together.

We do have an expectation that over many -- many, many observations of injury claims data, and this would be not just Manitoba Public Insurance data, but would -- would be injury claims overall, that generally case reserves are flat or go up.

There are changing things over -- over time that new information comes. We have cases not so much in -- in weekly indemnity, but in personal care instances, where we have children who are getting personal care that the parents are looking after children, and then after maybe a fifteen (15) or twenty (20) period are no longer able and -- and personal care costs will go up, so there will be an escalation in the amount that's paid to -- and the amount that would be reserved to there.

So you've -- you've picked a column that all of the observed numbers are less than one (1). And I think the way that that integrates with the other columns over a period of time certainly affects the selection of a given factor, knowing that all of the data can't necessarily be looked at development period by development period in isolation, but has to be looked as a -- as an entire continuum.

MR. BYRON WILLIAMS: Thank you, Mr. Pal -- Palmer.

(BRIEF PAUSE)

MR. DONALD PALMER: And I guess just to -- to emphasize the point that I was just making, in terms of the -- the no-fault accident scheme is still young in terms of development. I mentioned before that we're talking about having a -- a forecast of sixty (60) years of development using sixteen (16) years of data.

And certainly over the first ten (10) years of that time we were very much learning about the new program. We had -- I -- I've been at these proceedings long enough to remember back in the proceedings in '94/'95 when the Board was asking, you know, You've got a new program, when will you fully understand how -- or -- or the behaviour of -- of the claimants and -- and the claims and under -- fully understand the data.

We at that time said without hesitation, It'll take us at least ten (10) years as we learned about reserving protocols, as we learned about individual mortality and more -- morbidity, specifically for the Manitoba experience.

We instituted a new reserving protocol five (5) years ago now. We're still learning about that protocol going forward. We have a new wealth of information that will be available to us in FINEOS BI3 over the next little while. The fact that we have seem some minimal negative development over the last number of years, that's unique in -- in terms of any other injury claims that we've -- we've seen.

One (1) of the reasons why we retain an external actuary is -- is experience with other -- other similar programs. That negative development or -- or development with factors under one (1) really is -- is very unusual. And -- and we wouldn't expect that to continue out in the tail of the distribution.

MR. BYRON WILLIAMS: Mr. Palmer, it was -- and I certainly understand how you're trying to be helpful to the Board. So it -- it was a lengthy answer to -- to -- to my question, but I think at the start of that -- that response, you indicated that you agreed to a degree that these averages, along with a review of the observed historical development factors and actual -- act -- actuarial judgment allow -- are some of the inputs that allow an actuary to select a loss development factor for each development period which can be used in the calculation of the projected ultimate, correct?

MR. DONALD PALMER: The observe -- the observations in -- in the observed loss -- loss development track are one (1) of the inputs. And the other inputs that I've mentioned are as important or more important in some cases, the actuarial judgment. And -- and that encompasses the knowledge of the industry, the knowledge of the claims protocols.

So, they're all pieces of information that really have to be amalgamated into the final judgment of the appointed actuary.

MR. BYRON WILLIAMS: Mr. Palmer, let's

get down to brass tacks. In now way or form are you suggesting that the calculation of the averages is an academic exercise.

It is an important input into the development and judgment in terms of the selected factors, and the selected ultimate, correct?

MR. DONALD PALMER: It is an input into the -- into the -- yes. I -- as you get further out in the tail with less and less data, it probably becomes less an important input.

MR. BYRON WILLIAMS: Mr. Palmer, I'm going to press you a little bit on this. You will not deny that these averages are an important input in an -- in actuarial judgment.

MR. DONALD PALMER: In the earlier development, absolutely. From when we have the nine (9) or even six (6) years of -- of data, absolutely an important factor into the calculation. Later on into the tail, when you have one (1) or two (2) observed observations with a limited number of -- of claimants, they become less important.

So -- so in terms of -- and we use the terms credibility of -- of the data. As you have less and less data points, that would become less an important consideration.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Palmer, I'm going to just move on from this point in one (1) second, but I'm going to suggest to you that a professional actuary with -- with the information provided from five (5) observations, would place a significant weight on averages flowing from those observations.

MR. DONALD PALMER: Dep -- depending on the volume of -- of data that they're looking at, depending on the length of time if there's other underlying factors. The data tells a story, and you have to understand the particular differences and nuances underlying those numbers before you can have any significant importance to those numbers.

So -- so to say that you have five (5) observations that they're very important, important, a little bit important, or not important at all, really depends on the context that you're looking at the data, and the underlying story of that data.

So -- so, to say that there's a rule of thumb that five (5) data points is an important input, I can't make that comment.

MR. BYRON WILLIAMS: I'll reflect upon that, Mr. Palmer. I want to -- staying with the bottom third of the table, and I want to on page 5 direct your attention to, "Selected factors."

And on the -- pretty close to the extreme right-hand side there, Mr. Fal -- Mr. Palmer, under two twelve (212) you'll see a figure, one point zero five four seven (1.0547).

Do you see that, sir?

MR. DONALD PALMER: Yes, I see it.

MR. BYRON WILLIAMS: And just for the Board, there are a lot of one point zero five four seven (1.0547), so I'm -- Mr. Palmer, I just want you to -- to reiterate, we're looking at -- at, "Selected factors," the second -- so that's the second line from the bottom. And the second last number under two twelve (212) is one point zero five four seven (1.0547).

That's -- you have that, sir?

MR. DONALD PALMER: Yes. And -- and that -- although it's in the lay -- column of two hundred and twelve (212) to two twenty-four (224), that would be in fact a two (2) -- two twelve (212) to ultimate development factor. So again, two hundred and twelve (212) quickly is about seventeen (17) years. So that would be the entire development that we would expect from the 17th year to the 60th year.

MR. BYRON WILLIAMS: And I thank you for

that, Mr. Palmer.

And we're not going to get into the formula by which it is calculated just yet, but just I'll ask you to confirm at the very bottom of this page, the formula by which that -- that factor is calculated is -- is set out there. Just on the left-hand side.

Is that correct, Mr. Palmer?

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

MR. BYRON WILLIAMS: And for those following along, if you want to circle that we will come back to it in a few moments.

Now, Mr. -- Mr. Palmer, I -- I know your profession is a -- an art, and one (1) of the terms that I often hear associated with -- with that art is the word "tail factor."

Are you familiar with that term?

MR. DONALD PALMER: Yes, I am.

MR. BYRON WILLIAMS: I thought you might be. That one point zero five four seven (1.0547) of which we spoke, can we call that the tail factor?

MR. DONALD PALMER: We can call that the tail factor, yes.

MR. BYRON WILLIAMS: And I'm going to suggest an answer to you, Mr. Palmer, feel free to translate this into English to the extent you can. I'll suggest to you that the tail factor is the expected development of claims that is expected after actual experiences available to determine loss development factors. If you can do better I -- I'll accept that, Mr. Palmer.

MR. DONALD PALMER: I would -- pretty close. I think a tail factor can -- can be any factor from a period usually well beyond the -- the time of the accident. Even if you have some observed data it's not necessarily that there's no data, there could be some data. There could be data external to the Corporation that would be used for the -- the calculation. So we could talk about the tail factor from a hundred and forty (140) months to ultimate. It's not necessarily that's the end of the observed data but for these purposes that's -- that's the way it's been pro -- portrayed and I would accept that.

MR. BYRON WILLIAMS: Thank you for that. And just a couple of definitions or terms of art while we're -- while we're on this -- the discussion. I wonder if you can help my clients and perhaps the Board understand the distinction between long tail claims and short tail claims, and feel free to use weekly indemnity and collision if that -- if that assists you, Mr. Palmer.

MR. DONALD PALMER: In general a long

tail claim would -- that -- that terminology would be used to describe claims that take a long time to reach finality.

So for weekly income claims, if we have a claimant who was injured at a young age, which, unfortunately, on automobile accidents that is probably more the -- the rule than the exception, there would be an expectation that that claim will last a very long time.

So that would be a tail claim. There would be weekly income paid and if we have a -- a claimant who is injured when he's twenty (20) you'd include weekly income claims until he turned sixty-five (65). There's a retirement income benefit after that.

In some cases his life expectancy would be shortened because of the accident. In some cases it would not be. So -- so you could expect to pay retirement income into the time he was 80 years old or beyond. So the -- so from the time that the accident occurred until that claimant passes away, which could be sixty (60) years plus, you are continuing to pay the claim, so it's -- it's very, very long in terms of duration, and -- and we would use that to categorize as a long tail claim.

On the other end of the spectrum, with a collision claim or a comprehensive claim, a hail claim, phone the adjuster, come in in a period of probably within a week to have that -- your claim estimated, take it to a body shop. It gets fixed in a period of, depending on available -- availability of parts, but usually within a couple of weeks. And at the end of three (3) months that claim is done, finished, settled. It's not going to ha -- there's not going to be any recurring payments on it. That would be what I would category -- categorize as a very short tail claim.

So there's any number of -- of categories of claims in-between those into medium tail claims and -- and the like. A claim that -- or a claim coverage that --

MR. BYRON WILLIAMS: Mr. Palmer, I'm going to interrupt you there unless the Board would like to go on on medium tails because I just want to -- to assist them a little. And certainly I don't want to interrupt your -- your train of thought, but I -- I'm mindful of -- of the time. So I'll -- again, if you feel that -- that I've interrupted an important thought, continue, but otherwise I'm going to interrupt you.

MR. DONALD PALMER: I guess the -- the point that I'd just like to make is -- is that it's not a definitive definition of long tail or -- or short tail.

There -- there is a long continuum in -- in-between.

MR. BYRON WILLIAMS: And I -- I certainly apologize for the -- the interruption. I want to stay on -- on the page that is before you, but if you want to pull out your cheat sheet and go to the -- the second -- second page as -- as well.

And, Madam Chair, if the Board is looking for a break.

THE CHAIRPERSON: This might be a good time to take a break, if we're moving to something different. Are we going onto --

MR. BYRON WILLIAMS: We're -- we're going to be in this general area, Madam Chair, for another forty-five (45) minutes --

THE CHAIRPERSON: Well.

MR. BYRON WILLIAMS: -- still. But I think --

THE CHAIRPERSON: I think we should take a break, yeah. And thank you very much. So we'll be back around 11:00.

--- Upon recessing at 10:43 a.m.

--- Upon resuming at 10:59 a.m.

THE CHAIRPERSON: I think we're all back

now, so proceed, Mr. Williams.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes. And -- and, Madam Chair, when we left off, and, Mr. Palmer, we were at the extreme right-hand side of this page, up one (1) line, the one point zero five (1.05) se -- one point zero five four seven (1.0547), which is the -- the tail factor.

And, Mr. Palmer, I'm going to pose some questions to you, but just to let you know where I'm going, I want to explore how that tail factor feeds into the selected ultimates for various periods of development.

And so, Mr. Palmer, under the two hundred (200) months of development at the very bottom line, so this is -- I'm still looking at the broad -- the bi -- the big sheet, but the cheat sheet will come in useful in just a second.

Mr. Palmer, without elaborating, I'll ask you to confirm that the selected ultimate at two hundred (200) months of development is one point zero five four seven (1.0547). Do you agree, sir?

MR. DONALD PALMER: That's the selected two hundred (200) to ultimate, not -- not the period-to-period, but to ultimate.

MR. BYRON WILLIAMS: Yes, the --

MR. DONALD PALMER: And I would agree.

MR. BYRON WILLIAMS: The selected two hundred (200) to ultimate is -- is that figure. And, Mr. Palmer, I'm going to suggest to you that that figure is calculated by moving -- first of all, moving up one (1) line and choosing se -- the selected factor of one point zero (1.0) and -- and then multiplying that by the tail factor, correct?

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

MR. REGIS GOSSELIN: Could you repeat that, please?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I'll do my best, Board member Gosselin. I'm going to suggest to you, Mr. Palmer, that the calculation of the one point zero five four seven (1.0547) two hundred (200) to ultimate selected figure is a product of -- by going up one (1) line to the selected factor of one point zero (1.0) and then multiplying it by the tail factor of one point zero five four seven (1.0547), correct?

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

MR. BYRON WILLIAMS: And, Mr. Palmer,

without -- without much elaboration, if we move along the -- the left of the selected ultimate line you'll see that from thirty-six (36) to ultimate and then all the way out to two hundred (200) -- two twelve (212) to ultimate, we see the -- the same figure of selected ultimate of one point zero five four seven (1.0547), correct?

MR. DONALD PALMER: Yes, and -- and the reason for that is the period to period factors are all one (1) for that period of time. And -- and again, this -- this relates back to that -- sort of the observations in the -- the continuum that I -- that I talked about previously, that after about five (5) years or so these weekly income claims are all lifetime.

If we have a weekly income claimant for five (5) years, really, we're going to have them for -- for life, generally. And as we -- and I had talked about looking at the factors in isolation and saying that that's probably not the correct way to do it, because if you look at the last two (2) observed period -- period factors beyond sixty-eight (68) months, so there's twenty-one (21) of them, there -- there's eleven (11) that are below one (1) and there's ten (10) that are above one (1).

So for all intents and purposes when you look at that continuum, they're one (1). And -- and that's really why the selection of one (1) going back from the sixty-eight (68) months into the -- the two hundred (200) months essentially is all the same.

MR. BYRON WILLIAMS: Mr. Palmer, you -- you misunderstood the intent of my question. I just want to assist the Board in understanding the methodology by which the selected ultimate is calculated. And I want to direct your attention to -- under the evaluation of months, of thirty-two (32) months. You'll see at the selected ultimate the figure of one point one two eight five (1.1285). Do you see that, sir?

MR. DONALD PALMER: Yes, I see it.

MR. BYRON WILLIAMS: And if I was trying to back out the calculation for that, Mr. Palmer, just to reenforce this point, how I would achieve that is -- is taking the selected factor up on line for thirty-two (32) months of one point zero seven (1.07) and multiplying that by the tail factor of one point zero five four seven (1.0547). Would that be correct, sir?

(BRIEF PAUSE)

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

MR. BYRON WILLIAMS: Mr. Palmer, I -- I -- hopefully you just have the cheat sheet at hand. The second page in, there's a -- a title -- so there's the cover page and then the second page in there's a -- a really lovely title, "Selected factor to ultimate and corresponding insurance year."

And, Mr. Palmer, just -- just for -- to assist the Board, essentially I'll suggest to you that what we've done is -- is replicate the results from Appendix E, page 4 and 5, starting with the development period on the left-hand side, the selected loss development period corresponding to that development period in the second column, and the selected factor to ultimate in the third column.

Do you see that, sir?

MR. DONALD PALMER: Yes, and -- and I would agree that it was -- this looks okay.

MR. BYRON WILLIAMS: And -- and again, not that we're going to go through any calculations, but if one wants to get from selected loss development factors to -- to the selected factor to ultimate, one would simply multiply the loss development factor by the tail factors, correct?

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

MR. BYRON WILLIAMS: Mr. Palm -- Mr. Palmer, I -- I want to kind of tie this together in terms of how these -- the selected ultimates turn into the calculation of ultimate losses.

So I'm going to ask you and the Board to -- to go to the -- stay on the same -- same page of the -- the long sheet, but up to the loss triangle at the top. So, Mr. Palmer, I'd ask you to, on the same long sheet, the loss triangle at the top, and take the '08/'09 year, Mr. Palmer, and take it out to the thirty-two (32) month period.

So what -- again just to repeat, Mr. Palmer, we're taking the '08/'09 year, taking it out to the thirty-two (32) -- two (2) month per -- column, and you'll see the figure of thirty-eight comma nine six one (38,961).

Do you see that, sir?

MR. DONALD PALMER: Yes, I see that.

MR. BYRON WILLIAMS: And if I wanted to get to the ultimate losses estimated by this methodology for this particular year, Mr. Palmer, I would multiply that thirty-eight nine six one (38,961) by the corresponding selected ultimate for the thirty-two (32) month period being one point one two eight five (1.1285), correct?

MR. DONALD PALMER: You've described the correct methodology for the incurred loss development method. So that's -- and to -- to say that that's how you calculated the IBNR would be incorrect, because there's a number of other methodologies that are -- are looked at.

But for this particular incurred loss development method, then I would agree with you. Yes, that's how the methodology is -- is utilized.

MR. BYRON WILLIAMS: And -- and we're going to go to the page that confirms the calculation, Mr. Palmer, but you could accept subject to check that that -- that that number would be forty-three nine six nine (43,969), subject to check?

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

MR. BYRON WILLIAMS: Okay.

(BRIEF PAUSE)

MR. DONALD PALMER: That -- that would be the ultimate loss.

MR. BYRON WILLIAMS: And I'd ask you, Mr. Palmer, as well as the Board, to turn to the -- the last page of the exhibit with the long sheet. The last page should in the top right-hand corner say, Appendix E, Page 8.

And if you want -- and if you -- the Board wanted to also flip one (1) page over on your cheat sheet -- or my cheat sheet, I wouldn't accuse the Board of cheating, that -- that might -- might be of assistance, as well.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And, Mr. Palmer, you quite -- quite correctly cautioned me that this is just one (1) particular methodology to achieve ultimate losses, and -- and in -- incur.

But if we -- if we take Appendix E, page 8, and again go down to the '08/'09 year, in column 4 we'll see again that -- that figure of thirty-eight nine six one (38,961), correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the next column over we will see the one point one two eight five (1.1285), correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And in the -- the ultimate losses column number 6, we'll see the product of multiplying column 4 by column 5, being forty-three nine six nine (43,969), correct, sir?

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

MR. BYRON WILLIAMS: And just referring you to the cheat sheet for future reference, Mr. Palmer. Essentially, for this particular methodology looking at accident benefits weekly and indemnity, what the -- the page titled "Accident Benefits Weekly Indemnity Ultimate Losses" does is sets out the insurance year, the -- the -- the reported loss, the del -- development factor to ultimate, and the product of that calculation being ultimate losses for each insurance year.

Would that be a fair statement, sir?

MR. DONALD PALMER: Yes, that's what it shows.

MR. BYRON WILLIAMS: Now, Mr. Palmer, in terms of how the IBNR flows from the calculation of ultimate losses -- and again on Appendix E, page 8, I'm referring you to the '08/'09 year. And going down to column 7 labelled "IBNR," you'll see an IBNR figure estimate for that particular year under this methodology of five comma zero zero eight (5,008), correct, sir?

MR. DONALD PALMER: Yes. And again, using this methodology that IBNR, incurred but not reported, is the difference between the ultimate value and the restated report to date, which is column 4.

MR. BYRON WILLIAMS: So essentially, I'll just ask you to confirm that we're -- for this -- for this particular calculation, we're calculating the IBNR by taking the ultimate losses in column 6 for that particular insurance year and subtracting it from the reported or in -- incurred loss, an ALE, in column 4, correct?

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

MR. BYRON WILLIAMS: And there's a total figure under IBNR and Mr. -- Mr. Palmer, you see that total figure of seventy comma nine three eight (70,938), correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And that is the sum of the IBNR estimated under this particular methodology for the respective insurance years set out above, correct?

MR. DONALD PALMER: And -- yes, and specifically since PIPP started in 1994/'95, again, with the same provisos that you had said this would be the total IBNR under this method for weekly income since the start of PIPP.

MR. BYRON WILLIAMS: Thank you for that. And I -- I note in our cheat sheet, I think that the -- the -- the next page over. Mr. Palmer, I'll -- I'll ask you to confirm, this essentially just sets out the IBNR calculation for each -- each insurance year that -- that appears on Appendix E, page 8, correct?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now, Mr. Palmer, in terms of the -- the cheat sheet, if you can go to the very last page you'll see a title "Excerpts: accident benefits weekly indem -- demnity -- excerpt from -- from the appointed actuary's report."

And I don't really think we need to go back to Appendix E of page 5 -- maybe -- maybe we'd better, just out of an abundance of caution. Perhaps just return as well on the long sheet -- to that -- that long sheet, Mr. Palmer, in Exhibit 6.

Do you have those, sir?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And focussing not on the long sheet but on the -- the cheat sheet, tha -- that last page. Mr. Palmer, I'm suggesting to you that for the -- the development period one forty (140) to one fifty-two (152), what we -- we have repo -- produced here are simply excerpts from Appendix E, page 5, for this particular development period.

Do you see that, Mr. Palmer?

MR. DONALD PALMER: It is a straight excerpt, yes. And -- and again, understanding the -- the factors and the underlying data of those is very important because you'll see '94/'95 being a factor that is significant lower than the others because that was one (1) of the years that the case reserving protocols and methodologies and a new reserve calculator was -- was introduced.

So from a overall future selection, that one you can basically throw away because we know what -- what the underlying cause is of that and not in -- expected to -- to repeat in the future. So -- so again, in -- in terms of -- of taking specific observations and saying that's what that shows is somewhat dangerous unless you know the entire context of that.

MR. BYRON WILLIAMS: And no doubt, Mr. Palmer. And -- and I do want to do with this -- the cheat sheet, just a bit of the re-labelling that we did verbally before. So just in terms of under the averages, which are -- you see a heading, "Latest nine (9) volume weighted," what that properly should -- should say, Mr. Palmer, you're -- you suggested to me previously is "Latest five (5) volume weighted," correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And under, "Latest six (6) volume weighted," it -- we might put in "Latest five (5) volume weighted as well, sir, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And if we went down to the "Simple average of middle four (4) of last six (6)," we should really say "Simple average of middle three (3) of last five (5)." Would that be fair, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And you mentioned -- you suggested certainly that '94/'95 you -- you'd like to throw that out. Well, we may differ on that, but I -- just in terms of the latest three (3) volume weighted, the zero point nine seven four seven (0.9747) calculation, that would not include the '94 and '95 year, correct, sir?

MR. DONALD PALMER: That would be correct, and that would be based on a very limited number of claimants, yes.

MR. BYRON WILLIAMS: And the simple average of middle three (3) of last five (5), again, would not -- would not include the -- the '94/'95 year, correct?

MR. DONALD PALMER: That would be correct, yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now I know that I'm going to -- the -- I know that Mr. -- Mr. Johnston is -- is very quick with his calculator, Mr. -- Mr. Palmer. Let me back up a second.

If we looked at how the -- excuse me for this. Under this particular methodology, we've confirmed in our previous discussion that the estimated IBNR based for weekly indemnity was seventy nine three eight (70,938), correct, sir? 70 million -- almost 71 million, sir?

It's just on the page afterwards, Mr. Palmer.

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

MR. BYRON WILLIAMS: And that would be based on a selected factor of one (1) in terms of this development and a selected ultimate of one point zero five four seven (1.0547), correct, sir?

MR. DONALD PALMER: A selected tail factor, yes, that's correct.

MR. BYRON WILLIAMS: I apologize for that. And -- and if you have to -- to do an undertaking on this, sir, I'll understand. But I -- if I suggested to you that if instead of using the selected factor of one (1), one used the late -- the select -- the latest three (3) volume weighted of zero point nine seven four seven (0.9747), the resulting estimate of IBNR for all insurance years would be 54 million, approximately. Would you accept that subject to check or would you like to -- to undertake to do the calculation, sir?

(BRIEF PAUSE)

MR. DONALD PALMER: I -- I don't necessarily dispute that number in terms of -- in terms of that assumption and -- and without deeper analysis taking the observed factors and the observed averages as you have outlined the -- the number that the result will be different. I can accept that. And -- and in terms of -- of blindly applying numerical averages to come up with a different number, I certainly can't dispute that that's -- that it was done correctly.

Again, that's somewhat the danger of taking a look at these averages and -- and applying too much weight, especially out in further years. That's -- it's -- it's that actuarial judgment. It's -- it's the -- one (1) of the reasons that we utilize the -- the services of an external appointed actuary with much more experience than -- than I have.

You know, it's -- it's a collaborative effort to -- to be able to -- to look at the -- all of the data in totality, to have someone of Mr. Christie's credentials to assist with the analysis of the -- the data. His -- his credentials being one (1) of the leading property casualty actuaries in Canada, who is now president of the Canadian Institute of Actuaries. So certainly the rest of the pote -- the profession has recognized his credentials as well.

So in terms of -- of having a -- a number straight average that comes out with a different answer than what was ultimately selected, I can accept that, sure.

MR. BYRON WILLIAMS: Just to confirm, you'll accept that number subject to check?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And --

MR. DONALD PALMER: And -- and again the number -- the final number was?

MR. BYRON WILLIAMS: We came up with 54 -- 54,127,000, being a reduction of about 16.8 million. Mr. Palmer, you can come back if -- if you disagree with -- with that number.

MR. DONALD PALMER: And -- and that's

very similar just to CAC Exhibit 3, Pre-ask 1, and I'm just looking at the revised straight average of all years being 56 million. So that -- that's close. I -- I know the numbers are slightly different, but...

MR. BYRON WILLIAMS: Madam Chair, I'm -- I'm continuing, but I want to move to a bit more detailed discussion of tail factor -- tail factors -- tail factor, and I do have a -- a couple of additional exhibits. And I should have distributed them at the -- the break. I apologize for that. So I -- I wonder if I could stand down for five (5) minutes to -- to do so?

THE CHAIRPERSON: Sure. We'll take a five (5) minute break. Before we take the break, while it's on your mind.

MR. REGIS GOSSELIN: I'm sorry, just -- how did you arrive at the 50 million -- 50-plus million?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I'll ask it -- Mr. Gosselin, I -- I can't give evidence so I'll ask it in the -- in -- in the form of a question. Mr. Palmer will help me with -- with his answer.

Mr. Palmer, I'm going to suggest to -- to you that if -- if I replaced the -- the selected factor of one point zero (1.0), and employed instead the latest three (3) volume weighted of zero point nine seven four seven (0.9747), the IBNR estimate for weekly indemnity would be -- under this particular methodology it would be fifty-four million one hundred and twenty-seven thousand (54,127,000), a reduction of 16.8 million from the methodology using the selected factor of one (1), correct?

MR. DONALD PALMER: And using that methodology, subject to check, I would accept that answer, yes.

MR. BYRON WILLIAMS: I -- I hope, Board Member Gosselin, that -- that that assists.

THE CHAIRPERSON: Okay. So you're going to need about five (5) minutes to get that exhibit to us. We'll take a short break.

--- Upon recessing at 11:27 a.m.

--- Upon resuming at 11:34 a.m.

THE CHAIRPERSON: So I'm presuming we all have the new materials, Exhibit 9, and -- are those the right numbers --

MR. BYRON WILLIAMS: Yes, and --

THE CHAIRPERSON: -- 8 and 9?

MR. BYRON WILLIAMS: -- yes, and -- and,

Madam Chair, I -- I do apologize again. I should have distributed it at the earlier break.

I -- I -- my understanding is that there's no objection from MPI to these. What I'm going to suggest be marked as CAC Exhibit 8 is the document with another long sheet, and it is an excerpt from the appointed actuary's report as at October 31st, 2005. It's an oldie but a goodie.

And the -- the sheet that's attached to it is Appendix E, page 23, and for -- for -- so Ms. Desorcy can read it, we've blown up the page slightly so that -- that she can follow.

--- EXHIBIT NO. CAC-8: Excerpt from the appointed actuary's report as at October 31st, 2005

MR. BYRON WILLIAMS: What I would suggest be marked as CAC Exhibit 9 is a short excerpt again from the appointed actuary's report as at 31 October, 2010. The pages that should be in it are pages 11, 12, 13, and 14.

--- EXHIBIT NO. CAC-9: Excerpt from appointed actuary's report as at

October 31, 2010, pages 11 through 14

THE CHAIRPERSON: We have them.

MR. BYRON WILLIAMS: Okay.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Palmer, with some trepidation I want to continue our discussion of tail factors, and again I'm going to focus our discussion, because it's a sheet in front of the Board, in terms of accident benefits weekly indemnity.

And just for the Board's reference, the two (2) exhibits that I just presented I'll come to in just one (1) second.

Mr. Palmer, for perhaps the last time today, I hope, if you could go back to CAC Exhibit 6, which is the other long sheet, Appendix E, page 5. Do you have that, sir?

MR. DONALD PALMER: Yes, I have it.

MR. BYRON WILLIAMS: And in our prior discussion, we agreed that the -- if I go to the extreme right under the selected factors line, I'll see the -- the tail factor of one point zero five four seven (1.0547) in the second-last column. Is that right, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And we made reference to how that tail factor was calculated, and -- and Mr. Palmer, I'm just going to ask you to confirm without getting you to explain yet, that there is a formula set out on Appendix E, page 4, again this long sheet, on -- in the bottom left-hand corner.

Do you see that, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And I'm gonna try and turn that formula into English, Mr. Palmer, and you can correct me if I've mistranslated it. But would I be correct in suggesting to you that that tail factor of one point zero five four seven (1.0547) was calculated by multiplying zero point nine nine five (0.995) by one point zero six zero (1.060)?

Would that be correct, sir? And we'll go into an explanation in a second, but...

MR. DONALD PALMER: Yes, that would be correct.

MR. BYRON WILLIAMS: And, Mr. Palmer, I want to trace the source of both numbers. And just to start with I'll ask you to confirm, without elaborating at this point in time, I'll give you a chance to elaborate in a second, that the one point zero six zero (1.060) is a product of a 2005 special analysis conducted by your external actuary, which can be found at Appendix E page 23 from the appointed actuary's report at October 31st, 2005.

Wi -- will you accept that, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And for the Board's reference, and we'll come to it in a minute, that is the CAC Exhibit 8. And we'll come to it in a second.

Mr. -- Mr. Palmer, and -- and if you need assistance on the point zero nine nine five (.0995) (sic) you might want to turn to CAC Exhibit 9, which is the excerpt from the 2011 report, that's -- and page 12 specifically, and page 13.

Do you have those?

MR. DONALD PALMER: Yes. And specifically that page 13, second paragraph, single line is specifically the derivation of the one point-o-five four seven (1.0547) as you have described.

MR. BYRON WILLIAMS: Thank you. I appreciate your consideration. And I -- I just want to make sure the Board has that -- that document. And I'm seeing heads nodding.

I'm gonna ask you to flip over to page 12. So back a page, Mr. Palmer. And again, correct me if I've misstated this, but my understanding of the derivation of the figure zero point nine nine five (0.995) is that it is a recent analysis prepared by the -- the external -- or the appointed actuary with the assistance of the Corporation which looks at the average ratio of the latest cumulative incurred value to the corresponding value cumulatively incurred at one hundred and sixteen (116) months for older insurance years.

Would that be correct, sir?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And, Mr. Palmer, it's a small note but just to -- to assist the Board. If we go to the second-last paragraph on page 12, line 3, we'll see a similar description but it says at one hundred and twenty (120) months.

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And we might want to co -- amend that by putting at one hundred and sixteen (116) months. Would that be appropriate, sir?

MR. DONALD PALMER: That's fine. And just the difference between a hundred and sixteen (116) and a hundred and twenty (120) is -- signifies the interim re -- review. A hundred and sixteen (116) months would be October and a hundred and twenty (120) months would be as at February. But this far into development, there's not much difference.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now in terms of how the zero point nine nine five (0.995) figure was calculated, Mr. Palmer, I wonder if you could first of all provide me with a verbal description of how it was calculated. Alternatively, I am going to ask for a -- kind of a written description by way of undertaking. But if you want to take a shot at it, and in tur -- a verbal description, it would be appreciated by my client.

(BRIEF PAUSE)

MR. DONALD PALMER: I think the preference at this point would be to take it as an undertaking and -- and provide it immediately after -- after lunch.

MR. BYRON WILLIAMS: And thank you for that, and that's probably more efficient. So just to confirm, you're undertaking to provide a written explanation, with calculations, of the derivation of the zero point nine nine five (0.995) figure. Would that be accurate, sir?

MR. DONALD PALMER: Yes.

--- UNDERTAKING NO. 15: MPI to provide a written explanation, with calculations, of the derivation of the zero point nine nine five (0.995) figure

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Palmer, just to let you know where we're going in the next stage of the conversation, I -- I want to get a bit of an -- an indication of the sensitivity of your ultimate incurred calculations to the tail factor.

And -- and I want to, again, in the context of weekly indemnity, both from -- at this point in time, from the perspective of incurred and -- and paid. And just a housekeeping question which I've already asked three (3) times for which I apologize, but on the incurred side weekly indemnity the -- the tail factor is one point zero five four seven (1.0547), correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: On the paid side I'd ask you to -- to confirm that it is one point three nine nine three (1.3993). Would that be correct, sir? And the material is not before you. I apologize.

And, Mr. -- Mr. Palmer, the -- the question is: In terms of the tail factor on -- on paid, would it be one point three nine nine three (1.3993)?

MR. DONALD PALMER: I'll accept that subject to check.

(BRIEF PAUSE)

MR. DONALD PALMER: And -- and again, to -- for clarity, that's the -- the tail factor as I had outlined before. You really have to define the tail factor from when. So that would be the tail factor from two hundred and thirty-six (236) months to ultimate, and that is one point three nine nine three (1.3993), yes.

MR. BYRON WILLIAMS: And I appreciate that clarification. Now, Mr. Palmer, going back to incurred for a moment, I want to explore what would happen if we, instead of using a tail factor of one point zero five four seven (1.0547), took point nine nine (.99) of that. So I'm going to ask you, first of all, to confirm the -- the mathematical calculation, subject to check, that if I took one point zero five four seven (1.0547) and times it -- multiplied it by point nine nine (.99), I would get a result of one point zero four four one five three (1.044153).

Will you accept that, sir?

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

MR. BYRON WILLIAMS: And on the paid side, again with the comments that you've su -- supplied previously, if I took that one point three nine nine three (1.3993) and multiplied it by point nine nine (.99) would you accept that I would get a result of one point three eight five three (1.3853)?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And, Mr. Palmer, you can certainly undertake to do this by way of calculation, but if I suggested to you that in terms of this particular methodology, if the tail factor was overstated by 1 percent, the IBNR would be overstated by over $5 million.

Would you accept that subject to check?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, that's -- that's the correct answer, about $5 million. The tail factor, because it applies to each accident year, there is a leveraged effect. This is -- and for the tail factor not having data, and again this is the estimation from the seventeen (17) years to the sixty (60) years. It is sensitive. There's an awful lot of thought and effort goes into that selection.

MR. BYRON WILLIAMS: And I appreciate your helpfulness and your -- and your candour. Just to confirm the -- and you have answered the question, but I just want to ask it in a slightly different way.

If I reduced the tail factor from one point zero five four seven (1.0547) to one point zero four four two (1.0442), the effect on the IBNR would be in the range of $5 million for this particular estimate?

(BRIEF PAUSE)

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

MR. BYRON WILLIAMS: And it's a bit painful, Mr. Palmer, so I appreciate you a -- assisting me. I want to explore that one (1) step further. If I wanted to take point nine eight (.98) of the incurred tail factor of one point zero five four seven (1.0547), would you accept that the result would be one point zero three three six (1.0336), subject to check, sir?

MR. DONALD PALMER: Approximately 2 percent less than one five four seven (1547), yes, I would accept that.

MR. BYRON WILLIAMS: And using that one point three three six (1.336) figure, replacing the one point zero five four seven (1.0547), that would result in a reduction in the IBNR of about 10 million.

Would you accept that, sir?

MR. DONALD PALMER: Approximately. I -- I would agree that a reduction of that tail factor will -- will result in a lower IBNR. In terms of an idea of the -- the multiplier effect, I would ask the panel to look at CAC Exhibit 7, that's the appointed actuary's report as at 31 October, 2010, and it's the last page of that exhibit, Appendix E, page 8.

(BRIEF PAUSE)

MR. DONALD PALMER: And the --

MR. BYRON WILLIAMS: Mr. Palmer, I think you've got the right document, but I -- I think you've described it as Exhibit 7, and I -- you may be referring to Exhibit 8, which has the long sheet -- Exhibit 6, excuse me. You -- you're -- are you referring -- and I don't mean to interrupt, but is it Appendix E, page 8 that you're referring me?

MR. DONALD PALMER: Yes, and I apologize. Mine is a -- is labelled 7.

MR. BYRON WILLIAMS: So it's the -- it's the document with the long sheet and the last page should be Appendix E, page -- page 8. And I apologize for interrupting.

MR. DONALD PALMER: And the total restated reported loss and -- and ALAE for all accident years is $819 million. So any adjustment in the tail that applies to every single one (1) of those years essentially is -- is an effect on that particular number.

So in terms of -- of the sensitivity, yes, 1 percent of $800 million, plus or minus because the application changes a little bit, but -- but it is -- there is very much a leveraged effect.

MR. BYRON WILLIAMS: I thank you for that assistance, Mr. Palmer. I'd like you to turn now, Mr. Palmer, to CAC Exhibit 8, which is the other long sheet, and that's the excerpt from the appointed actuary's report as at October 31st, 2005.

Do you have that, sir?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And we've had a bit of a discussion on the zero point nine nine five (0.995). In -- in terms of the one point zero six (1.06), which also figures into the calculation of the tail factor, that one point zero six (1.06) is a result of the act -- analysis done in this report, correct?

MR. DONALD PALMER: Yes, it is.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And, Mr. Palmer, this was a re -- a report done in 2005 to estimate the tail factor based on ultimates calculated at various points in time from prior valuations adjusted to current 2005 benefit levels.

Would that be fair, sir?

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

MR. BYRON WILLIAMS: And from this ultimate development triangle, development factors were calculated and the selected factors were -- were chosen, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And I want to draw your attention, Mr. Palmer, to the right-hand side of this calculation under the, "Evaluation in months," you'll see two twenty-eight (228). There are three (3) years set out under two twenty-eight (228), sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And by two forty (240) there were only two (2) years set out, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So it would be fair to say that the last development period with more than two (2) years of history on which to base fact or selection was two hundred and twenty-eight (228) months.

Would that be accurate, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And in -- in two (2) -- two twenty-eight (228) months there was only three (3) years.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Now, if we go -- if I could take your attention, sir, to the bottom -- to the bottom right-hand side of this table, and you'll see under sel...

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Williams, while we

sit and wait for the response, how much longer do you think you'll be on this particular topic? I'm just wondering when we will take a break.

MR. BYRON WILLIAMS: Madam Chair, I think it would -- depending on the -- the nature of the answers, maybe fifty (50) minutes, so a break is quite appropriate here.

I -- I don't -- you know, I'd appreciate an answer to the last question, but then a break would be certainly appropriate from my perspective.

THE CHAIRPERSON: Okay. Well, maybe we'll, you know, let the Corporation use the noon hour to come up with that answer. Unless Mr. Palmer has it right now and he wants to carry on. I just -- I'm looking to find a break that will work for all of us.

MR. BYRON WILLIAMS: And I'm hoping he can recall the question.

MR. DONALD PALMER: And I was gonna ask you to repeat the question.

THE CHAIRPERSON: On that note, if you repeat the question and then we'll take our noon hour break and that'll give you time to sort of come up with the answer, I'm sure. Thanks.

MR. BYRON WILLIAMS: Memory may escape me, Madam Chair, but I'm going to, I think, repeat the last two (2) questions and I think that might assist.

THE CHAIRPERSON: Well, this shows that we do need a break --

MR. BYRON WILLIAMS: Yes.

THE CHAIRPERSON: -- right?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: In 2005 the last development period with more than two (2) years of history on which to base factor selection was two (2) -- two-twenty-eight (228) months.

Is that correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And that particular year had three (3) years of history.

Would that be correct as well, sir?

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

MR. BYRON WILLIAMS: Thank you. And I think that's where we left off.

THE CHAIRPERSON: Okay. So we're going to take again a one (1) hour fifteen (15) minute break so that some people can get some exercise and we'll be back at 1:15. Thank you.

--- Upon recessing at 11:58 a.m.

--- Upon resuming at 1:19 p.m.

THE CHAIRPERSON: I see we're late getting back, but anyway, apologize for that. You're ready to go ahead?

MR. BYRON WILLIAMS: Yes, Madam Chair. Thank you, and good afternoon.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Just -- no doubt you were waiting with baited -- oh, sorry, Mr. Palmer has a--

MR. DONALD PALMER: One (1) of the -- I guess it wasn't an undertaking, but unofficial undertakings that we had before lunch was the derivation of the point nine nine five (.995) tail factor.

MR. BYRON WILLIAMS: I think that was an undertaking, sir.

MR. DONALD PALMER: Okay, well then I will discharge that undertaking now. The -- that particular factor is a judgmental selection by the appointed actuary. So there isn't a specific numerical derivation.

Now one (1) -- and -- and essentially it is the estimation of how the incurred development would grow from the one sixteen (116) development period to the

-- to the current development. And it gets pretty close if we take the observations of the last three (3). So the one sixteen (116) development to one sixteen (116). So that was --

MR. BYRON WILLIAMS: Mr. Palmer, could I -- and I appreciate this answer. I just want to make sure everyone's on the right document, and the -- and the right page.

And I assume that you are referring us to CAC/MS -- or CAC Exhibit number 6, Appendix E, page 5. Would I be correct, sir?

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

MR. BYRON WILLIAMS: Sorry to interrupt.

MR. DONALD PALMER: And if we look at the last three (3) volume weighted one sixteen (116) to reported to date factor that's shown as point nine nine four eight (.9948). And that is derived by taking the sum of forty-four nine thirty-three (44,933), which is the one sixteen (116) plus the fifty-five seven seven four (55,774), plus the fifty-four nine twenty (54,920), dividing that sum by forty-four nine thirty-three (44,933), fifty-six four eighty-five (56,485), which is the one sixteen (116) development for the next previous year, and the fifty-five-o-twenty-four (55,024).

That's the three (3) year weighted average that comes to the nine nine four eight (9948), or nine nine five (995). So that's certainly an indicator. That wasn't the only selection, but in terms of -- of the guidance, it is a judgmentally picked factor, but based on that three (3) year volume weighted.

MR. BYRON WILLIAMS: And, Mr. Palmer, I -- I thank you for that. I just want to make sure I -- I have it. I'm not confident I do. But let's go up -- so we're going up to the loss triangle part of the page --

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: -- and we're starting on the right-hand side of page 5 at one hundred and sixteen (116) months of development, and we're -- we're looking at the -- the last year that's portrayed there.

So we're starting first of all with that sum of forty-four nine three three (44,933). I'll suggest to you we're going up to the one twenty-eight (128) and adding fifty-five seven seven four (55,774), and going up another line to the right to fifty-four nine two zero (54,920), and that's the -- is that the numerator of that calculation, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And in terms of the denominator of the calculation, I'll suggest to you that it flows from the one sixteen (116) -- one (1) -- excuse me, for the court reporter, one hundred and sixteen (116), eval -- evaluation in months, and the denominator is essentially forty-four nine three three (44,933) going -- and then adding -- going up one (1) line, fifty-six four eight five (56,485). And then going up one (1) line, fifty-five-o-two four (55,024).

Is that correct, sir?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And that yields on the ex -- now going to the bottom the average and selection area on the extreme right-hand side, the latest three (3) volume weighted figure of zero point nine nine four eight (0.9948), correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And that essentially -- just to finish the story as I understand it. That wasn't the only factor in the judgmental selection of zero poi -- excuse me, zero point nine nine five zero (0.9950) but it was an important factor, correct?

MR. DONALD PALMER: It was a factor. And again, remember that these are the selections of the appointed actuary. So the exact thought process -- that judgment is his and really Mr. Johnston and I aren't in -- we're -- we're not exactly sure at this point what that thought process was, but certainly that's an indicator. And whether it was an important consideration or not an important consideration, I just can't say.

MR. BYRON WILLIAMS: I'll accept that, sir. Thank you.

MR. REGIS GOSSELIN: Just clarify one (1) -- one (1) thing for me. The first three (3) number -- three (3) sets of numbers are the denominator? And the last -- latter three (3) are the numerator?

Is that -- did I get that right?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. -- Mr. Palmer, and if I could try that. I -- I'm gonna suggest that the four four nine three three (44,933), the five five seven seven four (55,774) and the five four nine two zero (54,920) were the numerator.

Am I correct?

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

MR. BYRON WILLIAMS: And that -- that for the denominator, one rises vertically up the one sixteen (116) -- one hundred and sixteen (116) line adding together forty-four nine three three (44,933), fifty-six four eight five (56,485) and fifty-five o-two four (55,024).

Is that correct, sir?

MR. DONALD PALMER: That's correct.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And thank you very much for that, Mr. Palmer.

I do want to go back. What you'll want to have at hand now -- I think we ca put the Exhibit 6 away for a moment and go back to CAC Exhibit 8, which is the other long sheet dating from the 2005 actuary's report. And you might also want to have at hand, Mr. Palmer, CAC Exhibit 9, page 13 in the bottom right-hand corner, please.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I'm not referring to the right -- bottom right-hand corner, Mr. Palmer, that's just where the page is. Do you have those documents, sir?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: Okay. I apologize for the confusion.

An -- and just to remind ourselves, when we look at this CAC Exhibit 8, the second page of that marked as Appendix E, page 23, this is the analysis performed by the Corporation, just to remind everyone, in -- in 2005. And it underlies the figure of one point zero six zero (1.060), which is part of the tail factor calculation that we have been discussing, correct?

(BRIEF PAUSE)

MR. DONALD PALMER: And -- and just before we go too far down this -- this road, the derivation of the tail factor is -- this is -- is a derivation that comes from the calculations of the paid methodology, the combination of the paid and the tabular reserving.

At that point in time we were exclusively relying on the -- the tabular methodology and the -- and the paid methodology. So the one point zero six (1.06) as a tail factor comes from that analysis and this analysis that is shown is the development from that into the incurred methodology, it's not the other way around.

So if you're looking at this as the derivation of the one point zero six (1.06) we won't get there.

MR. BYRON WILLIAMS: Mr. Palmer, and I

want to walk through this with you and just -- in terms of six point one (6.1) -- in -- in terms of, excuse me, the CAC Exhibit 9, which is the excerpt from this year's report, Mr. Palmer. First in -- turning to page 11 just for one (1) second, sir, you'll see at the bottom of the page si -- "Six point one six (6.16) accident benefits weekly indemnity."

Do you see that, sir?

MR. DONALD PALMER: No, I'm sorry, Mr. Williams. Could you give me the reference again?

MR. BYRON WILLIAMS: It's appen -- Exhibit 9. If you go to page 11 of Exhibit 9 you'll see at the bottom a heading, "Six point one six (6.16) accident benefits weekly indemnity."

MR. DONALD PALMER: Yes, I have it.

MR. BYRON WILLIAMS: Yeah. And I just want to make sure I understand your point. Now, I'm going to ask you to flip along through page 12 onto page 13. And you'll agree with me, Mr. Palmer, that we're still in the weekly indemnity calculation section of the -- of the discussion?

MR. DONALD PALMER: Yes, we are.

MR. BYRON WILLIAMS: So at the top of page 13 under the table there's reference to the 2005 special analysis. And in that paragraph you'll see that the -- the ultimate incurred claims being estimated at approximately one-o-six (1.06) of the sum of cumulative payments and tabular reserves.

It says here -- okay, and it says here at one hundred and twenty (120) months, whether it's one hundred and twenty (120) or one sixteen (116). So that's the -- where the one-o-six (1.06) figure comes from of which you spoke just recently, sir?

MR. DONALD PALMER: Yes. So -- so in terms, we start with the one-o-six (1.06) that comes from the tabular versus the paid, and then use this incurred to split that one-o-six (1.06) up into the period-to-period development factors shown here. So -- so --

MR. BYRON WILLIAMS: When you're saying, "shown here," Mr. Palmer, what are you referring to? You're referring to the -- you're referring to the Exhibit 9, the -- the factors that are at the top of that page, or -- or are you referring to the long sheet? I just want to understand what you're referring to, sir.

MR. DONALD PALMER: In fact, both. The -- the figures shown on the table on page 13 of Exhibit 9 are the same as that derived in the longer sheet from the October, 2005, report. I think that was Exhibit 8.

MR. BYRON WILLIAMS: Yes, thank you. Now, going on, Mr. Palmer, and I'm just try -- seeing if we're on the same page or if there's some confusion, no doubt on my part, we have this figure of one point zero (1.0) -- or 106 percent, which is referenced on the top of page 13 in the first paragraph, line 3.

And then we go down to the next paragraph, Mr. Palmer, and we see that the incurred tail factor was a product of zero point nine nine five (0.995) times one point zero six zero (1.060) yielding the incurred tail factor of one point zero five four seven (1.0547) which is used for weekly indemnity.

Are we on the same page so far, sir?

MR. DONALD PALMER: Yes, we are.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And what I would like to do now, Mr. Palmer, is take you back to the long sheet found at CAC Exhibit 8, Appendix E, page 23. Under -- and I want to direct your attention towards the bottom of that page on the extreme right-hand side. And we'll see un -- the second-last line, selected factors, under two hundred and forty (240) months to ultimate, the selected factor chosen was one point zero two two two (1.0222), agreed?

MR. DONALD PALMER: Agreed.

MR. BYRON WILLIAMS: And would I be correct, sir, in suggesting to you that that one point zero two two two (1.0222) on the extreme right under two forty (240) was judgmentally selected?

Would that be correct, sir? And if you're looking for insight, Mr. Palmer, there's a reference to that at the very bottom of the page on the left side.

MR. DONALD PALMER: Yes, I -- I would agree with that. Again, the judgment to get to with the reverse multiplication from two fifty-two (252) back to one twenty (120) that we had one point o-six (1.06) that essentially was a predetermined result that came from the other analysis.

MR. BYRON WILLIAMS: So I -- I have your point now, Mr. Palmer, in that the one point zero six zero (1.060) flowed from the paid and tabular reserving analysis. You translated those figures with a pre-ordained result being one point zero six zero (1.060) on the incurred side, and then the calculations that we see on this page -- the calculations that we see are backing out from the pre-ordained result.

Would that be fair, sir?

MR. DONALD PALMER: That's correct, yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: So, Mr. Palmer, the 2.2 percent is -- the 2.2. percent that runs through this calculation is not the result of the data -- well -- not a result of the data presented here, it is a -- a judgmental determination required to -- to fit into that one point zero six (1.06).

Is that right, sir?

MR. DONALD PALMER: Yes. And -- and remember, you're going back now to the '84/'85 accident year that was a pre-PIPP year that has different benefits. So that particular ratio may or may not be translatable from the old accident benefits to the new PIPP benefits.

MR. BYRON WILLIAMS: Would it be accurate to say, sir, that that judgmental selection adds 2.2 percent to the ultimates for every accident year in the analysis?

(BRIEF PAUSE)

MR. DONALD PALMER: Utilizing the incurred development methodology, yes, that would be true.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: In terms of the 2005 analysis, sir, would it be accurate to say that it relies on the valid -- validity of the ultimate selected in prior evaluations?

(BRIEF PAUSE)

MR. DONALD PALMER: Not directly, although the tabular methodology had been developed prior to this. So from the -- it certainly depended on the validity of the tabular methodology that was utilized in previous methods, but I would say that's more true than the question as posed.

MR. BYRON WILLIAMS: Your dis -- in terms of your answer, and the -- the question is framed, your distinguishly -- distinguishing between tabular and paid?

MR. DONALD PALMER: The -- the selected methodology was in fact a combination of tabular and paid.

MR. BYRON WILLIAMS: Would it be accurate to say, Mr. Palmer, that the 2005 analysis does not consider actur -- actual development that has occurred since the time the ultimates were estimated? I'm speaking of the 2005 analysis, sir.

MR. DONALD PALMER: That in effect is what Mr. Christie is adjusting for with the point nine nine five (.995)

MR. BYRON WILLIAMS: And -- and we'll come to that, and I -- I understand your point, Mr. Palmer. So -- but just in terms -- and I understand your point you're going to come to about the -- but my question was in terms of the 2005 analysis in itself does not consider actual development that has occurred since the time the ultimates were estimated, prior to the addition of the multiplication of the zero point nine nine five (0.995)

That's not in dispute, sir?

MR. DONALD PALMER: And -- and I'm -- and I'm sorry, Mr. Williams, I'm having difficulty understanding the question. In terms of the time that the ultimate figures were derived and -- and I don't know what you mean by that in terms of when that was calculated.

MR. BYRON WILLIAMS: Okay. Well, we'll try -- try to -- a bit of a different way, Mr. Palmer. You've made reference to the -- let me back up.

Since the 2005 analysis was completed, we have five (5) years of additional experience in development history as demonstrated in the October 2010 appointed actuary's report, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the concession that you have made in terms of -- to the post-2005 experience is to reduce the tail factor from 6 percent to 5.47 percent. Mathematically, that's what happened.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Half a percentage point, correct?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Palmer, I -- I'm going to move on --

MR. DONALD PALMER: Again, for the incurred development methodology.

MR. BYRON WILLIAMS: Yes, thank you. I'm going to move on very -- to -- this is going to be rare for me today, but a short -- relatively short snappers, but it does involve a bit of page turning.

So I -- I'm asking you, Mr. Palmer, and for the Board I think it's that big fat volume you've got hopefully still on your table. AI-13(a), Appendix C, page 3 and 4. So I believe for the Board the -- the document -- the -- it's Volume III, Part 2. If it's a big fat one, it's probably the right -- the right one.

THE CHAIRPERSON: Okay. We need that again.

MR. BYRON WILLIAMS: Yeah, and I apologize. It may -- we had asked for it to come out this morning so it's still -- it might be on your desk, but Volume III, Part 2, and it's AI-13(a). So it should be at the -- AI-13(a), that's the appointed actuary's report as at Octob -- 31st October, 2010. And then we're turning just for a -- a couple of seconds to Appendix C, pages 3 and 4.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: So, Madam Chair, that is Appendix C, pages 3 and 4.

THE CHAIRPERSON: I have it.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And, Mr. -- Mr. Palmer, just to locate us in the voluminous material that accompanies the appointed actuary's report we're looking -- what this -- these pages 3 and 4 report on are information relating to Collision, Basic reported loss, and ALAE.

Is that right, sir?

MR. DONALD PALMER: Yes. And -- and if I may for just a second, Mr. Williams. Collision is one (1) of our -- our major coverage lines in -- in the Basic Autopac program, accounting for about, round numbers, 40 percent of our total claims incurred. So it's -- it's a very important line in terms of claims forecast.

On the IBNR methodology this would be one (1) of the really short tail lines, and we're talking at the end of the analysis the IBNR selected is $7 million out of a total unpaid claims reserve of about 1.3 billion. So we're talking in this analysis of a IBNR -- that the result is about one half (1/2) of 1 percent of the total unpaid claims reserve.

MR. BYRON WILLIAMS: So from the Corporation's perspective $7 million is not significant, sir?

MR. DONALD PALMER: No, $7 million is still $7 million. The standard of materiality on -- from the auditor's perspective is, I think, $5.6 million. So in terms of the materiality of it it -- it's right on the cusp of materiality. That is a lot different than importance.

MR. BYRON WILLIAMS: So based -- based

upon that, Mr. Palmer, I think we'll proceed with our discussion. And what I'd like to do, sir, we're going to ignore the loss triangles at the top of the page and focus on the observed development factors in the middle of the page, sir, just for a second. And it's kind of hard for me to read with my glasses so if I go a little slow you'll -- you'll forgive me.

But I -- I want to draw your attention to the nine (9) -- so this is the observed development factors that are in the -- the middle of the page. And I realize for the Board it may be on a front and a back, and I apologize for that.

But, Mr. Palmer, if we -- if we followed the '99/'00 insurance year out to forty-five (45) to fifty-six (56) months of development, I'll suggest to you the figure we see there is a zero point nine nine zero (0.990).

Do you see that, sir? Mr. Palmer, we're following the '99/2000 insurance year out to -- that should be on page 3, and we're following it out to forty-four (44) to fifty-six (56) months of development, and that's in the -- and I'm going to repeat it because I just think we're having a bit of trouble locating it.

So just for the Board's benefit, it's kind of the middle part of the page, I'll suggest to you, Mr.

Palmer, on page 3. And we're going to go down to the '99/2000 insurance year and essentially draw a line across to the forty-five (45) to fifty-six (56) months of development.

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And we're going to have a figure there of zero point nine nine zero (0.990), agreed?

MR. DONALD PALMER: That's the development for the '99/2000 year, yes.

MR. BYRON WILLIAMS: And, Mr. Palmer, I -- I just want to follow this line along to the end of page 3 out to eighty (80) months. The figure there is zero point nine nine seven (0.997).

Do you see that, sir?

MR. DONALD PALMER: To ninety-two (92) months?

MR. BYRON WILLIAMS: Yes, to ninety-two (92) months. Thank you, Mr. Palmer.

MR. DONALD PALMER: Point nine nine nine seven (.9997), yes.

MR. BYRON WILLIAMS: Okay. And if we continue along onto page 4, still on that -- that line, Mr. Palmer. And for those trying to follow along because the -- it's -- if they're working on a backside of a page, we would be going down 1, 2, 3, 4, 5, 6, 7 lines, Mr. Palmer, agreed?

MR. DONALD PALMER: I think it's the eighth line.

MR. BYRON WILLIAMS: Eighth line. My apology for that. Again you'll see the figure zero point nine nine five (0.995), correct?

MR. DONALD PALMER: Nine nine nine five (9995).

MR. BYRON WILLIAMS: Thank you for that. And if we follow this out to the one twenty-eight (128) to one forty (140), again we see, albeit slightly negative, a negative number of zero nine nine nine seven (0.9997), correct?

MR. DONALD PALMER: And maybe I'm having difficulty with the page turned. I have point nine nine nine five (.9995), but it's pretty close one (1) way or the other.

MR. BYRON WILLIAMS: And we won't belabour this point too long, Mr. Palmer, but back to page 3. And -- and I guess the point I'll suggest to you, Mr. Palmer, is all those -- all those figures are -- albeit it slight, are negative development, correct?

MR. DONALD PALMER: For that particular

accident year, yes.

MR. BYRON WILLIAMS: And I want you to go back now to page 3 again in the observed development factor in the middle under that forty-four (44) to fifty-six (56). And I'll suggest to you that in that time period, not just from '99 to 2000, the year 1999 to 2000, but all the way down to the 2007/'08 year, all those figures at that particular time of development are negative.

Would that be fair, sir?

MR. DONALD PALMER: Are less than one (1). The development -- the resulting development would be negative, yes.

MR. BYRON WILLIAMS: And if we perhaps drew a line again to the right of the forty-four (44) to fifty-six (56) months of development and below the '99 to thou -- to 2000 year, I'd suggest to you, subject to your review, that every figure in the table would be less than one point zero (1.0) from tha -- from tha -- there on, correct?

MR. DONALD PALMER: Marginally less than zero, yes. Marginally less than one (1), sorry.

MR. BYRON WILLIAMS: Mr. Palmer, and thank you for that. Members of the Board, I'm almost done the actuarial material, I'm sure you'll be relieved to know. There are the three (3) pre-asks that were asked, which -- which are CAC Exhibit number 3, 4, and 5. And if -- Mr. Palmer, if you could indulge me for a little bit, we'll -- we'll turn to those.

And then just in terms of time frame, Madam Chair, I'm gue -- I'm guessing that I have about -- this will probably take about -- I'm going to charitably guess thirty-five (35) minutes. I have five (5) minutes of questions on stochastic modelling. And then for Ms. McLaren, on IT optimization, perhaps half an hour, just for the Board's guidance.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And -- and I just see the -- if -- if MPI doesn't wish the stochastic modelling questions today, they've very simple, but Mr. Pelly's here, that was the only reason I was going to --

MR. DONALD PALMER: Okay. That's fine.

MR. BYRON WILLIAMS: So, Mr. Palmer, if you could turn to the response to CAC Pre-ask number 1, which is marked as Exhibit CAC-3.

Do you have that, sir?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And I'm just making

sure the Board has it as well, Mr. Palmer. So that's the response to Pre-ask 1, which is CAC-3.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: It should -- it should be a two (2) page document. At the top should be the date October 12th, 2011. And then the heading, "CAC/MPI Pre-ask 1." And there should be -- and we'll just give the Board time -- time to find it, and I apologize.

(BRIEF PAUSE)

THE CHAIRPERSON: I took it home and never brought it back, because I was going to read it. Okay. So I think we all have it now. Thank you.

(BRIEF PAUSE)

MR. DONALD PALMER: Just -- just checking, Mr. Williams, but it looks like possibly in our filings of these pre-asks that we -- we had an original that was a two (2) sided copy and we may have copied only one (1) side. So you may be missing -- at least I'm missing half the answer. We're just double-checking on that.

MR. BYRON WILLIAMS: Madam Chair, I wonder if we could -- just to make sure that we're all looking at the same document, I wonder if we could stand down for five (5) minutes. I don't want to create anymore confusion than -- than -- than we already have. If --

THE CHAIRPERSON: Yes, we'll take that five (5) minutes because we need to check ours. Thanks.

--- Upon recessing at 1:58 p.m.

--- Upon resuming at 2:03 p.m.

THE CHAIRPERSON: Go ahead.

MR. BYRON WILLIAMS: And, Madam Chair, just in terms of the pre-asks, there's been apparently one (1) page that was inadvertently omitted. So what we're proposing to do is -- I have just a few questions on stochastic modelling and then I have, let's say, around half an hour on IT optimization. And then at that point in time I suggest we take a break. And by that time presumably the -- the revised -- or the completed response, I'll have a chance to review it and hopefully we can proceed after the break on that.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Palmer, just while Mr. -- Mr. Pelly is here, I just want to have a few questions on stochastic modelling.

And you -- you had an interesting -- do you recall your discussion with Ms. Everard, I forget if it was yesterday or the day before, but do you recall at a high level the potential future uses of stochastic modelling in the rate -- rate setting process?

Do you recall that, sir?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And -- just one (1) second, I'm getting a bit of feedback.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I wonder if you can define what -- what the Corporation understands by the term, "stochastic modelling," sir?

MR. DONALD PALMER: Stochastic modelling would be using a assumed distribution of results and modelling expected results over a number of different trials. So essentially to give a range of possible values.

MR. BYRON WILLIAMS: And...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Palmer, I'm not -- I don't think you're going to need to turn to any IRs, but you -- you talked about running a number of trials. You're familiar with the term, "Monte Carlo simulations"?

MR. DONALD PALMER: Yes, I am.

MR. BYRON WILLIAMS: And without needing to go into much detail, I wonder if you can convey the Corporation's understanding of -- of that term, Monte Carlo simulations.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Is that a "no," Mr. Palmer?

MR. DONALD PALMER: Essentially what a Monte Carlo simulation would be -- essentially the same as my definition of the sta -- stochastic model. So using a predetermined probability distribution to run a -- a simulation a number of times with random variables coming from a distribution that would give you a different outcome depending on certain random probabilities. You run that a thousand (1,000) times, or ten thousand (10,000) times, and get a distribution of a final expected value. So you would -- you would get a range of possible outcomes.

MR. BYRON WILLIAMS: And again, Mr. Palmer, from the rate setting perspective can you describe what the potential utility of that type of approach might be?

MR. DONALD PALMER: There's a -- there's a couple of things. Certainly with a rate setting exercise you have to come up with one (1) result.

(BRIEF PAUSE)

MR. DONALD PALMER: So you have to come up with one (1) particular result. So -- and that comes from the -- the claims forecasting approach, the claims forecasting committee. What a stochastic model will -- will do essentially is test that result to see that it falls within reasonable estimates of probably around the median of the results of your stochastic model.

So really it -- determining it's a reasonability test for the Corporation's best estimates, although not -- not as much from a forecasting perspective. But you can take a look at historical results and see if that -- if they could have reasonably happened by chance or if some of your estimating forecasting parameters were incorrect.

So, essentially, test your past forecast and if for some reason the stochastic model says that your result was outside a normal range then maybe there are some assumptions that you should be changing for your next forecast.

It can also determine the for -- the source of some forecasting errors. If there was a change in trend, for instance, that may help you pick it up, and really understands all of the key inputs to the forecasting process.

MR. BYRON WILLIAMS: And, Mr. Palmer, would it be fair to say that the use of such modelling is a developing tool at the Corporation?

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

MR. BYRON WILLIAMS: Mr. -- Mr. Palmer, I'm not sure if you would describe yourself as a Public Utilities Board junkie or not but, I don't know, have you been following, like some of us have, the -- the discussions between the Public Utilities Board and Manitoba Hydro in terms of how stochastic modelling might be used in that rate setting process to -- for example, to test the appropriate level of reserves and -- and risk tolerances?

Have you followed that at -- at a -- at a high level or -- or at all, sir?

MR. DONALD PALMER: Very, very peripherally.

MR. BYRON WILLIAMS: Are you aware, sir, that at Manitoba Hydro, your sister Crown -- well, I'll -- I'll su -- I'll ask you whether -- are you aware whether or not at Manitoba Hydro stochastic modelling is also an emerging tool being used by the Corporation?

MR. DONALD PALMER: I'm not aware of that, no.

MR. BYRON WILLIAMS: And so it would be fair to say you've not had any -- this Corporation has not had any discussion with its sister corporation in terms of the use of this emerging tool in the rate setting process.

Would that be accurate, sir? To your knowledge?

MR. DONALD PALMER: To my knowledge, we have not. And -- and I would say that the -- just the industries would be very different. Although you may have different stochastic models, the actual stochastic modelling approaches could be very different. I'm -- just because of the very different industries and the different risks that the industries are subject to.

MR. BYRON WILLIAMS: Okay. And -- and,

Mr. Palmer, I'm not sure our clients would agree with you on that but I -- I accept that is your -- your -- the Corporation's preliminary views.

Our clients were quite taken -- and this is to Ms. McLaren and to yourself. Our clients were -- were quite taken with the utility of the technocol -- technical conference that was held in the spring on certain rebate issues. And -- and you can certainly take this under advisement, but our clients are curious as to whether Manitoba Public Insurance would have any interest in a technical conference involving its sister Crown, the Public Utilities Board, and interested Intervenors, focussing on -- on issues -- emerging issues relating to stochastic modelling.

And if you want to take that under advisement, that's fair, but that's the question my clients are posing.

MS. MARILYN MCLAREN: We would take that under advisement.

--- UNDERTAKING NO. 16: MPI to advise if it has any interest in a technical conference involving Manitoba Hydro, the Public Utilities Board, and interested

Intervenors, focussing on
emerging issues relating to
stochastic modelling (Under
Advisement)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, and thank you for that. Mr. Palmer, just a few questions and then I'm moving to IT optimization.

And I only have one (1) reference for the Board I think for this discussion, it's from the First Round Information Request of CAC. It's 1-200.

(BRIEF PAUSE)

THE CHAIRPERSON: Did you say two hundred (200)?

MR. BYRON WILLIAMS: Yeah, it's a scary number. It's First Round Information Request of CAC --

THE CHAIRPERSON: I think it's in our second binder, if it's two hundred (200).

MR. BYRON WILLIAMS: Yeah

THE CHAIRPERSON: This one just goes -- this one goes to one eighty-one (181). Yeah. Okay.

(BRIEF PAUSE)

THE CHAIRPERSON: We have it now.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, this IR, I'm not sure it's necessarily a perfect fit for the IT optimization, but it's kind of where I had designed the question to -- to fall. So, hopefully -- in your -- in your discussion with Board counsel yesterday, and I might have misheard you, Ms. McLaren, but I thought your evidence was that the Corporation was in the -- was reducing its rely -- reliance on external consultants.

Did -- did I hear you correctly yesterday, Ms. McLaren?

MS. MARILYN MCLAREN: Yes, specifically related to an increase in the number of management positions, project managers, senior management positions, which are junior nonunionized positions within the Corporation. We have been able to recruit people on staff, and, therefore, are relying on fewer consultants for that specific piece of work.

MR. BYRON WILLIAMS: Okay. I just -- and I just want to make sure I understand the full picture in terms of consultants. So, in -- in terms of CAC-1-200, just in terms of the question posed, Ms. McLaren, basic -- basically I'll suggest to you our clients were trying to get a picture of external consultants supporting MPI for the fiscal years 2007/'08 through 2010/'11, and then for the fiscal years 2011/'12 through 2014/'15.

Is that your understanding of the question, Ms. McLaren? We'll get to the answers in a moment, but...

MS. MARILYN MCLAREN: Yes, that appears to be the question.

MR. BYRON WILLIAMS: And if we could flip over one (1) page, Ms. McLaren, to -- you'll see an -- the attachment to this Information Response, and there'll be a heading, "Consultants Vendor Basic," and then in the middle column there'll be two (2) columns under 2009/'10 showing count and annual cost.

Do you see that, Ms. McLaren?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And I'm -- and you can accept this number, subject to check, but based upon the response for the 2009/'10 year would there have been about sixty-four point nine (64.9) consultants employed by the Corporation, or contracted with -- from the Corporation in that fiscal year?

MS. MARILYN MCLAREN: Subject to check,

approximately, at this point in time. And I think that's what the answer goes on to say. You know, there -- there's snapshot point in time, and the numbers fluctuate throughout the year and throughout projects, which are multi-year, generally.

MR. BYRON WILLIAMS: And fair enough. And if we went to the -- to the next column, the 2010/'11 year, in terms of the count, subject to check, eighteen point nine (18.9), would -- would that be -- you'll accept that subject to check, Ms. McLaren?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And I want you to turn back one (1) page to the CAC/MPI-1-200(b), so just back to the original page. Would it be fair to say, Ms. McLaren, that the Corporation expects that Corporate initiatives will require between one hundred (100) to one hundred and twenty (120) contracted resources annually over the next few years?

MS. MARILYN MCLAREN: I would expect that that answer means that at any point in time during the next couple of fiscal years we could hit a high of a hundred or a hundred and twenty (120) during those years. Annualized, it would probably be lower than that. But this is really an -- an early estimate based on our understanding of the likely outcome that there will be initiatives developed out of the -- the road safety, physical damage, and service visioning processes that are under way, as well as some other initiatives that we've talked about here briefly, like the human resource management system.

MR. BYRON WILLIAMS: So, at this point in time, Ms. McLaren, for the 2012/'13 year, what would be the Corporation's best estimate, in comparable figures, to what you've presented for 2009/'10, 2010/'11? Would it be a hundred?

MS. MARILYN MCLAREN: I think -- again, based on timing we may very well hit a hundred when we take the snapshot and report back on what the actuals were at that point.

I can say that, generally speaking, multi-year projects take fewer resources at the beginning and then a significant scale-up of requirements and then scaling back down towards the end. '09/'10, and particularly even more so in '10/'11, we were scaling down.

So, I think it will be higher than the numbers here in Part A. Whether, it actually hits a hundred and twenty (120) when the snapshot's taken, it's certainly possible. I would -- I would speculate that it'll probably be lower. I'll throw a number of eighty

(80) out, but certainly the fact that at some point in time there may be one hundred, or two hundred (200), on projects, is -- is certainly foreseeable.

MR. BYRON WILLIAMS: So, it would be fair to say that you're scaling back up in terms of external consultants related to a number of these projects?

MS. MARILYN MCLAREN: That's right.

MR. BYRON WILLIAMS: And would -- would one expect 2012/'13, Ms. McLaren, to be the peak year, or is the peak year perhaps one (1) or two (2) years down the line?

MS. MARILYN MCLAREN: I suspect if '11/'12 proves to be the peak it would hit that peak very late in the year. So, more likely the peak would be, we're talking '12 -- '13/'14.

MR. BYRON WILLIAMS: At this point in time would the Corporation have any estimate of the external consultants on a comparable basis for the '13/'14 year?

MS. MARILYN MCLAREN: No, the -- the answer here covers off the next two (2) years and that's the best we can do at this point.

MR. BYRON WILLIAMS: Thank you for that. I want to make sure, in terms of the IT -- it's getting late in the day, in terms of the IT Optimization Project, I have my timing down appropriately, Ms. McLaren. I'll suggest to you that the special fund for IT Optimization was approved by the Board of M -- Manitoba Public Insurance on or about February of 2011.

Is that correct?

MS. MARILYN MCLAREN: Yes, that's right. I believe it was in the January meeting.

MR. BYRON WILLIAMS: Okay. And we've heard this before, but just for continuity purposes, the contribution from Basic to that special fund would be 65 million, correct?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And is -- in terms of the 2010/2011 fiscal year, I would be correct in suggesting to you that there is no draw-down or appropriation from that fund for that year, Ms. McLaren.

Would that be correct?

MS. MARILYN MCLAREN: That's correct.

MR. BYRON WILLIAMS: It is expected that the -- the draw-down from that fund for IT Optimization purposes would begin in the 2011/'12 year, at least looking at TI-14 as a -- you'll accept that, Ms. McLaren?

MS. MARILYN MCLAREN: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Excuse me. Ms. McLaren, just because you have CAC-1-200 nearby, or I hope you do; you've had some discussion with my Learnered friend, Ms. Grammond, in terms of Hewlett Packard, and it's relationship with Manitoba Public Insurance. Would I be correct in suggesting to you that in the '09/'10 year, its annual consulting costs associated with that firm were somewhere between 8 1/2 and $9 million?

Would that be right for that particular year?

MS. MARILYN MCLAREN: Yes, that's right. That's on the attachment to CAC-1-200.

MR. BYRON WILLIAMS: And for 2010/'11, those -- those expenditures associated with Hewlett Packard would have been somewhat lower, in the range of between 4.5 and $5 million.

Would that be fair?

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

MR. BYRON WILLIAMS: Now, Ms. McLaren, we're all aware of the economic downturn in the United States, and also a bit of a slow down in Manitoba -- excuse me, in Canada, economically, in general terms.

You're aware of that?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And my clients are

certainly not suggesting that this should be the case for Manitoba Public Insurance, but you would be aware, as well, that as a consequence of the downturn in the Untied States and the slow down in Canada, a number of corporations have -- have gone onto cancel significant information technology projects?

You're aware of that?

MS. MARILYN MCLAREN: No, not specifically.

MR. BYRON WILLIAMS: Ms. McLaren, would it be fair to say -- and perhaps you cannot answer this -- that in the current economic climate it is a buyer's market, in terms of the -- the purchase of services such as those offered by Hewlett Packard?

MS. MARILYN MCLAREN: Not in this town. And I can tell you the -- the vast majority of those funds would have been spent on HPA employee -- HP employees working and living here in Winnipeg.

MR. BYRON WILLIAMS: So it's not been the experience of this Corporation that in terms of the -- the prices it can obtain in the marketplace, that the economic recession, or slow down in Canada, has reduced demand and thereby improved its bargaining position?

MS. MARILYN MCLAREN: No, I -- I would say we have not experienced that, absolutely. And I think it is generally recognized that Manitoba's economy has continued to do quite well during the downturn that's hit other communities.

The -- clearly the majority of the work that we do is with local management, and local staff, of HP. And generally when we look to contract these kinds of external resources, they -- they're really specific, the kinds of skills we need. And -- and, you know, the other reality is, too, is a lot of these initiatives that are here on this attachment are multi-year initiatives. All of -- everything would have done -- you know, been established with generally speaking with, you know, requests for proposals, with multi-year contracts in place.

I can tell you that -- that locally the contract with HP has strict provisions in it with respect to salar -- you know, the -- the cost per hour of the technical resources that we would pay, have to be in -- in tight relation to the Manitoba market. So, there's a protection that way.

If, for example, IT resources were to become, so to speak, a dime a dozen, and the -- and the costs were to fall, our existing contract would receive the benefit of that.

MR. BYRON WILLIAMS: Thank you. You also

spoke in your conversation with My Friend, Ms. Grammond, about the long standing role of Gartner Group, with -- with Manitoba Public Insurance.

You recall that?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And we're going to test whose memory is -- is better than whose. We might have to refer to Mr. Kruk in the back row; he probably remembers better than you or I. But if I recall your testimony you in -- indicated that the Corporation's relationship with Gartner Group went back to the Y2K issue.

Do you recall that evidence yesterday?

MS. MARILYN MCLAREN: Yes, I believe that's the first time we worked with Gartner.

MR. BYRON WILLIAMS: And I'm not gonna press you on this, but I'm -- I'm going to suggest to you that the role of Gartner may go back even further in that they may have been witnesses before the Public Utilities Board on matters repe -- related to Autopac-Online.

Do you recall that, Ms. McLaren? And if not I accept --

MS. MARILYN MCLAREN: I don't, but I do know they were here very soon after Autopac-Online went live because we started our Y2K work very early. So, it was probably 1997/'98, something like that, that they were here talking about Y2K.

MR. BYRON WILLIAMS: And in the course of the Gartner Group's evidence before the Public Utilities Board, do you recall that they provided evidence to -- to the Board on alternative ways to evaluate the benefits and costs of IT projects for -- for public corporations such as the balance scorecard?

Do you recall that?

MS. MARILYN MCLAREN: I cert -- it's not connecting with me that that was part of Gartner's testimony but I certainly remember the context and the discussion.

MR. BYRON WILLIAMS: That's fair enough. And I don't want to test your or mine memory too much at this point in time.

Autopac-Online went online on or about the year of 1995, is that right?

MS. MARILYN MCLAREN: The first of July.

MR. BYRON WILLIAMS: Would I be correct in suggesting to you that it was brought in price-wise in the range of $30 million?

Would that -- does that ring a bell, Ms. McLaren?

MS. MARILYN MCLAREN: It's in the bar --

ballpark. I -- I -- if I had to guess I'd probably be more in the mid-twenties, but I'll accept that.

MR. BYRON WILLIAMS: I'll acc -- well, I'll accept your figure. Let's say mid-twenties. And -- and that's when $25 million was $25 million, correct?

MS. MARILYN MCLAREN: Depending on your perspective. I think it still is.

MR. BYRON WILLIAMS: And -- and my clients certainly don't wish to challenge the utility of that program to the Corporation. And without meaning to diminish the Corporation's achievements with regard to AOL -- AOL, would it be your re -- recollection that that particular project came in somewhat above the anticipated cost?

MS. MARILYN MCLAREN: It's certainly possible but I don't remember that specifically.

MR. BYRON WILLIAMS: And again I don't want to test your memory.

In terms of other major information technology projects, and if I'm using the word incorrectly you'll -- you'll correct -- correct me, but would I be correct in suggesting another one (1) undertaken by the Corporation was a project going by the initials C-A-R-S, or CARS?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And what did CARS do?

MS. MARILYN MCLAREN: It's -- the acronym stands for Claims And Reporting System. It is the claims handling system. Today it continues to be the physical damage claims handling system. It used to minimally support staff in handling injury claims as well.

MR. BYRON WILLIAMS: Subject to check, can you ballpark the cost of CARS, Ms. McLaren?

MS. MARILYN MCLAREN: I'm going to suggest it was in the ballpark of Autopac-Online. It could be a little bit less, could have been a little bit more. I don't remember.

MR. BYRON WILLIAMS: So, somewhere in the $20 million to $30 million range?

MS. MARILYN MCLAREN: That's probably fair.

MR. BYRON WILLIAMS: Okay.

MS. MARILYN MCLAREN: I mean, both of these were well over twenty (20) years ago now.

MR. BYRON WILLIAMS: And in your evidence on October 11th, you talked about another major project, being the PIPP infrastructure. And I believe your evidence was that that came in around $25 million.

Does that sound about right, Ms. McLaren?

MS. MARILYN MCLAREN: Approximately, yes.

MR. BYRON WILLIAMS: And would FINEOS, F-I-N-E-O-S, be another significant project brought in by the Corporation, Ms. McLaren?

MS. MARILYN MCLAREN: No, FINEOS is the company who supplies the primary software for the bodily injury PIPP initiative that we talked about coming in for 25 million.

MR. BYRON WILLIAMS: Fabulous. Thank you for that.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Speaking about the relevance of 25 million and whether it is really still 25 million, I think it's important to point out that whatever it cost to build CARS for the dollars in the late 1990s, was significantly more than the total cost of implementing this whole new framework for managing injury claims, largely because we purchased FINEOS' product and did not coat it and built it ourselves as we did with Autopac-Online and -- and CARS.

MR. BYRON WILLIAMS: Thank you for that, Ms. McLaren. I appreciate that. In your discussion with Ms. Grammond, our Board counsel, this morning -- I believe it was this morning; it's hard to recall now -- you outlined the fact that the costs associated with the IT optimization are not built into the revenue req -- requirement.

Instead -- excuse me, let me try that again. In terms of the IT optimization project, the money to pay for that project is not coming from the future review requirement of the Corporation. It is being drawn from retained earnings via the IT optimization fund, correct?

MS. MARILYN MCLAREN: Correct.

MR. BYRON WILLIAMS: And that we've hear -- you've already indicated to me that that $65 million will start to be drawn down beginning in the 20011/'12 fiscal year, correct?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And would it be accurate to say that the $65 million contribution from Basic retained earnings to the IT optimization fund was accumulated in the time period up to and prior to the end of the 2010/'11 financial year?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: So, it would be accurate to say, I'll suggest to you, that while the expenditures for which the IT optimization fund will largely be employed from 2011/'12 going forward, the retained earnings by which the Basic contribution will be funded, date to the period before the 2011/'12 year, correct?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Ms. McLaren, it's been a long day, so I want to maybe lighten the -- lighten the mood, perhaps -- I don't know if that's possible -- by presenting a hypothetical to you. It's been -- it's been years since I've talked about Uncle Charlie and Souris, so I'm not going to use Uncle Charlie anymore. But I'm going to present a hypothetical to you, and I'll ask you to assume the facts I present, and then I -- I have three (3) questions at the end that I'll present to you.

Ms. McLaren, does that work for you?

MS. MARILYN MCLAREN: So far.

MR. BYRON WILLIAMS: It's not a -- it's not a hard one.

But let's take the scenario of Mrs. Williams of Souris, proud mother of eight (8) children, only one (1) of whom is a lawyer. Phyllis (phonetic) is a widow.

From 1996 to 2011 she insured her vehicle with MPI and faithfully paid her rates. For reasons of health, she ceased to drive her vehicle in the winter 2010/'11. She did not renew her insurance, and in the summer of 2011 sold her vehicle to a granddaughter who lives in Alberta. She has no plans to drive a vehicle again.

Based on these assumptions, and it's a hypothetical, would -- would you agree that Nanny (phonetic) Phyllis, or Phyllis, through her rates between 1996 and 2010, contri -- contributed to information technology projects, such as CARS and the PIPP infrastructure project?

Would that be a fair statement?

MS. MARILYN MCLAREN: CARS, definitely. PIPP infrastructure project, very minimally, because I think it would -- only began to be amortized very, very late in the '10/'11 year.

MR. BYRON WILLIAMS: Given the timeframe she -- she -- her payments might have also contributed to Autopac-Online?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Okay. Fair -- fair enough, and a fair answer.

Would it also be fair to say, based on that hypothetical, that Mrs. Williams, through the rates she paid from 1996 through 2010, made a contribution to the retained earnings of the Corporation from which the 65 million Basic contribution to the IT Optimization Fund is drawing?

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

MR. BYRON WILLIAMS: Given the -- the hypothetical, would it be fair to say that Mrs. Williams, as a former MPI ratepayer, will receive relatively little or not benefit from IT Optimization expenditures which are paid for from the IT Optimization fund?

MS. MARILYN MCLAREN: Strictly narrow -- narrowly within the confines of the scenario that you've talked about, and with respect to rates and benefits for rates paid, that's probably somewhat reasonable.

MR. BYRON WILLIAMS: Thank you for that. I -- I believe you had this discussion with Board member Gosselin, but I just want to make sure my memory and your memories are the same. If one looks at those other significant infrastructure IT projects such as AOL, CARS, and PIPP infrastructure, I would be correct in suggesting that there was no special fund set up from retained earnings for those projects?

Would that be correct?

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

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Would it be fair to say, Ms. McLaren, that the $65 million Basic contribution to the IT Optimization Fund paid for by Basic ratepayers prior to the 2011/'12 fiscal year -- excuse me, let me try this again, and I apologize for this.

Would it be fair to say that the $65 million Basic contribution to the IT Optimization Fund was paid for by Basic ratepayers prior to the commencement of the 2011/'12 fiscal year, but is being used to benefit ratepea -- payers in the period from 2011/'12 and subsequent years?

Would that be fair?

MS. MARILYN MCLAREN: That's true. And I think it's -- it's true of so many different things in so many different ways when it comes to a Corporation that has, for the most part, the -- you know, the same base of customers going forward, and every year there will be a very small percentage of the -- percentage of those customers who come in and out of the system.

Anything we amortize well into the future according to the rules that have been discussed here today, may in fact benefit someone who didn't -- who didn't pay premiums. Your know, I mean, I think it's -- it's the nature of a large, long-standing, compulsory program that situations like that happen occasionally to a small group of customers.

MR. BYRON WILLIAMS: You're not immune to the suggestion though, that the unique treatment of the IT Optimization Fund raises issues of intergenerational equity?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Again, form the narrow perspective of ratepayers and benefits, that -- I guess the assumption within the narrow confines of your hypothetical is that the only Manitobans who receive benefits from these things are people who pay premiums, which is not true, and we both know it's not true.

In your scenario, Mrs. Williams may very well still, hopefully not, but -- but may become a PIPP claimant. And it will be very important to her in that scenario that, you know, we have an infrastructure.

I understand the concept that there was more than one (1) way to do this. I understand the concept of intergenerational cost transfer. I -- I think it's -- the Corporation's view on it was explained. There's certainly more than one (1) way to do it. But we think that in the circumstances and looking at some of the experience of -- that we talked about ICBC and SGI, it's a reasonable approach.

MR. BYRON WILLIAMS: Thank you for that answer. The last question on this -- this discussion.

Might it be said that as a consequence of the IT optimization fund, today's ratepayers are not paying the full cost that they bring to the system?

MS. MARILYN MCLAREN: No, I don't think that is, given the fact that -- you know, as -- as I talked about early this morning like all -- almost -- it's not unreasonable to say that almost -- almost half the cost of the IT optimization project can be linked back to underspending approved budgets over the last few years.

So those people were charged rates to get some work done that didn't get done. Today, we have to rectify that situation but then also position the IT infrastructure for the future.

So, partially, I suppose, with respect to positioning us for the future, maybe that's true. But I think there's another piece to that, given the situation we're in with the need for these initiatives.

MR. BYRON WILLIAMS: And certainly I understand the distinct perspectives between our clients and the Corporation.

Ms. McLaren, you -- you do not need to --

to turn here, but in -- in the Corporation's response to CAC-1-229, there -- and it might be (d), Ms. McLaren. I see you're -- you're turning there.

I -- I'm sure the Board doesn't need to turn there, but...

(BRIEF PAUSE)

MR. REGIS GOSSELIN: What number is that, I'm sorry?

MR. BYRON WILLIAMS: It's P -- C -- I -- I might have misspoke. I -- I should have said CAC-1-229, and I -- the specific response, I think, is (l).

(BRIEF PAUSE)

THE CHAIRPERSON: We have it.

MR. BYRON WILLIAMS: I -- I think we're just waiting for one (1) other Board member to get it, Madam Chair.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: It's CAC First Round

229(1). And Ms. McLaren, I'll -- I'll just suggest that the funding of the IT optimization, the -- essentially the -- the thrust of the question was: What are -- what were the alternatives considered by the Corporation in terms of funding.

And the Corporation's response, I'll ask you to confirm, is that funding of these required projects could be provided through appropriation of existing retra -- retained earnings or through future rate increases.

The former was chosen as it maintains rate stability?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And I guess, Ms. McLaren, I'm -- I'm going to suggest to you that be -- while the answer identifies two (2) alternatives, one (1) being on -- on appropriation from retained earnings, the other being future rate increases.

Would a third option have been instead of see -- seeking 6.85 percent in terms of rate reduction, to lower the rate reduction somewhat?

MS. MARILYN MCLAREN: In -- in our way of thinking, that was really implied when we talked about the rate increase. I think the -- the effect would probably be about a point, so -- so funding it through future higher rates in the broadest sense would have been something like a 5.8 percent rate decrease, sir.

MR. BYRON WILLIAMS: And I thank you for that. Using the test of rate stability, what is -- what is more stable, a 6.85 percent decrease or a 5.85 percent decrease?

MS. MARILYN MCLAREN: Point taken.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I'm going to jump around with a few questions, and then we're going to get to project charters in terms of IT optimization, Ms. McLaren.

Madam Chair, I'm -- I -- I would like to, if possible, complete -- I leave it up to the Board's patience. If -- if the Board needs a break now I'm -- I'm open to that. On IT optimization I anticipate I would require fifteen (15) to twenty (20) minutes. So if -- if that's -- I'll -- I am at your discretion.

THE CHAIRPERSON: Yeah, I think we can do that. We've had a couple of other breaks, so you go ahead.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, in terms of IT optimization and I -- I listened carefully to your evidence with Board counsel yesterday in terms of, in part, it was a -- a response to a significant service interruption and that the project has a goal of reducing the risk of service interruptions. Would that be a -- a fair summary of your evidence?

Not a complete summary but on that point. It's a response to service interruptions at -- at least to some degree.

MS. MARILYN MCLAREN: Well, I think the -- the qualifier at the end is critically important, at least to some degree re -- reducing the risk of outages, reducing the recovery, reducing the likelihood of outages, the impact of outages that still, in fact, may occur and. reducing the vulnerability to security risks and other things like that, and then fourthly, positioning the infrastructure for the future.

The reality is, is that there was work underway before we had the issues with Autopac-Online last spring. That certainly accelerated the need to get our heads around this but it was not just because we had an outage that maybe cost us about a million dollars. It's far, far too narrow a perspective.

All the evidence we have from our own

technical staff, HP, and Gartner is that our -- our administration of IT within this large pervasive company is immature and ineffective. We have been lucky. We have some amazing committed staff who turned themselves inside out, without the proper tools and -- and support structure to do it. But this is something that is a risk to our ability to provide service and that's -- that's really why we're doing it.

MR. BYRON WILLIAMS: And I thank you for that answer. In -- in terms of service interruptions and -- and my -- my client -- or my clients would suggest to you or I would suggest to you that presumably the AO -- AOL interruption would not have been the -- the only interruption over the -- the past few years?

MS. MARILYN MCLAREN: No, I think things happen every once in a while but I think the AOL over its many twenty (20) plus years of history has really failed to be there when people needed it very, very rarely. But it was the nature of this outage and the severity with which we recovered that -- that really caught our attention. And it was really just one (1) of many indications that we had an issue here that had to be dealt with.

MR. BYRON WILLIAMS: Does the Corporation track the number and duration of service interruptions?

MS. MARILYN MCLAREN: Not particularly well until more recently. I can tell you just in the last several months we've had as many as -- a critical incident is a little -- is defined a little bit more broadly than outages. It is an outage or a potential for an outage that was -- you know, really impairs our ability to provide service. In the last few months we've had thirty-six (36) of them.

MR. BYRON WILLIAMS: And -- and -- thank you, that's helpful. And in terms of critical incidents is there some sort of report or document that's prepared for the -- the executive of the Corporation?

MS. MARILYN MCLAREN: The senior management and the executive of -- of the area specifically, not the executive as a whole. But I think it's the ability to -- to track these things and report on them effectively is -- is developing and it is much better than it was. And I -- I'm not a hundred percent sure at this point the extent to which it is exactly where the CIO would like it to be but it's certainly headed that direction.

MR. BYRON WILLIAMS: And are these type of critical incident reports the type of reports that the Corporation would feel comfortable sharing in the public domain of -- of this process?

MS. MARILYN MCLAREN: Potentially, some of them. I'm -- I'm not entirely sure that -- what that would do for folks. But I don't know just sort of on the -- on the surface of it that it would be particularly confidential. If there are, you know, issues around security and things, it may very well be.

I can tell you that since before we got here this morning Autopac-Online has been down again today, you know, so, I mean, I think these things are -- are pieces of it. I really -- and -- and the fact that we've had that many critical incidents, which is more than anyone will tell you you should have in an organization like this while we have managed to get rid of 40 percent of the single points of failure and things like that, is just really an indication of why we need to do this work.

And I -- I don't want people to be left with the impression, well, we had a problem last year with AOL, and so now we need to spend 75 million. It's much more pervasive than that. And if -- it may very well be worth the time referring to a few more of these specific documents and comments in Tab 22, but I -- I won't force you through that quite yet, but I -- I think we may need to for context at some point.

MR. BYRON WILLIAMS: Certainly I can

assure you that they've been reviewed carefully on our side. Just for final context on this, the -- the period in which those thirty-six (36) critical incidents took place would be how long, Ms. McLaren?

MS. MARILYN MCLAREN: Within the last six (6) months.

MR. BYRON WILLIAMS: And I -- I'm not going to ask for the re -- reports, but is there a written definition of what critical incidents are defined as or is there some sort of definition that you can share with -- with us?

MS. MARILYN MCLAREN: Can you give me just a few seconds?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I can report that critical information technology incidents would include system failures, service interruption, and other similar technical incidents.

MR. BYRON WILLIAMS: Thank you for that. Ms. McLaren, I want to turn for a couple moments to the subject of project charters. And I believe in your discussion with Board counsel today - we'll see if I can read my messy handwriting -- I believe your evidence was something to the effect that, as we go forward with our charter we expect the benefits will be clearly articulated.

Do you recall evidence to -- to -- somewhat to that effect, Ms. McLaren? If not, it was just a clever segue, or not so clever.

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Just in terms of what a project charter is, Ms. McLaren, I want to ensure that our clients' understanding of what they are is consistent with -- with how you use the term.

So I'm going to start with what our clients would expect a project charter document to contain, and -- and you can see if we're on the same page or not. I'm going to suggest to you that a project charter document would -- would contain the reasons for undertaking the project, the objectives and constraints of the project, directions concerning the solutions or change management process, a description of the main stakeholders, a description of in scope and out of scope items, a description of a high level risk management plan, a communications plan, target project benefits, and high lettle -- high level budget and spending authority.

Would that be consistent with your understanding, Ms. McLaren?

MS. MARILYN MCLAREN: Yes, that's -- that's pretty close. At MPI, we use something known as the project management tool kit, which describes ver -- all the different aspects of project management. More specifically, the project charter is really the document that's used to obtain management approval to expend effort and resources and spend money.

The components of it that you talked about are -- are pretty similar to -- to the template that we use, but the -- the key purpose is to get the authorization to get going and, therefore, it has to clearly talk about what is it doing, why is it doing, what are the constraints and so on.

MR. BYRON WILLIAMS: And I -- I think we're on the same page, and I just want to pull up on that last response for a second. My clients' understanding of the purpose of a project charter is to provide a compelling and clear case to initiate a project to -- essentially to convince the board of directors to approve the proj -- project and give management the go-ahead to commit resources, and they would expect that a project charter would contain milestones at which point the project is evaluated to continue to go ahead, be modified, or cancelled to mitigate incremental risk taking.

Would that be consistent with your -- the Corporation's use of that term, Ms. McLaren?

MS. MARILYN MCLAREN: For the most part. Except at -- at the front-end piece of this it is generally -- project charters are management's tool to tightly specify, authorize, review, control projects as they move along. So the project staff and the sponsor, or the -- the project sponsor, the project staff would create the charters for senior management's approval.

MR. BYRON WILLIAMS: In terms of the IT optimization project, would I be correct in suggesting to you, Ms. McLaren, that no project charter has yet been completed?

MS. MARILYN MCLAREN: It -- it's really more a matter of the context of the -- the governance sort of hierarchy. We have spoken about project charters. The overall IT optimization plan or program -- it would be overwhelmingly cumbersome and ineffective to have a charter for something like that.

So components of it as they break down will certainly specifically have charters, but it would not be appropriate for something that was not a project charter for the business process review. There were for each of the component initiatives.

MR. BYRON WILLIAMS: Thank you for that

answer. Would I be correct in suggesting to you that as of today, for the specific components of the IT optimization project which might invite a charter, that there are none completed?

MS. MARILYN MCLAREN: That's right. And the Corporation's process certainly allows for a fair bit of effort up front to investigate, articulate, establish a direction before striking a charter. So it's certainly possible and necessary to spend money to be in a position to create the charter.

MR. BYRON WILLIAMS: And -- and I thank you for that, and that's helpful. It would be fair to say then that in terms of any of the specific subcomponents of the IT optimization project which might invite a charter, there are none available for the Public Utilities Board to review?

MS. MARILYN MCLAREN: That's right. We absolutely believe we are now establishing a direction with respect to disaster recovery business continuity. Specific -- a -- a significant detail in -- about that and -- and the direction the Corporation is taking in one (1) of the attachments to PUB-2-26.

But that is some of the preliminary work done before we can actually put the stake in the ground, decide where we're headed, and create the charter. Same thing with the data centre. We know we need a brand new data centre. There's a number of different ways to come at that.

We are actually spending some money on getting some consulting advice to help us understand how it would -- best to come at that. Once that is done we will strike a charter for creating a new data centre.

MR. BYRON WILLIAMS: If memory serves me right, the current estimate of the Corporation is a $71 million budget with a $4 million contingency, Ms. McLaren?

Is -- is -- was that your evidence today?

MS. MARILYN MCLAREN: That's right. And the -- it's -- it's possible that some of the subcomponents of the seventy-one (71) may have some other contingency there. Four (4) million would certainly not meet the test of standard IT project contingency funding. So it's possible that there is more contingency in there that was simply a matter of believing seventy-one (71) was the right number and choosing seventy-five (75) for the fund of retained earnings.

MR. BYRON WILLIAMS: My recollection from over a decade ago from the Gartner group's evidence was they generally suggested a 30 percent contingency.

Is that your recollection as well?

MS. MARILYN MCLAREN: For certain projects, for certain kinds of projects. Specifically, software development, configuring off-the-shelf software. But again, nowhere near a 30 percent contingency if what -- a lot of what you're doing is purchasing hardware, purchasing security technologies. Things like that are -- are not the same risk, and do not require the same contingency as -- as development of -- business programs would.

MR. BYRON WILLIAMS: In terms of the contingency associated with the project as a whole, both with the specific sub -- sub-elements and -- and the additional 4 million, do -- do -- are -- presumably the Corporation would be able to tell us what -- what that figure is?

MS. MARILYN MCLAREN: Well, be -- because the subcomponents have only been articulated at the highest level right now, we -- we may not in fact do that -- be able to do that right now, but certainly when the individual charters are there, the funding is there, and the contingency at that individual project level will be clearly identified.

You know, further to my point about depending on the nature, I would expect that the development of a business continuity program for the

Corporation would -- would require a higher percentage of contingency than would the data centre.

MR. BYRON WILLIAMS: And presumably in future regulatory processes, the Corporation would be prepared to share the project charters with regards to the sub-projects with its regulator, as they relate to Basic?

MS. MARILYN MCLAREN: I -- I believe we've put that on the record, that they have not been developed yet but certainly will be available to the Board when they are.

MR. BYRON WILLIAMS: Madam Chair, I'm going to suggest that we take our break now, and I'll review the completed response of Manitoba Public Insurance.

THE CHAIRPERSON: Thank you. We'll take a fifteen (15) minute break, bringing us back at twenty (20) after. And you would like to add something before we take off?

MS. KATHY KALINOWSKY: Yes. We've managed to locate the missing pages for the pre-asks from CAC number 1 and 2. So I can just pass those out right now prior to the break. We need not mark them as new exhibits, simply tear out your old exhibit number, and put it in right here in this -- this instance.

THE CHAIRPERSON: Thank you, Ms. Kalinowsky.

--- Upon recessing at 3:06 p.m.
--- Upon resuming at 3:24 p.m.

THE CHAIRPERSON: So, Mr. Williams, I think we're all back now ready to go.

MR. BYRON WILLIAMS: Thank you, and --

MS. KATHY KALINOWSKY: Excuse me, Mr. Williams. I was just on the other side there. I've got two (2) exhibits that I'd like to put in and circulate to members right now. Just literally getting them printed off right now.

One (1) of them is "Service management and service delivery at MPI is -- is im --" it says, "is immature," and that's from the Gartner group, and it's in one (1) of the exhibits that was -- it's a PowerPoint, and it's one (1) of the exhibits that's already attached. And Ms. McLaren will speak to that.

And I'm not sure which exhibit number it would be. Mr. Simonsen, maybe you could help me with that?

MR. KURT SIMONSEN: Eighteen (18).

--- EXHIBIT NO. MPI-18: Gartner group PowerPoint, "Service management and service delivery at MPI is immature"

MS. KATHY KALINOWSKY: And the other is an undertaking from this morning. It's also on IT optimization. I believe it should be Undertaking number 13 as the undertakings ended yesterday at number 12, and we believe this is the first undertaking from this morning.

And it's the 2011/'12 IT optimization-related awarding of work as at October 13th, 2011, so up to date to today. So I can just circulate that very quickly also. Thank you.

--- EXHIBIT NO. MPI-19: Response to Undertaking 13

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: And the -- sorry, the 2011/'12 IT optimization-related awarding of work will be MPI Exhibit number 19.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: If I could speak briefly to the coloured slide -- slide first. This is simply a full-size copy of what is in the material at -- and it's part of the response to PUB/MPI-2-26, Attachment D, page 5, and it really is not very meaningful when it's small and in black and white. So we really just wanted to have a chance to -- to show it to you in a more meaningful way.

And you can see when Gartner and HP say that our processes are immature, this is a graphical depiction of that. All those short, short arrows are -- are pro -- in all likelihood an issue.

Now what this also tells you is that organizations have a real opportunity to decide where they should be on this spectrum. And we have no intention of pushing all the way over to the right to be optimizing everything at the highest possible level.

Quite frankly, we are really comfortable with our program and project planning and design methodologies. That's the one (1) that is out there well into the defined area. As well as our releases. We talked about never really having a failed release of one (1) of our applications. And our deployment of new software and updates to software. We're very comfortable with those, they work well for us.

So you can see that through time we will come back with this and you will see movement through time as we move out of the initial stage, no longer be immature and at risk. And you'll see in some places we may decide we need to move to the far, far right, but that would really be an exception, we'll likely be mostly in the yellow areas. maybe potentially somewhat into the green.

But it just gives you a chance to see in a pretty specific way in terms of what these specific categories are when comments are made about that we -- you know, how we have immature processes, what does that really mean, and how far do we have to go in -- in terms of the risk that -- that it really presents for the Corporation at this time.

And the other table is in response to my commitment to Ms. Grammond earlier this morning talking about the work that has been awarded so far this year in terms of IT optimization. And you can see out of slightly less than $4 million, HP had about twenty-one thousand dollars ($21,000) on that.

THE CHAIRPERSON: Ms. McLaren, back to this colour chart. I'm sort of thinking, what is re --

repeatable? Repeatable. Does that mean that you sort of understand it to the point where it's become -- there's a degree of stability there and you can count on that being the mode people are operating in?

Is that what --

MS. MARILYN MCLAREN: Yes.

THE CHAIRPERSON: -- that means?

MS. MARILYN MCLAREN: Yes. And that you're not -- you're not reinventing the wheel but you're also not -- not in a very structured defined environment, but you can do what you did last week.

THE CHAIRPERSON: Thank you. All right.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Palmer, I'd ask you to turn to the Corporation's response to CAC/MPI pre-ask 1, which is marked as CAC Exhibit number 3.

MR. DONALD PALMER: Yes, I have it.

MR. BYRON WILLIAMS: And, Mr. Palmer, I want to flip you two (2) pages back in the exhibit to the attachment to the original pre-ask.

Do you have that, sir?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And -- and for those trying to follow along, I apologize for the size of the -

- the print. The label at the top right should be "CAC pre-ask 1 attachment," and there should be a -- a table with ten (10) columns with "Insurance year" at the left and "This year's methodology assumptions and tail factors using a straight average of all years" on the extreme right of that table.

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And, Mr. Palmer, you'll certainly take the opportunity, I'm sure, later on to -- to chat about the last two (2) columns, but what I want to focus on for the -- for our initial discussion is the first eight (8).

And again, this -- this information is -- relates to the accidents -- accident benefit weekly indemnity IBNR estimates by accident year.

That's the -- the general subject matter of -- of this table, sir, correct?

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

MR. BYRON WILLIAMS: And just to get your assistance in describing it for the panel, on the extreme left, that column basically sets -- sets out the insurance year/accident year, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the next five

(5) columns I'm going to suggest to you and ask you to confirm, running from tabular reserving over incurred development method to incurred BF method, paid development method, paid BF method are excerpts from the appointed actuary's October 2010 report. They're -- they're essentially lifted right out of there, sir.

Would that be fair?

MR. DONALD PALMER: Yes, and each one (1) of those would be a different methodology. And we've -- I went over those methodologies in some detail with Ms. Grammond a few days ago.

MR. BYRON WILLIAMS: And I'm not going to -- to focus on what the particular methodology is, but in terms of the column -- the second column in, tabular reserving reproduces the appointed actuary's IBNR estimates for the '94/'95 through 2000/2001 insurance years using tabular reserving, correct?

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

MR. BYRON WILLIAMS: And if we go over one (1) more column under the heading, "Incurred development method," this reproduces the IBNR estimates of the appointed actuary using that particular method, being incurred development, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: The fourth column,

"Incurred BF method," again reproduces the appointed actuary's results using that method flowing from his October 2010 report, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the same for column 5, "Paid Development Method," and column 6, "Paid BF method," correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And with regard to those columns, flowing from tabular reserve on the left to paid BF method on the right, Mr. -- Mr. Palmer, I direct your attention to the bottom of that first table under the heading, "Total."

Do you see the bottom line of that table, sir, in terms of total? Do you see that?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And we see the IBNR estimate flowing from incurred development at one (1) end of the spectrum being around 71 million, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And at the other end of the spectrum, two (2) more over, is the total from the paid development method in terms of its estimate being about 140 million, correct?

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

MR. BYRON WILLIAMS: So we have materially different estimates of the weekly indemny -- indemnity IBNR depending upon the methodology.

Would that be fair, sir?

MR. DONALD PALMER: Yes, and again with the assumption of these totals that the -- that one (1) method would be chosen for all years IBNR, which is not the case.

MR. BYRON WILLIAMS: And that is a helpful segue to the column beside paid BF, which is selected method. And, Mr. Palmer, do you see that column? It says "highlighted in yellow," unfortunately it's not, which is my -- my problem -- my fault, not yours.

And we'll -- we'll get into the details in a second. But what this column portrays is the estimated IBNR -- the opinion of the appointed actuary with regard to weekly indemnity IBNR as of October 2010.

Would that be fair, sir?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And, Mr. Palmer, just -- just to help the Board, we had -- and, basically, we'll go into this detail in a second. But the appointed actuary didn't just pick one (1) method, he had selected results from different methods which are formed -- which are included in the -- the total in -- under his selected method, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And because it's not highlighted, I might get you to assist me. And I'll suggest to you, Mr. Palmer, that the selected method for the '94 through '95 insurance years down to the 2000/2001 was tabular reserving.

Would you agree -- agree to that, sir?

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

MR. BYRON WILLIAMS: And -- and if the Board is trying to follow along, I've found it helpful to just use a pen mark or something to highlight those. In terms of the next years, being '01/'02 though to '07/'08, the selected method chosen by the appointed actuary would be the incurred BF method, Mr. Palmer.

Is that correct?

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

MR. BYRON WILLIAMS: And so that runs, again, from '01/'02 through '07/'08, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And for the last three (3) years, his selection was the paid BF method.

Is that correct, Mr. Palmer?

MR. DONALD PALMER: Almost. For the last

three (3) years in the methodology as outlined in the appointed actuary's report, it was the -- for those years it would be the greater of the paid BF method and the incurred BF method.

In each one (1) of those cases it -- it was the paid BF that was greater and that was the selection, but that wasn't by design. It could have been the incurred BF for one (1) or more of those years.

MR. BYRON WILLIAMS: The mathematical result of his approach was that the paid BF method, being the greater than the incurred BF method for those three (3) particular years was selected, correct?

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

(BRIEF PAUSE)

MR. BYRON WILLIAMS: So, Mr. Palmer, the selected method yielded a -- a total of about $109 million, correct?

MR. DONALD PALMER: Yes, that -- that is correct. That was the selected IBNR.

MR. BYRON WILLIAMS: And if we go over one (1) column, I'll suggest to you and ask you to confirm that is what is portrayed there would be the results in each particular insurance year of the estimated IBNR if last year's method selections of the appointed actuary were used.

Would that be correct, sir?

MR. DONALD PALMER: That would be correct from a -- just a straight pick an observation perspective. With the factors changing as much as they did and with our methodologies changing and -- and going to more reliance on the last year -- five (5) year's data, it was appropriate to review all of the answers from all of the methodologies and -- and take a fresh look at which would be the most appropriate methodology.

So -- and that's what the appointed actuary did in -- in consultation with MPI, myself and the actuarial staff. So to -- to just jump over from -- or cherry pick from one (1) -- one (1) method to another is really not what was done.

One (1) of the -- the bases of actuarial -- or actuarial analysis whether it be loss development factors, whether it be methods that you chose, whether it be selections for provision -- margins for provisions for adverse deviation, there is some reliance on previous years methods, and selections, and -- and assumptions.

And with these numbers they can be somewhat volatile, and to change a method, or a factor, or a margin is usually done after great thought and analysis. It's not, I think this year we'll use this factor. It -- it would be much more substantive than that.

MR. BYRON WILLIAMS: And, Mr. -- Mr. Palmer, you never heard me use the word "cherry pick," did you, sir?

MR. DONALD PALMER: No.

MR. BYRON WILLIAMS: Okay. What I'm asking you to confirm is that if we go to the column based on last year's method of selection, the mathematical result would have been a total estimated IBNR for weekly indemnity of about $80 million, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And so the mathematical difference between the two methodologies would be around $29 million in terms of their result, in terms of estimated IBNR, correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And if we want to get to the heart of the difference, the twenty (20) -- really I'll suggest to you that the difference is, in terms of the biggest ticket items, is for those last three (3) years of development, this year the appointed actuary employed the paid -- employed the greater of the paid BF, or incurred BF method, whereas the year previous he preferred the incurred BF method.

Would that be fair, sir?

MR. DONALD PALMER: That would be fair, again with all the underlying assumptions within the evaluation.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I apologize to the reporter for failing to press my mic. Mr. Palmer, in terms of the last two (2) columns, the Corporation's observations with regard to these columns is that their advice would be that using a straight average of all years, or using the nine (9) year volume weighted factor, would not be what the Corporation advises, given that -- and the information from a number of these years came prior to the implementation of the reserving calculator, and -- and is therefore no longer relevant.

Would that -- that be the Corporation's perspective, sir?

MR. DONALD PALMER: Specifically for incurred development methodologies, I would absolutely agree with it -- that. For pay -- paid methods, there hasn't been the same shift in -- in factors. Paids are paids, and are -- are not dependent on reserving methodologies.

Again, just using a straight average or -- or one (1) set of assumptions again is, without understanding the -- the underlying reasons for the data, is -- can be problematic.

MR. BYRON WILLIAMS: Now, Mr. Palmer, I'm not necessarily conceding that point today, but just in the interests of time if we -- if we wish to recanvass that issue we'll deal with Mr. Christie on that point.

I -- I want to turn you to the Corporation's response to CAC/MPI Pre-ask number 2, which is marked as CAC Exhibit number 4.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: You have that, Mr. Palmer?

MR. DONALD PALMER: Yes, I have it.

MR. BYRON WILLIAMS: And I -- I do again want to direct your attention to the second page of that pre-ask. And you should see a table headed "Accident benefits other - IBNR estimates by accident year."

Do you see that, sir?

MR. DONALD PALMER: Yes, I have it.

MR. BYRON WILLIAMS: And Mr. Palmer, apart from the numbers -- excuse me, Madam Chairman, does -- does the Board have -- okay.

Apart from the numbers, Mr. -- Mr. Palmer, one (1) of the distinctions between this table and the previous one (1) is it relates to accident benefit other -- the IBNR estimates by accident year as opposed to accibe -- accident benefits weekly.

Is that fair, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And it would be fair to say -- just one (1) second, sir.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Palmer, this table appears in a familiar format to the previous one (1) with one (1) exception as well being that there's no column for tabular reserving.

Do you see that, sir?

MR. DONALD PALMER: Yes, that's correct. And the reason for that is these would not necessarily be an established stream of payments. Tabular methodology would be if there is a -- an established weekly or bi-weekly amount that's -- that's payable for a long period of time, and that's when a tabular method would be used.

For these benefits, this could be personal care benefits, it could be medical benefits, other rehabilitation. In some cases there are for certain periods of time some streams of payment but that's not necessarily the rule. So the tabular reserving methodology would not necessarily be appropriate in these cases.

MR. BYRON WILLIAMS: And so what is por -- and I thank you for that. What is portrayed in the first four (4) columns after the accident year is the results if a particular methodology was -- was used exclusively.

Correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So we -- we run from again the incurred development method through incurred BF, paid development method, and paid BF method, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And we see the -- for these four (4) methods, the estimated IBNR flowing from them being as low as one thousand three hundred (1,300) and -- or excuse me, one million three hundred and twenty-nine thousand (1,329,000) and as high as under the incurred BF method of about 55 million, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: If we move over one (1) column, sir, we will see the -- the appointed actu -- actuary selected method, the results thereof.

Correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And again, just to -- because it's not highlighted on -- on this -- this -- on the -- the panel's version, in terms of what the appointed actuary selected I would suggest to you that for the '94/'95 through '07/'08 years he used the incurred BF method.

Correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: For the last three (3) years, being '08/'09 through 2010/'11, he used the greater of the incurred BF method and -- and the paid BF method, correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the mathematical result of using the greater of was that in -- in '08/'09 and '09/'10 the selected method was the paid BF method, correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And in 2010/'11

because the incurred BF method led to a greater estimated IBNR, that was the mathematical result and was selected, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the result of the appointed actuary's IBNR estimates is a total of around $64.7 million, correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And if we compare that to the totals of the other -- or of the four (4) methods tested, that selected method is actually higher than -- than all four (4), correct, sir?

MR. DONALD PALMER: It is, yes.

MR. BYRON WILLIAMS: And, sir, if we move one (1) column to the right we see the -- and again, with no suggestions of cherry-picking, we see the mathematical result of -- that would flow if last year's method was employed, correct, sir?

MR. DONALD PALMER: With blind application of last year's methodologies, that's correct.

MR. BYRON WILLIAMS: And that total would be a bit over 23 million -- excuse me, a bit -- between twenty-two (22) and twenty (20) -- let me try that again, would be around $22.7 million.

Is that correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And, Mr. Palmer, again, for the purposes of our conversation, I'm not going to pursue the last two (2) -- two (2) columns. And we'll see if we can give Ms. Grammond a chance to finish off today.

I do want you to turn though, sir, to the Corporation's response to CAC/MPI Pre-ask number 3, which is Exhibit -- CAC Exhibit number 5.

(BRIEF PAUSE)

THE CHAIRPERSON: We're not sure which one that is.

MR. BYRON WILLIAMS: I -- I'm sorry, Madam Chair. I was just dazing -- gazing off into space. I apologize. It should be "Collision IBR -- IBNR estimates by accident year" should be on the first page of that. It should be a three (3) page document. On the left-hand side of the front page should be marked, "CAC/MPI Pre-ask 3." If -- if a bundle was handed out to you at the break it might be the last document in that bundle.

MR. DONALD PALMER: The -- the third one wasn't re-handed out.

THE CHAIRPERSON: Yeah.

MR. DONALD PALMER: It hadn't changed.

THE CHAIRPERSON: We don't have that third one. We just have two (2) re-asks -- pre-asks. We have 1 and 2. We don't have 3.

MR. DONALD PALMER: The...

THE CHAIRPERSON: We now have it.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Just -- we're going to start on the very first page, Mr. Palmer, just for a second. We presented our calculations in the attached table.

And the Corporation has -- has confirmed our calculations, correct?

MR. DONALD PALMER: Yes, blind application of what was described, yes, that wa -- that's what was done.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And that's your adjective, Mr. Palmer, not mine. When we look at this table, you'll agree with me that the first column on the left again simply sets out the accident year? It may not be pro -- nicely labelled, but that's what it -- it does, the accident or insurance year, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And so we're -- we're now on page 2 of the attachment. And again, this table re -- relates to collision IBNR estimates by accident year, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And collision IBNR is a shorter-tail type of development, correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And...

(BRIEF PAUSE)

MR. DONALD PALMER: Sorry, Mr. Williams.

MR. BYRON WILLIAMS: No worries. I always have time for Mr. Johnston. The -- and what the second column in this table portrays is the -- the estimated IBNR flowing from the incurred developments selected by Man -- Manitoba Public Insurance, its appointed actuary, correct, sir?

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

MR. BYRON WILLIAMS: And what the third column does is portray the results if, rather than use the incurred development selected by the appointed actuary, one used the average of the last five (5) years in incurred development.

Is that correct, sir?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And what the fourth column does is suggest the results if the average of the last three (3) years was emp -- employed, correct?

MR. DONALD PALMER: Yes, a straight mathematical projection of those, yes.

MR. BYRON WILLIAMS: And the last column shows the latest nine (9) volume weighted average, the results flowing from that, correct, sir?

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

MR. BYRON WILLIAMS: And what we see, sir, is a range of results on the high si -- higher side, not forming any judgments just the mathematically higher result, are those flowing from the -- the selections of the appointed actuary of MPI, being about $7.7 million, sir, correct?

MR. DONALD PALMER: Yes. And -- and again, with some explanation or some warning to the Board regarding taking too much stock in -- in this kind of a straight or mathematical exercise. One (1) of the normal procedures that's done as part of an actuarial evaluation, and -- and Mr. Johnston and I were discussing whether it was part of the -- embedded in the standards of practice or not, and we don't have them right handy, so I'm not positive it's in the standard of practice, but it cert -- certainly is part of the regular evaluation procedure, is really a qualitative review of the -- of the Corporation.

And every year Mr. Christie has a fairly long questionnaire discusses with the Corporation what has changed in terms of any procedures, any -- any data requirements, whether there's been any changes in -- in systems development, whether there's been any special changes in notices to adjusters, whether there's been change in the way the case reserves are set.

All that is done as a very -- fairly extensive qualitative review that is done for the evaluation, not -- not only for Collision, but certainly part of the review exercise for all of the various coverages.

That -- the answers to those questions really do inform the judgment of the ap -- appointed actuary in terms of what methodologies are most ap -- appropriate and what should be selected.

As far as I know, in the calculation of -- of these estimates, it was strictly by the numbers. There was no qualitative analysis that was -- that accompanied this, or at least if there was I'm not aware of it.

So again, when we look at these numbers, and -- and this was exactly the methodology, and this is what the factors, if you just took some straight averages, is this what would be the result, I -- I agree that this would be the result, but this would never be really the complete analysis that would be done by the actuary.

MR. BYRON WILLIAMS: You're not suggesting, Mr. Palmer, that in terms of a loss defel -- development factor selected by an actuary that the actual results would not equate in -- in certain cases to the mathematical averages?

You're not suggesting that, sir?

MR. DONALD PALMER: It could.

MR. BYRON WILLIAMS: And -- and -- sorry, please proceed, Mr. Palmer.

MR. DONALD PALMER: All I'm saying is that there is an awf -- an awful lot of other analysis that conforms what factor selection should be.

MR. BYRON WILLIAMS: You also would

agree, given the number of years of experience, Mr. Palmer, that -- that averages of this type would be -- would be something that an actuary would give weight to?

MR. DONALD PALMER: Again, it's one (1) of the pieces of information that's utilized in an evaluation, yes.

MR. BYRON WILLIAMS: You also wouldn't disagree, Mr. Palmer, that -- that actuaries in the conduct of their duties, it is open to them to take into account negative development and -- and to select negative development factors.

That's correct, sir?

MR. DONALD PALMER: It could happen, yes.

MR. BYRON WILLIAMS: Mr. Palmer, if you could perhaps just turn to the last page of the pre-ask, sir.

And I'll suggest to you that what this table portrays is a comparison of the loss development factors selected by the MPI-appointed actuary in consultation with the Corporation as compared to the results flowing from the average of the last five (5) years, average of the last three (3) years, and the latest nine (9) volume weighted.

At a high level, sir, is that what it does?

MR. DONALD PALMER: Yes, it does.

MR. BYRON WILLIAMS: And one can draw one's own conclusions from a comparison between the selected and the other results. Correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Madam Chair, if -- if I could stand down for about one (1) minute. I just want to consult with my client on one (1) point.

THE CHAIRPERSON: Go ahead.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Apparently, Madam Chair.

THE CHAIRPERSON: Okay.

MR. BYRON WILLIAMS: Let the record show that I've been abandoned by my client, Madam Chair. I -- I am -- I thank the MPI panel for its assistance today, and it's patient in this -- patience.

Our cross-examination is -- is not closed, but on these particular issues, subject to any undertakings flowing from -- from the day related to these topics, that closes our cross-examination of this panel on these specific points.

THE CHAIRPERSON: Thank you. So now we

go back to Ms. Grammond.

MS. CANDACE GRAMMOND: Yes, Madam Chair, and I'll perhaps just indicate for the record that I had a conversation with Mr. Oakes, and he advised me that he didn't have questions for MPI with respect to the actuarial matters, or the IT optimization project.

And I -- I -- CAA is here. We should maybe just have them confirm for the record that -- whether they have questions for the panel on actuarial or the IT optimization matter.

THE CHAIRPERSON: Yes, because they are still in the room. So would you like to ask any questions? Have you any -- anything?

MS. LIZ PETERS: No, we don't have anything to add.

THE CHAIRPERSON: Thank you.

MS. CANDACE GRAMMOND: Okay. And so I -- I do have some additional cross-examination, Madam Chair, that I can conduct of the MPI Panel. I should indicate, though, I had said earlier today that arising from the new filings on actuarial matters we may have some more questions, some follow-up questions.

I should indicate Mr. Pelly has had some conversations with Mr. Johnston to clarify some things in the documents, so, we don't have any questions now. If we do have questions, we'll get them out first thing on Tuesday before Mr. Christie joins the Panel.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. So I'm gonna turn to -- to a -- a different topic then that what we've been speaking about today.

We heard evidence yesterday brought out by my colleague, Ms. Hamilton, relating to operating expenses and various details of that. And we've heard in other contexts of the Corporation's business at this hearing evidence with respect to benchmarking; benchmarking of investment yields, Benchmarking in the actuarial context. And we -- we did look yesterday over the course of Ms. Hamilton's examination at TI-5, which is a -- a graphical depiction of operating expenses as compared with CPI or inflation.

And what I wanted to ask the Corporation is what other benchmarking it does with respect to its operating expenses. And, for example, does it measure its efficiency in terms of operating expenses against the other public auto insurers. And that's just as an example.

MR. DONALD PALMER: We -- we used to. And TI-5 in the past years has been presented and included some comparisons with ICBC and SGI.

What we found with that type of comparison because each company operates a little differently, as -- as with other private enterprises or private insurance companies, and it seemed that it was -- took more time to figure out and explain the differences and what that would be -- and that -- what the results would be rather than actually compiling the data and -- and comparing the results. So, it's caused us some great difficulties in term -- and I think there was difficulties from the Board and certainly the Intervenors.

I know that one (1) -- one (1) of the questions from the Consumers Association was just highlighting the fact that we had stopped doing -- doing that comparison this year and the reasons -- or one (1) of the reasons was that, we discussed at some length -- last year Ms. McLaren had talked about the -- the comparative benchmarks and the Consumer Association actually, in the final argument, said, you know, there's -- that you're probably right, that there -- although there may be some value in comparisons with other entities, sometimes it, quite frankly, might be too -- more trouble than it's worth and that we really should look at our own operational efficiencies, our -- our measurements over time.

Within the Corporation we are currently exploring maybe other possibilities with operational efficiencies, with other benchmarks. There are other benchmarking companies out there that we would be open to -- to explore that. But you have to be very careful with those benchmarks and -- to ensure that they do, in fact, yield valid comparisons.

MS. CANDACE GRAMMOND: So if I understand you correctly, the Corporation is exploring other options in terms of benchmarking?

MR. DONALD PALMER: Yes, we are.

MS. CANDACE GRAMMOND: Are those considerations at a -- a stage that you can discuss with the Board in any more detail than you just did?

MR. DONALD PALMER: Not yet, no.

MS. CANDACE GRAMMOND: Is it expected that they'll be some conclusion or movement on that before the next filing?

MS. MARILYN MCLAREN: It's possible. That's not a commitment at this point, but it's certainly possible. And I think in the -- I know the question was primarily related to operating expenses, but I think it's really important to -- to point out that as much as we have a number of measures in our annual report and -- and, you know, the Corporate goals and -- and the performance against those goals, the one (1) measure that we hold as really most important compared to all the others and does have implications for operating efficiencies is the measure related to basically loss ratios.

That's -- I think it's the second one (1) in the annual report, and it really is a simple measure where you can eliminate all the differences across insurance companies as to what the coverage is, what the distribution method is, a simple calculation of how much do people pay in premiums and how much does the insurer pay back out in benefits.

One (1) of the founding principles is that this not-for-profit compulsory insurer should pay back a minimum of eighty (80) cen -- eighty-five (85) cents on the dollar.

And generally we are much, much closer to dollar for dollar. What people pay in premiums we pay back out in claims benefits. Our investment income pays for operating expenses. If -- you know, and the -- those other costs of running the organization.

So I think, in -- in simple terms, because it eliminates all the discussion and discrepancies about kinds of coverage and distribution, everything else, that is the one (1) that we believe provides the best comparison across time.

Mr. Pelly can probably tell you that -- that in the private sector insurers generally shoot for about sixty-five (65) cents on the dollar. If they're much above that they really start to worry about that because the -- the -- it is not in the organization's best interest. But with the public insurance model, the -- the principle is it's got to be at least eight-five (85) cents on the dollar, and we clearly are much more clo -- much closer to dollar for dollar most years.

And if we were not reasonably efficient on our expense side we couldn't achieve that objective either, so it's a proxy in some fashion, but it really speaks to the entire mandate of the organization and a big part of the value to ratepayers, to Manitobans.

MS. CANDACE GRAMMOND: So I think it actually was Mr. Palmer that spoke about the Corporation's internal measures for looking at operating expenses. Obviously, one (1) of those would be what you just described, Ms. McLaren?

MS. MARILYN MCLAREN: And -- and that certainly translates to an external one (1), as well, absolutely.

MS. CANDACE GRAMMOND: What are the other internal measures that the Corporation uses in terms of operating expenses?

MR. DONALD PALMER: The ones that we had produced in -- in TI.5, that operating expense per policy or -- or per vehicle, claims expense per vehicle, are two (2) that are particularly valid. I think that's what we had presented, and because that also takes out sort of growth in fleet and that kind of thing, as well.

The claims expense per vehicle or -- or including claims expenses with claims costs and tracking that on a per vehicle basis, that also eliminates some of the pluses and minuses. Some of the claims expenses which are included in the overall category of claims costs are beneficial in -- in reducing the actual paid claims dollars.

And the best example that I can think of of that is the Immobilizer Program, that our claims expenses went -- our claims expenses went very high for the years that we were installing immobilizers, but that was easily offset with a reduction in claims to the overall benefit of the -- the ratepayer.

So again, sometimes if you look at claims expenses in isolation, or even other expenses in isolation, you may lose the cost benefit of really what that's supposed to do.

And, you know, I think road safety

expenses, I mean, if we could -- could find various road safety programming that for sure reduced claims costs with a real significant payback, you'd in -- increase your expenses, but you'd reduce your -- your claims costs to the overall benefit of the Manitoba ratepayer.

So again, looking at some of those claims expense, or -- or operating expense comparisons in isolation sometimes doesn't show the whole true picture.

MS. CANDACE GRAMMOND: We touched on, I think last week in passing, the fact that the Corporation has an agreement with the Automotive Trade Association and Manitoba Motor Dealers Association with respect to shop rates and whatnot?

MS. MARILYN MCLAREN: Yes, just nearing the end of the second year of a four (4) year agreement.

MS. CANDACE GRAMMOND: And I understand that there's a new component to that, or at least new -- new to us, that deals with funding for apprentices that the Corporation's going to be doing.

Can you tell us a little bit about that?

MS. MARILYN MCLAREN: Aging workforce is a real concern for body shops in this province. I think it is more broadly, but certainly it's an issue in Manitoba. We believe it's something that we can help to make a difference in.

And so we are providing some additional funding both for tools and salary enhancement for apprentices in the body shop trade. I believe there was an IR that spoke to how many people had been funded to date.

THE CHAIRPERSON: Yes, you gave us that.

MS. MARILYN MCLAREN: But it -- it's something that we believe we can really do because of the role that we play in Manitoba and we think it's important for the industry.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: And I believe that the -- the costs incurred in the last fiscal year was under a hundred thousand (100,000) for the year of the application, about half a million, and then in 2013/'14, about two hundred and fifty thousand (250,000).

Does that sound about right?

MS. MARILYN MCLAREN: That sounds -- that sounds about right. I -- I -- ideally we would probably hope to spend closer than -- closer to the half million each year, but realistically those are best estimates at this point.

MS. CANDACE GRAMMOND: And obviously what you're spending just depends on how much take up there is?

MS. MARILYN MCLAREN: Absolutely.

MS. CANDACE GRAMMOND: I'm just going to look at my notes, Madam Chair, to see if I have a topic that I think I can finish in ten (10) minutes.

THE CHAIRPERSON: Go ahead.

MR. REGIS GOSSELIN: I guess I have a question in the meantime, and it relates to your -- to Ms. McLaren's statement about the dollar for dollar. I guess the -- looking at it from a client perspective, I mean, the client would prefer to pay ninety-six (96) cents rather than a dollar ($1) and get ninety-six (96) cents back. In other words, if they're paying a buck, I'd rather pay ninety-six (96) cents.

And I guess the problem I see with internal benchmarks is that you're not getting an indication of whether the dollar, is it -- should be a dollar ($1) or it should be ninety-six (96) cents.

MS. MARILYN MCLAREN: That's fair. And we would never restrict ourselves on that basis. You know, the -- the rate comparison nationwide that we do, that we talked a fair bit about last week, the three (3) different profiles that we offer, that we try to compare, what do Manitobans pay for the same vehicle and -- and coverage as much as we can in other major centres across the country, that's very important to us. We do pay attention to that.

We pay attention to best practices in terms of how can we deliver the product that is in Legislation as effectively as we can. We do our very best across the system, not just in terms of actual operating expenses, but on the claims incurred side, as well.

One (1) of the things we haven't talked about too much yet this year is the extent to which Manitoba Public Insurance uses after market parts and recycled parts to repair vehicles that are more than two (2) years old.

For many years we have used significantly more of those kinds of parts than other insurers in the country. That -- that's directly -- directly reduces the cost of auto repairs and keeps rates as -- lower than they otherwise would be.

We back that up with our own warranty that is exactly the same as the manufacturer's brand new part warranty so that Manitobans are not disadvantaged from a quality perspective.

So there's a number of things that we do and we track as best we can how we do in comparison to other players in the industry. We would certainly never limit ourselves just to -- you know, for what we collect in premiums, do we pay it back in -- in coverage, for sure.

MR. REGIS GOSSELIN: Just to follow up on that. I guess the -- when you look at -- you know, I can't - - I don't have a specific reference for the -- for the graph, but when you look at the graph it compares what a typical client would be paying in Saskatchewan, Alberta, and so on.

I mean, it's pretty clear to me that -- that they -- the closest -- typically the closest insurer to MPIC, and from a rate perspective, is Saskatchewan.

And so for the client who's looking at that and saying, Well, how come my -- my brother living in Saskatchewan is paying a little bit less than me? Is that -- is that a fair comparison, I mean, in terms of for same car, same vehicle, same age group, and so on?

What is it that -- that allows Saskatchewan to -- to -- the Saskatchewan client to pay a little bit less than a Manitoba client? Is there something in difference in the coverage?

MS. MARILYN MCLAREN: Very little difference in the coverage, but I can tell you for the less severe injury claim Saskatchewan has far, far fewer than Manitobans.

Manitobans tend to claim for relatively low value claims, for, you know, a few weeks of chiropractic care, or physiotherapy, things like that, where they simply don't in Saskatchewan.

About the same number of people. We have about sixteen thousand (16,000) injury claims a year. I'm not sure they have ten thousand (10,000).

But the coverage is very, very similar, and I think so that they -- the claiming behaviour and the fact that they simply don't have one (1) very large urban centre is really the two (2) key differences.

But the actual differences in rates are -- are within dollars, or maybe ten (10) or fifteen dollars ($15). They're very, very close.

THE CHAIRPERSON: And would they also have less cost in regulation?

MS. MARILYN MCLAREN: Oh, that -- that would be true, absolutely. It's a very different rate regulatory framework in Saskatchewan. It doesn't happen every year, at all, and when it does happen it doesn't happen for seventeen (17), or eleven (11) days.

So I think -- you know, I mean the total cost of regulation probably isn't 1 percent on rates, but it's -- it's certainly less expensive in Saskatchewan.

MR. REGIS GOSSELIN: So looking at --

looking at some of the internal indicators, I mean, they -- they would have a -- I haven't looked at the -- the website yet, and I certainly will do that, but in terms of claims expense per -- per vehicle, per policy, are we -- are you in the ballpark?

I mean, are we -- are we talking apples and apples, or...

MS. MARILYN MCLAREN: In terms of Manitoba and Saskatchewan? Absolutely. You know, there -- there are very similar distribution and claims handling processes. They have claims centres across the province like we do.

They -- we -- we have a very similar experience with respect to very -- you know, serious injury claims, just based on sort of the population and so on.

So I think the differences are primarily where -- where we've identified them, but you'd have significantly different rate comparison outcomes if there was real differences in claims because for both of us, very similar organizations.

We pay out -- virtually every penny we collect in premiums we pay it back out in claims cost. Their model is the same as ours when it comes to that.

So the claims -- overall claims costs are pretty close. That's why the rates are pretty close.

DR. LEN EVANS: I just had one (1) follow-up question. In comparing Saskatchewan and Manitoba, and whatever differences, does Saskatchewan offer what I would call sort of a universal coverage; every man, woman, and child in the province of Saskatchewan who's involved in a motor vehicle accident, whether he or she owns a vehicle, or -- or has a driver's licence?

In -- in effect, we have a universal program in Manitoba, and I don't think most people in the province appreciate that. Maybe if they get involved they might begin to appreciate it, but I think the average citizen doesn't realize that.

So I was wondering, does -- does Saskatchewan offer that, which Manitoba MPI does?

MS. MARILYN MCLAREN: Yes. Their compulsory program provides universal coverage to citizens in terms of injuries. And the coverage -- the -- you know, the -- the compulsory program is provided on a universal basis, as well.

DR. LEN EVANS: Well, that's good. So there -- there's no reason for a difference on that score. Thanks.

THE CHAIRPERSON: And while we are in

discussion on these sort of miscellaneous topics, that use of after-market parts, the recycling of parts, in effect, you're doing that obviously to cut costs, but do you have some Green objectives towards that goal? Like are -- or do you ever think about that as a corporation?

MS. MARILYN MCLAREN: Absolutely. One (1) of the things that -- again, we're really hesitant to keep flooding you with paper, but one (1) of the things that we can provide is the annual -- it's a report that -- that we do at a six (6) month, and then an annual basis. It's a sustainability report. It talks about corporately everything we do to use -- you know, we -- we buy paper made from recycled goods for our photocopy machines. We -- we count things like the recycled parts.

Just a little point of clarification. There's two (2) different kinds -- there's three (3) different kinds of parts you can put on a car: There is OEM, original equipment manufactured; after-market, which is an entire -- really a -- a growth area right now, which is other lower cost manufacturers making new parts, but not the original manufacturers; and then there's the recycled. And in both the after-market and the recycled, we work really hard to use as much as we can.

And, absolutely, the recycled does help in terms of fewer -- fewer things going to the -- the dump, so to speak. But I can also tell you, though, that right now we sell vehicles that are damaged and not suitable to go back to -- you know, going back on the road. We sell them at auction. Right now we can make a lot of money selling them to the scrapper, because they're crushed and that is turned into recycled steel and everything. So all of that flows back in and helps our bottom-line, helps keep late -- rates low, but it also diverts it from -- potentially diverts it from landfill as well, for sure.

THE CHAIRPERSON: Well, thank you very much. And you know what, Ms. Grammond, I think we've run out of time. So, you may have had something that would fit ten (10) minutes but we filled it. And today we're going to quit right on time, but we'll be back on Tuesday morning at 9:30.

MS. CANDACE GRAMMOND: Thank you.

THE CHAIRPERSON: Oh. Yes. In terms of the -- what Mrs. -- Ms. McLaren suggested she could provide on -- on the sustainability, is that the undertaking?

MS. MARILYN MCLAREN: We --

THE CHAIRPERSON: You know that would be interesting --

MS. MARILYN MCLAREN: Sure.

THE CHAIRPERSON: -- because in today's world that's just so important.

MS. MARILYN MCLAREN: Absolutely.

--- UNDERTAKING NO. 17: MPI to provide an annual sustainability report

THE CHAIRPERSON: Okay. Thank you.

(PANEL RETIRES)

--- Upon adjourning at 4:29 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.