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
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Winnipeg, Manitoba
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Pages 1047 to 1301

APPEARANCES

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LIST OF EXHIBITS

NO.	DESCRIPTION	PAGE NO.
MPI-20	Handwritten exhibit with charts on one (1) side and numbers on the other	1088
CAC-10	Memo from Mr. Manktelow to Mr. Neil Parkinson dated April 22nd, 2010	1290

LIST OF UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
18	MPI to provide whether the February, 2011, report was affected by this reserving issue	1060
19	Mr. Christie to review his reports with regard to Basic as at October 31st, 2005, through October 31st, 2009, for the purposes of identifying references to the 250 million	1187

--- Upon commencing at 9:30 a.m.

THE CHAIRPERSON: Good morning, everyone. Hopefully everybody had a nice weekend. The weather was fantastic. Great. We're going to start very shortly, but I did want to give you some advance notice that tomorrow we're going to have to finish at 4:00 not 4:30, and that's because the Board -- not the whole Board, but myself and some other members have another commitment in the evening out doing water hearings. So I'll just give you that notice.

So, Ms. Grammond...?

MS. CANDACE GRAMMOND: Thank you, Madam Chair. Just by way of process for this morning, I'm going to have a few questions for the MPI panel on a couple of actuarial topics. Ms. Kalinowsky's aware of that. And then once I'm done with that she will have a direct examination of Mr. Christie, who's here from Ernst & Young. And then we'll proceed with cross-examination of Mr. Christie after that.

MPI PANEL:

DONALD PALMER, Resumed

MARILYN MCLAREN, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So, Mr. Palmer, the -- the questions that I have in the first instance relate to MPI Exhibit 11. That's the internal actuary's report as at July 31st, 2011. It was filed last week. And for everyone else, it's a fairly thick document with Tabs A through I. It's again MPI Exhibit 11.

Mr. Palmer, for starters, I'd ask you to describe how this July, 2011, review compares in rigour to the five (5) month review of previous years.

MR. DONALD PALMER: Because of our change in reserving last year we thought it was very important to ensure that the reserves were running off, were still tracking to what we expected. So there was a complete review of the existing factors for the PIPP lines of business. Those are the two (2) lines where most of the IBNR resides.

So really it was -- was taking a real hard look, much harder than in the past years. In the pa -- in the past years, basically we took the factors as they had been calculated as at February. And, of course, there's adjustments for -- to adjust for the number of months of development, but basically that was all that was done.

This year, we really did take a harder

look at those development factors to make sure that they -- the assumptions were still holding, and really they are still holding. So we -- like other years, we did not involve the external actuary. All the work that was done was internal, as it has been done in the past years.

MS. CANDACE GRAMMOND: Thank you. I understand as well that there were no changes to methodologies or development assumptions other than with respect to the accident benefits other indexed line of business?

(BRIEF PAUSE)

MR. DONALD PALMER: There was no changes to the factors, although at the beginning there -- there could have been. So we didn't go in at the beginning with the intent of not changing the factors as we had done with previous years. So -- but we did not change the factors.

With regard to the accident benefits other indexed, there was large unexpected development and that was due to a -- a system issue in terms of having overstatement in the case reserves. So we made adjustment for -- for that. But that really didn't impact the case development factors, per se.

MS. CANDACE GRAMMOND: Thank you. Now I understand, Mr. Palmer, that the review gave rise to a total fiscal year to date net favourable runoff of about 4.7 million.

Is that right?

MR. DONALD PALMER: That's correct and that can be found on page 4 of the report.

MS. CANDACE GRAMMOND: Now I understand in terms of the various offsets that gave rise to that 4.7 million, that there was unfavourable runoff of about 1.2 million on collision, of about 5.4 million in accident benefits weekly indemnity, and that unfavourable runoff was more than offset by the favourable runoff on all the other lines combined of about 11.3 million.

MR. DONALD PALMER: Subject to check, I will agree with that.

MS. CANDACE GRAMMOND: One (1) more detail of that, and again if you could confirm subject to check, that the favourable runoff of the 11.3 million was mostly concentrated in comprehensive, which was about 4.1 million, and accident benefits other indexed, which was about 5.7 million.

MR. DONALD PALMER: Subject to check, that sounds about right, yes.

MS. CANDACE GRAMMOND: Okay. Mr. Palmer,

I'd like you to turn back to page 2 of the report. You commented in -- in your evidence a moment ago that there was an overstatement in the case reserves. And we noted on page 2, in the third paragraph, that there is reference to a "reserving problem" in the BI3 claims management system. Is that the -- the same issue that you were speaking about?

MR. DONALD PALMER: Yes, it is.

MS. CANDACE GRAMMOND: Can you tell us which line of business was affected by this reserving problem?

MR. DONALD PALMER: It's all in PIPP, so any of the PIPP coverages, but -- sorry, it's -- it's all accident benefits other indexed.

MS. CANDACE GRAMMOND: And it's reflected in this third full paragraph, that pursuant to the analysis that was done -- I'm reading from the first sentence:

> "The incurred loss development experience for accident benefits other indexed was significantly higher than predicted by the February, 2011, loss development factors."

I take it that this reserving problem was the -- the root cause that led to that observation?

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

MS. CANDACE GRAMMOND: Can you tell us the extent to which the -- the PIPP line of business was affected by this reserving problem and to what extent, if any, the analysis was corrected because of this issue?

MR. DONALD PALMER: The analysis, once we delved into the -- the data and -- and found the root cause, that -- essentially there's a -- a trigger called an auto-close trigger, that once reserves are open and then don't have any activity on -- on them, they're supposed to be automatically closed.

They weren't. So -- so they continued to be open and grew and grew and grew, and -- and that was essentially the -- the issue. And that was ab -- in total of about $25 million. Once we identified that and were able to -- to isolate that we completely offset that on the financial statement. So really the impact of that as at the quarterly is nil.

There's -- there's an impact on the -- on the case reserves, but then an offsetting impact on the IBNR. So -- so really the overall financial impact on the financial statements as at October 31 is nil.

In terms of going forward, I can report that that issue has been fixed as at the first week of October and the -- and the fixes to -- to get -- to fix the systematic issue so the software works correctly, and also a patch to the existing data, so the case reserves were fixed in the first week of October.

MS. CANDACE GRAMMOND: And the -- the 25 million that you're speaking about is what's referenced on page 3 of the report?

MR. DONALD PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So can you tell us, Mr. Palmer, taking a step back from this July, 2011, report, whether the February, 2011, report was affected by this reserving issue?

MR. DONALD PALMER: There may have been some minimal impact at that time. The effect of the auto-close wasn't evident in the underlaying data at that point in time. It was only later that -- that really it became so obvious to be material.

MS. CANDACE GRAMMOND: Are you in a position to provide some kind of a quantum that would be attached to that? I know you said it was fairly minimal, or would that be a very significant undertaking to determine?

MR. DONALD PALMER: It's -- would

definitely be an undertaking. I don't have that number. We haven't gone to historically track -- track that. I certainly can't promise it by the end of the hearings.

MS. CANDACE GRAMMOND: Okay. That -- that's fine.

--- UNDERTAKING NO. 18: MPI to provide whether the February, 2011, report was affected by this reserving issue

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. Thank you, Mr. Palmer. Those are the questions with respect to that report. I just have a few questions with respect to the DCAT which was filed by the Corporation as Exhibit 12. If you want to -- to turn it, that's fine. You may not need to.

First of all, I'd ask you to confirm that pursuant to this DCAT, the Corporation's recommended minimum RSR target point has increased from 185 million to 210 million.

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And is it the view of the Corporation that this increase is reflective of a real change in the Corporation's risk level or does this in -- instead reflective of a improvement in the estimation process?

MR. DONALD PALMER: I would say that it's a change in the risk level, and the main driver of that is our equity por -- portfolio and the risk inherent in -- in equities. From the time that last year's DCAT was done to this year our total equity portfolio increased by about a hundred million dollars, so it is that risk inherent in that extra hundred million dollars that gives rise to most of this change.

We also have had some change in observations from -- from hail claims that has some impact but not as big as the impact from the equities.

MS. CANDACE GRAMMOND: And, Mr. Palmer, the increase in equities is due to the Corporation's strategy to increase the amount of equities held within its portfolio?

MR. DONALD PALMER: There was two (2) sources of -- of that and more coming up to target levels. Our US equity was only at about 3 percent of the total portfolio and that has been increased to a total of 5 percent. We did change from an active strategy to a passive strategy in -- in our US investments. When we did that, we also increased the total -- we -- the total was increased from 3 percent to 5 percent. And, of course, that's under the -- the management of the Minister of Finance. So -- so again, all the contracts with all of the investment managers and the decision to increase from the 3 percent exposure to the 5 percent was from the Minister of Finance.

MS. CANDACE GRAMMOND: So we appreciate that the Corporation didn't have the DCAT report at the time that the rate application was filed in June. We know that there's a significant rate reduction being applied for.

Given the result of the DCAT, if the Corporation were to -- to look back, and if it had the DCAT now available in hand at the time that the rate application was being prepared, would it have still applied for the -- the same rate decrease? And now that the DCAT is there, given what it reflects, is the Corporation sticking with the application as pending?

MS. MARILYN MCLAREN: The Corporation continues to be firmly behind the rate application as filed. Not so much that the DCAT came up with a higher number this year, but remembering that the Corporation has -- clearly now, I think this is the second, maybe the third year, that the Corporation has taken the position that it will accept the PUB's upper target -- upper --

the upper range of the PUB target for rate setting purposes, that has not changed.

I -- I will not say that the Corporation completely rejects the notion of at some point revisiting with the PUB the matter of the RSR target and what it ought to be, but not this year. So we are firmly behind the rate application. We know the RSR right now is below the PUB target. We continue to be comfortable with that largely because of the outlook that has been filed with the Board.

We expect that we may very well be in a position to fully replenish the RSR to the PUB target if, in fact, that's what the cont -- the Corporation continues to support a couple of years from now. And maybe looking at rate decreases. So with that view, and given the fact that we have had an unprecedented year for hail this year that we don't expect to be repeated, we're very comfortable with the rate application as -- as filed. And that's what we are continuing to encord - encourage the Board to approve.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Palmer, you told us a couple of minutes ago that the -- in your view, the -- there were additional risks to the Corporation inherent in the increase in the equities within the Corporation.

In your view, or in the view of the Corporation, is there a -- a distinction between equities that are passibly – passively managed versus those that are actively managed?

MR. DONALD PALMER: No, the -- the difference is there -- there's an extra 2 percent that the Minister of Finance has deemed to be appropriate for the MPI portfolio. And it's that difference of 2 percent, plus the other source of the -- the gain of that $100 million was also capital gains within the investment portfolio.

So because of that growth in the portfolio that was the – that's the source of the risk. It's not the fact that there's a different risk level if it's actively managed or passively managed.

MS. CANDACE GRAMMOND: Okay. With respect to the -- the DCAT then, can you confirm for the Board whether the -- the document is prepared and reviewed exclusively internally, or does the Corporation's app -- external appointed actuary, Mr. Christie, or his successor, have any role in that?

MR. DONALD PALMER: The -- the report is

prepared entirely internally and -- and signed by Mr. Johnston, who is a Fellow of the Casualty Actuarial Society and a Fellow of the Canadian Institute of Actuaries. Part of the process is to have this document peer-reviewed. It has not yet been peer-reviewed.

MS. CANDACE GRAMMOND: Okay. Thank you, Madam Chair. Those are the questions that we have for the MPI witnesses with respect to those issues. It -- it occurs to me, and I didn't mention this in -- at the beginning, but if any of the Intervenors have questions for the MPI witnesses on these issues in fairness and in -- pursuant to the agreement that we have with MPI, those should probably be asked now. There may not be questions, but we should probably give that opportunity.

THE CHAIRPERSON: We'll turn to Mr. Williams, first.

MR. BYRON WILLIAMS: Thank you and good morning, Madam Chair. I think I ran through my questions last Thursday, so I'm satisfied with the record as it currently stands.

THE CHAIRPERSON: Okay. Do we have other Intervenors that would like to ask questions at this point?

MR. RAYMOND OAKES: Not at this point, Madam Chairman, I think that most of my questions follow the interrogatories and can proceed in the ordinary course.

MS. LIZ PETERS: No questions from CAA.

THE CHAIRPERSON: All right. We'll turn back now to you, and you can tell us what's happening next.

MS. CANDACE GRAMMOND: Sure, Madam Chair.

THE CHAIRPERSON: Thank you.

MS. CANDACE GRAMMOND: I think then, what we'll have is Mr. Christie should be sworn by the Board Secretary, and Ms. Kalinowsky can proceed with her direct examination. Once that's concluded then I'll cross-examine and so on and so forth with the Intervenors.

THE CHAIRPERSON: Thank you.

(PANEL STANDS DOWN)

MPI PANEL 2:

JIM CHRISTIE, Sworn

MR. JIM CHRISTIE: My name is James Kenyan Christie.

THE CHAIRPERSON: Proceed.

EXAMINATION-IN-CHIEF BY MS. KATHY KALINOWSKY (QUAL.):

MS. KATHY KALINOWSKY: Good morning. I'm very pleased to be able to present Mr. Jim Christie, as a -- a witness this morning. He has testified previously to the Public Utilities Board, but is back once again.

He also has, accompanying him in the back row on the far -- my far right, is Mr. Liam McFarlane, from Ernst and Young, who is also a member of both the -- I'm sorry, a Fellow of the Casualty Actuarial Society and the Canadian Institute of Actuaries.

With that, I'd like to proceed with my direct exam of Mr. Christie. I have prepared a fairly lengthy and comprehensive direct examination of Mr. Christie, in order to assist the Board members in their understanding and placing the materials in context and allowing for some education, also recognizing that two (2) of the Board members, this foray into actuarial science is a -- a first.

So, Mr. Christie, with that, I'll start off by asking you, you're a Fellow of the Casualty Actuarial Society. What type of specialization is that?

MR. JIM CHRISTIE: I am a Fellow of the Casualty Actuarial Society. The Casualty Actuarial Society specializes in training actuaries in areas of non-life insurance casualty, typically referred to in other jurisdictions as property casualty in Canada, or cas -- or casualty insurance. So, auto insurance, general liability, accident and health, home insurance, those types of things.

MS. KATHY KALINOWSKY: You're also a Fellow of the Canadian Institute of Actuaries.

MR. JIM CHRISTIE: I am a Fellow of the Canadian Institute of Actuaries.

MS. KATHY KALINOWSKY: And what's the difference between the CAS and the CIA, to use the acronyms.

MR. JIM CHRISTIE: In broad terms, the CAS, is an educational body, largely analogous to universities. It specializes in training actuaries on an international basis, although the organization is based in the United States it does train actuaries throughout the world.

The CIA, on the other hand, is the professional body that represents actuaries in Canada. It is the voice of the actuarial profession. It handles the issues of discipline -- members. It advocates on behalf of the public where there are issues that are of an actuarial nature and other -- generally tries to help the members of the cag -- the Canadian Institute of Actuaries in their day-to-day work.

MS. KATHY KALINOWSKY: And how long have

you been involved in both the CIA and the CAS and can you explain the nature of your participation?

MR. JIM CHRISTIE: I first became involved with the CAS in 1976 when I started writing actuarial exams, and I've been involved with the CIA since 1981. Over the years, I've had a number of capacities within both those organizations. Within the CAS, the education body, I was, at one time, responsible for Exam 7, which was the exam that specialized in Canadian educational material, rules and regulations set by public bodies, such as the PUB or other regulatory bodies, taxation and legislation.

I later was vice-president of admissions of the CAS ultimately responsible for all education within the Casualty Actuarial Society, and I have also served on the board of directors of the CAS.

Within the CIA I was chairman of the Property Casualty Financial Reporting Committee. That is the committee charged with reviewing standards of practice for reporting with -- on property and casualty issues, and addressing the establishment of claim liabilities or policy liabilities in the property casualty area.

I served as the secretary-treasurer of the Canadian Institute of Actuaries, two (2) terms on the board of directors, and a year ago I was elected president of the Canadian Institute of Actuaries.

MS. KATHY KALINOWSKY: Can you explain what your presidency of the Canadian Institute of Actuaries entails, please?

MR. JIM CHRISTIE: I am the -- ultimately responsible for actio -- I'm esse -- essentially the chief executive officer of the CIA. We have a board of directors of twelve (12) members that have the final authority. I am a member of the board in my capacity as president. So the board is the governing authority, but the day-to-day operations are my responsibility, as well as a paid executive director who is the administrative officer, but I am setting policy.

MS. KATHY KALINOWSKY: Do you have experience in the development of Canadian actuarial standards?

MR. JIM CHRISTIE: Yes. Today, Canadian actuarial standards are handled by Independent Actuarial Standards Board, but until six (6) years ago they were developed by the -- directly by the Canadian Institute of Actuaries.

I personally was responsible for the development of the standard of practice relating to pro -- provisions for average deviations which allowed the introduction in Canada of the present value of claim liabilities, which is the standard of practice now in this country.

As well, in the last year I've been active -- I've been a member of the designated group developing the new standard of practice for workers compensation.

MS. KATHY KALINOWSKY: And what about international actuarial standards?

MR. JIM CHRISTIE: In my role as president of the CIA I am a member of the council of the International Actuarial Association. The International Actuarial Association is in the process of developing actuarial standards. "Standards" may be too strong a word. Although they may look like standards because it's an international organization that operates much like the International Actu -- Accounting Standards Board, it only has the power to adopt standards, but they don't come into force until the various countries actually approve the standard for use in their country.

MS. KATHY KALINOWSKY: Thank you, Mr. Christie. Last time you testified to the Public Utilities Board you were a partner at Ernst & Young. Can you explain why you are no longer at Ernst & Young?

MR. JIM CHRISTIE: Yes. The partnership agreement at Ernst & Young requires that partners retire from the partnership when they turn sixty (60). I turned sixty (60) in June of this year and retired at June 30th, which was the end of our fiscal year.

MS. KATHY KALINOWSKY: And can you explain what the nature of your practice was at Ernst & Young?

MR. JIM CHRISTIE: I was in charge of the property casualty actuarial practice for Canada at Ernst & Young. I was there for roughly fifteen (15) years. During that time we developed the practice into one (1) of the larger actuarial practices in Canada.

I was also actively involved globally with Ernst & Young in developing a strategy to deal with the International Accounting Standards Boards -- the International Financial Reporting Standard on insurance contracts. That standard is still not finished, and so despite the fact that I worked for ten (10) years on it for Ernst & Young it ended up as -- I -- I'm no longer of value to Ernst & Young on that side.

MS. KATHY KALINOWSKY: And a major part of your practice would have been at Ernst & Young to prepare opinions on unpaid claims liabilities?

MR. JIM CHRISTIE: Yes. Yes, approximately 60 percent of my practice dealt with establishing policy liabilities, that would be claim liabilities and unearned premiums for various clients.

MS. KATHY KALINOWSKY: And approximately how many opinions would you have signed in your professional career as an actuary?

MR. JIM CHRISTIE: In excess of two hundred and fifty (250).

MS. KATHY KALINOWSKY: And is that correct that in -- that each opinion has a second reviewer or a peer review undertaken at Ernst & Young?

MR. JIM CHRISTIE: Yes, that's our own -- Ernst & Young's internal standard, that all actuarial reports are subject to a internal review before being released to the client.

MS. KATHY KALINOWSKY: And approximately how many opinions were you the second reviewer on, or did you peer review for?

MR. JIM CHRISTIE: Approximately two hundred and fifty (250) as either an internal reviewer for reports issued by Ernst & Young, or as an external peer reviewer.

In Canada many companies are required by their -- their regulator to have their actuary's reports externally reviewed on a triennial basis, and I have done that for a number of clients as well.

MS. KATHY KALINOWSKY: Thank you. With

that I'd like to have Mr. Christie qualified as an expert on actuarial science for these proceedings.

Ms. Grammond, if you have any questions or concerns you could advise the Board on the procedure.

MS. CANDACE GRAMMOND: Yeah. No, I have no objection. The Intervenors should be canvassed if they do and we'll go from there.

THE CHAIRPERSON: Okay. We'll do that. Mr. Williams, are -- are you prepared to accept this witness?

MR. BYRON WILLIAMS: We have no challenge to the qualifications, as framed.

THE CHAIRPERSON: I'll go back, are you prepared as well?

MR. RAYMOND OAKES: Certainly, Madam Chair.

RULING (QUAL.):

THE CHAIRPERSON: Thank you. Well, I think we can proceed. We're willing to accept the witness.

EXAMINATION-IN-CHIEF BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: Thank you very much -- thank you very much for that.

I'd like to proceed now to ask some questions, Mr. Christie, of you with respect to your relationship with Manitoba Public Insurance.

Can you tell us how long you have acted as the appointed actuary for MPI?

MR. JIM CHRISTIE: Approximately fifteen (15) years. MPI appoints an actuary every five (5) years as a result of an RFP I have been appointed once and then reappointed two (2) times.

MS. KATHY KALINOWSKY: And in that period of fifteen (15) years can you explain to the Board what services you performed for MPI?

MR. JIM CHRISTIE: The bulk of my work was as evaluation actuary. I -- evaluating the policy liabilities as of October 30th and February 28th or 29th each year -- each year for all fifteen (15) years.

In addition, for a period of about four (4) years in the early 2000s I produced a -- dynamic capital adequacy report for the Board, which is filed today as the DCAT report. That is not a requirement of the evaluation actuary to do that. MPI had not been doing this on a regular basis, I started doing it for them. And in -- then in due course they brought that analysis in-house.

MS. KATHY KALINOWSKY: And as part of

your services performed for MPI you also meet with the audit committee of the board of directors?

MR. JIM CHRISTIE: Yes, I do. I meet, at least, annually in person with the board of directors to discuss the results of my analysis.

MS. KATHY KALINOWSKY: And in fact your appointment is to the board of directors of the Corporation, not to the management of the Corporation?

MR. JIM CHRISTIE: That is correct.

MS. KATHY KALINOWSKY: Can you explain why that's important?

MR. JIM CHRISTIE: It's important from a risk management perspective that my obligation is to the board and not to management. That gives the board some additional comfort level that the report and the -- the policy liabilities that I report on are appropriate and are not unduly influenced by any management issues.

It also gives the board the -- having someone external to the organization, the benefit of -- of a broader knowledge base than -- than someone who might be internal to the organization and typically only see what goes on in -- in one (1) corporation.

MS. KATHY KALINOWSKY: And for most insurers, they are regulated so to speak by OSFI, and that's a requirement. But MPI is not, is that correct?

MR. JIM CHRISTIE: MPI is not regulated in the sense that most insurers in this country are. It is not required to have an appointed actuary. It has chosen to -- to do so, for I -- I -- I presume risk management issues, or for board governance issues.

MS. KATHY KALINOWSKY: I'd like to ask some questions on the purpose of having opinions prepared on unpaid claims liabilities.

Your opinion is included in the annual report, at page 47, and I think it would be helpful for the Board members to turn to the annual report at --

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: It is contained at AI-7.

THE CHAIRPERSON: We all have it.

MS. KATHY KALINOWSKY: Thank you. It's on page 47, and it's the bottom right hand corner. It's short and sweet. "The Actuary's Report" is the title.

Perhaps, Mr. Christie, you could walk the Board members through that and explain what your opining on.

MR. JIM CHRISTIE: Certainly. This is a standard terminology. It's taken directly from the standards and practice of the Canadian Institute of Actuaries.

The -- first of all, the report is addressed to the board of directors of Manitoba Public Insurance Corporation. The addressee can change from one (1) report to another, obviously, but -- then the first paragraph says:

"I have evaluated the policy liabilities [which means the claim liabilities and the unearned premium liabilities] and any associated deferred acquisition expenses, at -- for its balance sheet at February 28th."

So we have to identify the date at which this report is being done. So I'm evaluating those numbers on the balance sheet and the change in those liabilities from year to year as they flow through the income statement. So, inferentially, I'm opining on the income statement as well.

"I have done that in accordance with accepted actuarial practice, including the selection of appropriate assumptions and methods."

The second paragraph states:

"In my opinion [and it's my opinion]
the amounts of policy liabilities make
appropriate provision for all
policyholder obligations and the
financial statements fairly present the
results of the valuation."

The latter part of that sentence allows the company to carry a number slightly different than I might have estimated, typically it's a rounding difference. But in the case of MPI, it's exactly the same, but it does allow for a mod -- non-material difference there.

I then sign it personally, and identify myself as a Fellow of the Canadian Institute of Actuaries. And it's dated Winnipeg.

DR. LEN EVANS: Excuse me, is this a normal type of actuary report, or...?

MR. JIM CHRISTIE: Absolutely. This is the standard wording.

DR. LEN EVANS: Do you have some with a lot of negative statements in them?

MR. JIM CHRISTIE: If there -- if there were any change in these wordings, it would be classed as a qualified opinion. And the only things that can change are in the standards and practice there's a bracket around the name of the company and the date. And I'm allowed to call it -- in this -- Manitoba's case it's a statement of operations. It some cases it's a financial statement, whatever the term that is used in that organization.

But there are -- can be no changes to this without it being a qualified opinion. A qualified opinion would set off some bells and whistles.

DR. LEN EVANS: So this is, more or less, a standard type of actuarial report.

MR. JIM CHRISTIE: This is a standard opinion, yes.

DR. LEN EVANS: Okay, thanks.

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: And, in fact, you've provided unqualified opinions since 2005 and every year since to Manitoba Public Insurance?

MR. JIM CHRISTIE: I have.

MS. KATHY KALINOWSKY: Can you explain to the Board, Mr. Christie, whether the finance -- final selection of the unpaid claims reserve is that of MPI, or is it that of the external appointed actuary?

MR. JIM CHRISTIE: The final selection is the responsibility of the Corporation. I do my analysis, and my opinion says that the financial statements fairly present my analysis. So if there are non-material differences I could still sign an unqualified opinion.

In most companies, the number on the financial statements is identical to that nu -- the number in the appointed actuary's analysis. But in some organizations timing constraints require that some first-order estimates be done and the number may be slightly different.

MS. KATHY KALINOWSKY: Can you also explain to the Board what would be the consequences if MPI did not adopt the final amount that you've indicated in your report?

MR. JIM CHRISTIE: Well, in the case of MPI, we have a standard material -- materiality of $6 million. So if the Corporation were to adopt a number that was either higher or lower than my estimate by more than $6 million I would have to issue a qualified opinion.

Issuing a qualified opinion would, first of all, mean that the opinion in the financial statements are qualified. And I can't speak for the auditors but, typically, if the -- if the Corporation were to provide a qualified actuarial opinion there would be concerns about whether the audit could also -- could -- opinion could be issued without being equally qualified.

Typically, what happens in the case where management and the actuaries have a disagreement, those nu -- that -- that is resolved before we get to the stage of publishing financial statements.

MS. KATHY KALINOWSKY: And how is that resolved?

MR. JIM CHRISTIE: Typically it's resolved by adopting what the actuary says. That is Canadian practice. In my role as the lead of the actuarial practice in Ernst & Young I had to describe Canadian practice to a number of senior VPs in American corporations who were quite indignant that they could not override their actuary. And my response was: If you know something that the actuary doesn't know why don't you tell them, and then they'll probably change their opinion. And if you don't know anything that -- beyond that you'd like it to be different, I'm going to stand behind the actuary.

This is when I'm speaking as a member of Ernst & Young as the audit team, not as Ernst & Young, an actuary.

MS. KATHY KALINOWSKY: Over the past week, maybe two (2) weeks now, Mr. Palmer has testified that MPI is at times forecasting a runoff of PIPP claims that could last forty (40), fifty (50), even sixty (60) years, even though it only has at this point sixteen (16) years experience because PIPP was introduced in 1994.

Can you explain at some length the difficulties that this causes and why it is absolutely crucial and important for your review of the unpaid claims liabilities?

MR. JIM CHRISTIE: The -- the basic premise of establishing claim liabilities is that the future will resemble the past possibly with modifications for what is known to be different now than what had happened in the past. For instance, there might be an adjustment for inflation. There might be a change in reserving practices, something we'll talk about at length later on.

But in broad terms, the assumption is that what has happened in the past is likely to be replicated. Now, claim development is a stochastic -- a probable -- probabilistic process. It's not guaranteed that a particular event will happen each and every time. All we do -- have with past observations is, in effect, sent -- observations of what might have happened.

They are equivalent to, if you will, rolling a dice. You can -- if you don't know how many faces there are on a dice, you just count them, eventually you can figure it out, but there's no guarantee of what a particular roll will produce. You -- you can describe what the process might be, but not what the fi -- actual result will be.

In the case of PIPP, the product provides for medical and rehabilitation expenses and for weekly wage replacement from the time the individual is injured until they die. In the case of a driver in their 20s, that could be fifty (50) years. In the case of a passenger who happens to be an infant, it could easily be seventy (70) or eighty (80) years. Now, not everyone who is injured is an infant, but there will certainly be claims that will go on for -- for the lifetime of individuals.

And as -- the basic process that actuaries try to use is that the future is going to resemble the past. Well, the fact is we don't have a history of -- of all the people who are injured in a particular year having finally died and know -- and knowing what might have happened.

At this point, we have sixteen (16) years of experience on the 1994 year. Now that will cover most claims, but there will be a -- still, a significant number of individuals who are act -- alive and are going to be getting benefits for the rest of their life, which might be a -- what's called an "impaired life." If you're injured in -- some injuries can decrease your life expectancy, others don't.

If you lose your leg, it probably doesn't have a significant impact on your life expectancy. If you are in a wheelchair, your ability of -- of your internal organs to operate properly is im -- impaired and you're likely to have some impaired life -- life expectancy. We don't know for sure what that's going to do for the claimants that MPI actually has from the 1994 year, and we know even less about the claimants they have from the 2010 year.

One (1) of the approaches that actuarial science uses is to look at surrogates. Is there another base that's similar to what PIPP is that we might use that's been around longer?

Well, the fact of the matter is that in Canada there are only really three (3) jurisdictions that have something like PIPP. We have the in -- in Manitoba from 1994, we have it in Saskatchewan from roughly 1995, and we have it in Ontario from about 1992. So they're all roughly the same vintage, so we really don't have another Canadian source to go to for automobile accidents.

And we certainly don't -- and the next

thing would be to look south of the border, but in fact, the Americans are much more litigious. They don't really believe in a no-fault based system, so there really isn't a no-fault based accident system in the -- or automobile accident system that we can look at down there.

The other alternative is workers' compensation. Workers' compensation is, broadly speaking, been around since 1910, 1920, and it varies by province, but broadly speaking. So it -- certainly you could say you would have closed claim file -- claim years in a workers' comp environment.

The problem there is the injuries that are entailed in workers' comp are not necessarily similar -- or, identical to -- they're similar, but not identical to, the kinds of trauma you would get in an automobile accident.

First of all, it's workers' comp, so everyone who's -- virtually everyone who's injured is already, in some sense, physically able to work. When you're involved in automobile accidents you have a number of people in -- typically the passengers in the car who -- who couldn't work, and you've also got younger children who certainly aren't working, so it's not a -- it's not a perfect match either. And PIPP is not identical to workers -- so, well, we did look at that -- at that as a possibility.

The other option that you might have is disability insurance. Many life insurance companies in this country sell a product that will pay you if you are disabled or ill. The problem with that product is that, first of all, before you get the policy you're underwritten, so you -- they only pick people who have a propensity to go back to work. Whereas, if you have an automobile accident you can be anybody. So you've already got what's called a select group of policy holders in disability insurance.

And the second problem with disability insurance is that it covers both accidental illness -- or, accidental trauma events plus normal illness: cancer, flu -- influenza, whatever. So there are all kinds of differences there. But there are a number of -- of relatively good studies on disability insurance that would -- you can use to create models.

So we looked at all of those. But really, we still don't have anything beyond sixteen (16) years, so the best that you can say is you've got sixteen (16) years of experience. Do any of the models that are out there, match for the first sixteen (16) years?

To the extent they do, there's -- you can have some confidence that they are -- they're -- they may be right. They're certainly maybe right for the first sixteen (16) years, but there's absolutely no guarantee that they're right for the 30th year or the 40th year.

That's the problem which they have.

MS. KATHY KALINOWSKY: Thank you for that explanation, Mr. Christie. The next question I have is a comment on the concept of a skewed distribution, and how this impacts upon your opinion for MPI. I also note that you have prepared an exhibit here, that we'd like to hand out. And it's a handwritten exhibit with some charts on one (1) side and numbers on the other -- other side. I believe it should be MPI Exhibit number 20. So we'll just hand these out right now if you'll just wait a moment and then I'll ask the question once again.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: It's just going to be confirmed in one (1) moment. Yes, confirmed. That is number 20.

--- EXHIBIT NO. MPI-20: Handwritten exhibit with charts on one (1) side and numbers on the other

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: Mr. Christie, can you comment on the concept of skewed distribution, and how this impacts upon your opinion for MPI?

MR. JIM CHRISTIE: Yes, I can. An exhibit has been handed out that I drew quickly yesterday for Kathy, in preparation for today. I'm -- I apologize for it not being a very sophisticated diagram. And I don't purport that this is exactly what happens at MPI, it's just to describe the concept of skewedness.

Most people think about a distribution as being -- that it's equally likely to have results on -- higher or lower. If you think about rolling a dice, the -- each number is equally likely. Spinning a roulette wheel, whatever, each number is equally likely. Those are -- are -- are, in some sense, normal distributions. The numbers close in around the middle.

Now every -- it's a law of statistics, or a -- the more -- the larger the sample you take, the more -- the closer to a -- a normal distribution you get. But you'll never get exactly there, you'll just get a -- the normal approximation of the results.

Now the problem in -- in insurance is that the underlying distributions, claim size, are skewed. That is, it's imp -- virt -- it's impossible to have a claim below zero. I mean, I guess it's not impossible but it would be a very -- it would be -- probably be a -- an error in the data system rather than a -- a real claim. You -- you wouldn't have a claimant paying you dollars if you are the insurance company.

On the other hand, while many -- most of the claims are small, there are a few large ones. And they are what we often refer to as outliers. They're very large. So you look at the injuries that people have received in automobile accidents. Most people are back to work or back to whatever they were doing, within a few weeks or certainly within a few months.

But some people are injured for the remainder of their -- the injury will last to the remainder of their life and they're going to have a significantly larger claim.

So that's a skewed distribution. There are -- there are few big claims and very few -- and there are no negative claims. And that was what I was tyring to show with this example of a -- a normal distribution and a skewed distribution, with a few claims out in the -- the -- the right hand side -- the -- the -- typically the large dollar amounts.

And then, what I tried to do is describe that in -- in numeric terms. So, I just chose an example of the numbers from one (1) to a hundred.

If you think of the numbers from one (1) to a hundred, each one (1) being equally likely, the mean, the average of those, is fifty (50). And the median, that is half of the claims will be less than fifty (50) and half of the claims will be more than fifty (50).

So, that's a very nice distribution with a mean and the median. The mean being the average and the median being the -- the point where half of the claims are above and below it is fifty (50) as well.

Now, if I choose a insurance distribution -- and this particular example I simply replaced the number one hundred (100) by ten (10) times that number, a thousand, and assume all the other numbers are the same, the numbers one (1) to ninety-nine (99) plus the number one thousand (1,000) rather than one hundred (100).

Well, the mean of that distribution is sixty (60), but the median, that is, half the observations, are at fifty (50). So if you -- if you're an actuary and you say the average is sixty (60), and then you start testing it, you're more likely not going to find that half the numbers are -- are below fifty (50). You may not get a hundred observations, you may only get twenty (20). Your -- you may not see the hundredth observation.

And, in fact, even though the correct average is sixty (60), the empirical evidence is going to suggest that the -- the median, which many people take to be the mean or average, is fifty (50).

And so people are going to suggest to you that you have put some conservatism into your results when in fact all you're doing is reflecting the true value of the distribution.

Now, the problem we have in a system like MPI's is that we don't have the whole distribution yet, we only have sixteen (16) years worth of data. We may not have seen in this example the one hundred (100) year -- the one hundred (100) -- or one thousand do -- dollar ($1,000) event. We may only have seen the numbers typically in the -- in the middle range, the forties to sixties.

So when I am trying to establish claim liabilities for an organization like this with unproven future experience I try to be slightly conservative, recognizing based on the observations I've got I'm slightly conservative because there is probably a large observation that hasn't yet been seen.

And that's why you try -- when I establish these liabilities I try to pick various factors that are slightly above the observed values for that particular reason, largely because we haven't got all the experience yet for MPI, and -- and we won't have it in my lifetime.

MS. KATHY KALINOWSKY: Thank you for that explanation, Mr. Christie. I also want you to comment on the concept of robustness, and particularly with regard to your opinion for MPI.

MR. JIM CHRISTIE: Okay. We -- another aspect governing the judgment that actuaries use, and there is some judgment, this is not a mathematical process, is that the selections you make should be robust. That is that the addition of one (1) more observation shouldn't change your estimate dramatically.

You should try to pick numbers or selections that are -- or -- or design models that are as best as possible robust. That's difficult to do when you only have six (6), ten (10), fifteen (15) observations. In a typical -- not a actuarial analysis, but in a typical field test or something, like a vaccine, we would tens of thousands of observations, and -- and adding one (1) more observation isn't going to change the average very much.

In the case of an actuarial analysis we, at best, would have perhaps twenty-five (25) data points, and we certainly don't have that for MPI. And so adding one (1) point has the ability to change the average significantly.

So you -- you try to pick numbers that don't -- that are -- that won't be changed too much from one (1) year to the next. And -- and that broad concept of robustness is -- is underlying my selections throughout the years.

Now, at some point, you have to start to recognize reality or what you've seen, not re -- reality, but empirical evidence, and so that is part of the reason we're here today to talk about the $250 million.

MS. KATHY KALINOWSKY: And that's a good segue into the next session, which is can you explain what occurred in the actuarial review as at October 31st, 2005.

MR. JIM CHRISTIE: Yes. Yes, I can. In broad terms, a new process for establishing case reserves, that is the value assigned to an individual claim file, was set up in 2005.

Prior to that time, claim reserves were largely established by the individual claim examiner based on his or her personal experience and feelings about the case. So they would look at an individual claim and say, This person is likely to recover, not likely to recover, likely to recover in five (5) years, likely to recover in two (2) months, and put some estimate on there.

Once claims ha -- prior to 2005, once claims had reached ten (10) years of duration, they were established using a tabular reserve, a formula approach that looked at the attributes of a particular claimant, their age, their gender, the severity of their accident, how long ago had it been since the accident happened.

In 2005, that broad tabular approach was mechanized and then applied to all claims. Initially the plan had been all claims over ten (10) years within the computer system, but in practical application it became applied to all claims over three (3) -- three (3) years since they had happened.

So there was a significant change in the way individual case estimates were established, that is the -- the raw data coming in that would come into the actuary's datasets.

And an al -- and when that was implemented we anticipated -- or MPI had anticipated that there would some change. They weren't sure exactly what it was, but it was closely monitored. And the -- the impact of that change was in the order of $250 million, that the case estimates went down by $250 million by applying this new case reserving process.

Now, the bane on actuaries' existence changes in the case -- in the way case estimates are established. Yeah. I often tell my clients: I don't care how you reserve as long as you do it the same year in and year out. My models will correct for your -- any error that you've been consistently making. But if you're changing in the way you reserve the models are -- are strained. They're hard -- it's difficult to use the models because you have to account for this change in the -- the raw data coming into your system.

So we ha -- knew that coming -- the raw data had produced roughly a $250 million drop. In simple terms, when companies change their case reserving estimates, if the total estimate drops by some number, then the IBNR goes up by the -- exactly the same number so that you end up with the same final estimate.

So the -- the total -- the number on the balance sheet is the sum of the case estimates in the IBNR. Well, if the ultimate number, the case plus IBNR, is correct and you've dropped the case down, then the IBNR has to go up to produce the same number.

So there I am in 2005, not me individually, but I'm at the end of the day signing this thing, with a new reserving system that, on the face of it, produces $250 million less of claim liabilities.

All of the other techniques that I've been using in prior years, in which I used in 2005, suggested that wasn't the case. So my presumption at that point in time was that this was -- there was something inherent in the new claims reserving model that didn't reflect reality and that I needed to put the two hundred (200) -- two and ha -- $250 million back in as IBNR incurred but not reported claims.

That's -- and the way we achieved that in 2005 was by selecting particularly conservative factors that essentially produced an estimate $250 million higher than the tabular reserving method but produced numbers that were reasonably close to those that had been produced the year before and the year before that.

Now, we -- we did have this new method, and we had checked it. We knew that it was calculating correctly for each. We would take the individual attributes for a claim, do the calculation on it and calculate or whatever, and we would get the right -- the same answer the computers were repu -- computing. We -- we had done that.

We had checked that the numbers coming in were appropriately reflecting all of the attributes on the claims file. That was a bit of an issue, because some of the attributes that were needed had to be gathered, because they hadn't been captured early on, like an assessment of whether this was a moderate, medium, or severe injury. Were in the claim file, but weren't recorded in the -- the data points in the system. They were in the paper file, so I had to go and get that stuff.

So, that's -- that was the process that was done in 2005. And -- and in -- in actuarial parlance, that was applying zero credibility to the new method and full credibility to the old methods.

And that's a common approach when you -- you have a number of methods that produce different answers. You have to first of all assess, are each of those methods equally reliable, or some less reliable than others? And the ones that you believe are more reliable, you put more weight on.

So I had a -- a new method, that was theoretically appropriate, but -- and I looked at how the -- the data then -- the model had been derived. It had been derived from disability insurance claims wh -- where the illness claims have been factored out, but it was disability insurance claims in the US.

So first of all it was in the US, second of all it was a -- what was called a preferred group. It was people who had been underwritten as opposed to a --

this populace at large. And we -- and it basically dealt with people who had bought insurance so that typically meant they were in their twenties or thir -- more likely in their thirties and forties and upward.

So it wasn't exactly the dataset of people we had. We had people from -- well in fact, it's a fact of life that the people who most get involved in automobile injuries are in their sixteens to twenties. Those people weren't covered in -- in our data -- in the underlying dataset.

So I was not inclined to put much weight on that analysis, and I didn't in 2005. But we did flag it. It looked like a good approach and we watched it over the years.

Again, in 2006, the analysis was run. The tabular reserving approach predicted pretty accurately what would happen in 2006 for each of the years. But I still wasn't prepared after two (2) years to give any weight to it.

We did it in 2008, the same thing happened. It was producing pretty good results. So we started -- I started allowing some credibility to that method.

And I increased that in 2009. And in 2010, with five (5) years, where it had predicted accurately what would happen from the third to the fourth year and from the fourth to the fifth, and from the twelfth to the thirteenth year and throughout, I felt we should put a lot more credence on that.

And therefore, we adopted methods that effectively gave full -- almost full credibility to the tabular reserving approach with -- with effect in 2010. And the result of that was that about $250 million claimed out of the claim liabilities in that year.

Now, why did we do that? Because we -- I now felt that that was the best estimate. It had tracked pretty closely what was happening, and our standards of practice -- or actuarial standards, say that, once you've decided that a particular estimate is the right one (1), you take it into account right then. You don -- you don't get to phase it in over a period of years.

What you are allowed to do is use a credibility weighting, which I had done for five (5) years. But now I was of a mind that the new method -- well it was no longer new -- but the five (5) year old method was accurately predicting and was a better estimator than others. And therefore, we should go with it.

So all of this happened in one (1) year because of the way the standards are applied, is that you

-- once you've changed your mind, you have to go with that new estimate.

MS. KATHY KALINOWSKY: Thank you for that very comprehensive response, Mr. Christie. I'm just going to break down some further questions, and probably short responses on the next number of questions here.

But, in 2005, then, you held an expect -- a reasonable expectation that the reserves calculated, using the new reserve calculator would still see incurred claims development in the future.

Why would you think that?

MR. JIM CHRISTIE: I had until then -- or until now I guess you would say, I had never seen a disability income scheme that didn't have adverse development in subsequent years. I live and work in Ontario. The Ontario system had been plagued with adverse development, good results in the first couple years and adverse development year in, year out.

After that, then they changed in the legislation, good results for a couple years then terrible results again. And it seemed to be that it was the -- not so much the claimant population but the service industry supporting the claimant population that found new ways to provide services that insurance companies would have to pay for that hadn't been contemplated in the earlier data because it wasn't there.

And, frankly, I -- it's to MPI's credit that they -- that that didn't happen in this province. But I was certainly not willing to, on the basis of my experience, assume that there wouldn't be adverse development going forward.

MS. KATHY KALINOWSKY: Then I want to break down another question, which is can you describe then how you actually came to revise your assumptions in the actuary review to reflect the development patterns that had indeed changed materially?

MR. JIM CHRISTIE: In simple terms, we started using development fa -- patterns that were based only on the last five (5) years of data, essentially since the -- the new reserving process had been put in in 2005. So I have five (5) years of observations and, therefore, four (4) data points for each row of the triangles that have been described in -- in earlier actuarial testimony.

MS. KATHY KALINOWSKY: Thanks. And one (1) thing I want you to explain to the Board is you stated that in 2005 you lacked credible data. But why five (5) years later would you then have enough credible data to adopt the new model when dealing with these very long-term injury claims?

MR. JIM CHRISTIE: Well, I still not da -- there's still no data beyond sixteen (16) years. But we do have a model now that appears to track development between the third and the fourth year, the fourth and the fifth, the fifth and the sixth, the sixth and the seventh, and so on, out to -- to the fourteenth or fifteenth year, and track it very closely, surprisingly closely, actually.

I have still picked factors that are slightly conservative because I'm not convinced that there isn't something lurking out there that there won't at some point be a bad year, in some sense, or a claim that goes sour, if I can use that expression.

The particular thing that worries me in the MPI situation is that one (1) of the obligations of MPI for -- to injured claimants is to pay for their assistance, provide attendant care and that sort of thing. In many cases, that attendant care is being provided by the families of the injured claimant, often by the parents.

Well, at some point, the parents are going to be too old to provide that care and it's going to have to be contracted out. And when you contract it out you typically are paying more than you're paying the parents for that. That's -- I don't think is in the dataset yet.

It's there to some extent because certainly there are some people who are injured and immediately collect attendant care from outside providers, but there are a number of claimants where that isn't the case and will eventually become the case.

And our model doesn't reflect that because our model is -- is, broadly speaking, based on what is your current expenditure and what is your assumption around inflation.

So I've deliberately selected slightly conservative factors out through the -- the data -- the observed data we have. And then I have continued to add a tail beyond that based on a 2005 study we did that suggested there was still some upward development.

DR. LEN EVANS: Excuse me. I guess one (1) of the factors - fluidity would be changing of government regulations. And I'm just thinking -- I understand in England, maybe it's changed, but the government would pay relatives to look after their loved ones who were injured or ill, or aged. Whereas that is not the case, I know, in Manitoba.

If you're a relative, a sister or brother of someone who needs care, you don't get paid. You're not compensated by the government. I may be wrong, but I understood in England there was this difference. The --

the -- the government would pay for that assistance.

So I'm just saying, if there's a change in government reg -- I'm just using this as an example. If there's a change in government regulations, that would be one (1) factor affecting the fluidity of the situation.

MS. KATHY KALINOWSKY: Sure, I can just give you the legal response, rather than putting Mr. Christie on the spot to explain the intricacies of the MPIC Act, particularly its benefits.

Yes, individuals that are loved ones, spouses, parents, children, that do provide personal care assistance to an individual that requires it are compensated, are indeed paid. Additionally, if the in -- victim of the motor vehicle accident requires professional compensation, the compensation is also paid for that personal care assistance at the professional rate.

DR. LEN EVANS: Excuse me. I guess I'm thinking beyond that. I'm thinking of people who are not involved in MPI claims. You know, people who are ill or whatever, who need assistance at home, nothing to do with automobile accidents, so maybe that's not a fair example to use.

But I was just trying to think of something that would affect the fluidity, if I can use that term, the -- the situation of your calculations and -- and one (1) of them I thought would be change in government regulations.

MR. JIM CHRISTIE: Well, we try not to -- sorry -- we try not to re -- reflect changes in legislation that haven't happened, or haven't been at least announced. Because that -- although, inherent in any dataset is some sort of regulatory -- I'll call it regulatory creep. It is the expansion of coverage, that broadly speaking, over the years coverage expands.

It's a rare situation where the courts rule that coverage that individuals were -- or a benefit that people were collecting is no longer available. Typically, court rulings are that something that you weren't paying for, you now have to pay for.

So there's some broad creep going on. That kind of creep is typically reflected in the empirical data, and so it's implicitly reflected in our analysis, because we don't flag a particular claim as being an increase because a particular judge ruled a particular benefit had to be paid. It's just there now and it's applied to all the policy hold -- or claimants that are -- are covered by that particular benefit.

THE CHAIRPERSON: I'm just thinking, we will want to take a break at some point, but before we do, I just want to get some clarification from Mr. Christie.

You were saying you had to think about the future when these claimants would not have their parents looking after them. And that could shock the system as they move into a personal care home where the -- the costs are higher than if they're at home.

But then I heard Ms. Kalinowsky say that these parents or relatives or whoever they may be, are receiving compensation under our existing system. So I'm wondering -- I -- I'm getting a -- sort of two (2) different messages here. So I just want to make sure I heard it right.

MR. JIM CHRISTIE: You did hear it right. There are two (2) things going on. Some of these in -- families, refuse to collect -- accept benefits. They say this is my responsibility as a family member. Well, when it turns to professional, you're not going to get that response. The second one (1) is that, when you go to professional care, it typically costs more than it does in the family home.

So I am aware -- well aware of the fact that MPI does pay benefits. And a number of people are entitled to those benefits who choose not to accept them, but...

THE CHAIRPERSON: Okay. That helps me a lot to know that there's an overhead expense, obviously, that's not being paid. It's just labour, and also some are rejecting or not accessing it.

And on that note, I'm thinking can we interrupt your line of questioning and just take a little break? Would this be an appropriate time?

MS. KATHY KALINOWSKY: Certainly.

THE CHAIRPERSON: Okay. We'll stand down, probably fifteen (15) minutes, which would take us till five (5) after 11:00.

--- Upon recessing at 10:49 a.m.

--- Upon resuming at 11:05 a.m.

THE CHAIRPERSON: I think we're all in place now.

MS. KATHY KALINOWSKY: Thank you very much. I'd like to proceed with my direct examination of Mr. Christie now.

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: As required by auditing standards, the auditor's actuary has reviewed your opinion as at October 31st, 2010. And are you aware that KPMG had no concerns with your review?

MR. JIM CHRISTIE: Yes, I am. I don't receive formal notification of no concerns. What I would typically get is concerns, or notification if there was a concern, but -- so the absence of a notification is indication that they had no concerns.

MS. KATHY KALINOWSKY: And you're also aware, of course, that KPMG signed an unqualified opinion on the financial statements, which, in effect, adopted the results from your review of unpaid claims liabilities?

MR. JIM CHRISTIE: Absolutely. Before I sign my opinion, I make sure the auditors are prepared to sign a -- an unqualified financial statement opinion.

MS. KATHY KALINOWSKY: So at the end of the day then, for the 2005 and 2010 reviews on unpaid claims liabilities, the opinions that you prepared were agreed to be reasonable by the MPI internal actuaries, yourself of course from Ernst and Young, a peer-reviewing actuary from Ernst and Young, and also the auditor's actuary from KPMG?

MR. JIM CHRISTIE: That is correct.

MS. KATHY KALINOWSKY: In trying to assess the magnitude of this $250 million release, are you aware of other insurers who have experienced similar-size releases?

MR. JIM CHRISTIE: Yes. One (1) of recent vintage in 2010, the State Farm Insurance Company announced that they had a $1 billion operating loss in the 2010 year, which appears to have been entirely due to a charge to their financial statement -- an increase in their liabilities, by $1 billion.

MR. REGIS GOSSELIN: Sorry, who is that? Which company was that?

MR. JIM CHRISTIE: State Farm Auto Insur -- Mut -- State Farm Mutual Auto Insurance Company.

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: And where does State Farm operate? Perhaps you could put that on the record.

MR. JIM CHRISTIE: They -- it operates -- this is the Canadian operations. It operates in three (3) provinces. To the best of my knowledge: Alberta, Ontario. and New Brunswick.

And to put it in context of magnitude, it is roughly four (4) times the size of MPI, so the numbers are comparable except the sign is reversed.

MS. KATHY KALINOWSKY: I'd like you and the Board members to turn to one (1) Information Request.

And that is PUB-1-26.

MR. JIM CHRISTIE: I have it.

MS. KATHY KALINOWSKY: And perhaps when the Board members do take -- do obtain that they just review it themselves quickly. Won't read it into the record or anything like that, but if you could just look at PUB 1-26.

MR. REGIS GOSSELIN: You said 1-26?

MS. KATHY KALINOWSKY: Yes, PUB-1-26, correct.

(BRIEF PAUSE)

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: Thank you, Mr. Chris -- Mr. Christie. I'll ask you a question now on PUB-1-26. That's an Information Request posed by the Board, and it was actually posed to MPI but requested that you respond. And you have provide -- provided an attached response to that.

But it asked you if whether the staged recognition of the 2005 reserving methodology over several fiscal years in any way impaired or diminished the fairness of the presentation of the results of the valuation in the financial statements over that period.

Do you just want to summarize your response?

MR. JIM CHRISTIE: Well, the short answer is, no. And as I tried to elaborate in my earlier testimony, each year we use -- I selected what I thought was the best estimate, apply li -- no credibility initially, and then a small amount of credibility and then a large amount of credibility over that five (5) period in line with accepted actuarial practice in this country.

MS. KATHY KALINOWSKY: Have you ever been asked such a question previously?

MR. JIM CHRISTIE: No.

MS. KATHY KALINOWSKY: I'm going to move to another ar -- a little bit of a different area now and talk about some of the future directions, so where we're going forward from here.

You've reviewed the Ernst & Young audit memo in which their -- from their actuary, which states, and I can just quote it, but it says:

> "For -- for some lines of business reviewed we consider that Mr. Christie's estimates are slightly conservative while remaining within the range of reasonableness."

Do you know what Mr. Lam, who is the actuary at Ernst & Young, is referring to here, as you being slightly conservative?

MR. JIM CHRISTIE: First of all, a point of clarification. Mr. Lam in that memoir from KPMG, the auditors of MPI, and not from Ernst & Young, who is my employer. But assuming you meant to ask --

MS. KATHY KALINOWSKY: Yes.

MR. JIM CHRISTIE: -- KPMG, I am -- I have read the memo. I've read Mr. Lam's comment. It is similar to what I would write if I were in his position, and I have -- am reviewing the work of other actuaries. It would be extremely odd that two (2) actuaries would come up with exactly the same estimate.

So when writing the letter to the audit partner responsible for the audit, language is used to indicate either that the auditor's actuary has come up with a lower number, in which case they would say "slightly conservative" or "significantly conservative." Or if the actuaries -- auditor's actuaries come up with a number above the company's estimate they would indicate "slightly aggressive" or "significantly aggressive."

I was not surprised that he said slightly conservative. That was what I would have expected him to say. And -- and more to the point was not that comment, but the next one (1). It says the results are reasonable.

And it is when you write a letter to the audit partner that says the results are not reasonable that all sorts of things happen. But a le -- this is essentially, in my opinion, a normal letter that says the results are -- results are slightly conservative and the end result is reasonable.

MS. KATHY KALINOWSKY: Thank you for that. And moving along in the -- talking about the future direction, are you aware of any other possible large scale actuarial adjustments, releases in the future at MPI?

MR. JIM CHRISTIE: I'm not aware of any. I don't anticipate any large-scale ones. I would anticipate that there would be slight releases every year. Simply as I described in the numerical example, most of the time, the results will be slightly better than average. It's only very occasionally you get a bad result, in which case, it'll be awful. But in most cases, they would be -- have -- have some slight release each year, but I -- not -- not -- nothing of the order of magnitude we saw this year.

MS. KATHY KALINOWSKY: So although you are re -- retired now, you're no longer the appointed actuary of MPI, what comfort or assurances can you provide the Public Utilities Board that there will not be a more significant favourable basic runoff of prior years claims?

MR. JIM CHRISTIE: Well, I can't provide any absolute assurance. I -- I believe the estimates that were established in fe -- in October, 2010, and February, 2011, are the best estimates that are -- that are available with the data that's currently there.

I don't anticipate them to be -- the final results to be significantly differently from those, but there is no -- can be no guarantee. This is, after all, an estimate of a future obligation.

MS. KATHY KALINOWSKY: And asking another sim -- similar question with the pendulum swinging the other way. What comfort can you provide the PUB that there will not be a significant adverse runoff of Basic prior years claims reversing this pattern of recent years and potentially diminishing the RSR?

MR. JIM CHRISTIE: Again, no absolute assurance. But by nature of the selections being on -- on the slightly conservative side my expectation -- and that's my expectation, not a guarantee, is that there would not be significant adverse development.

This Corporation -- I -- I've been around it for fifteen (15) years one way or another, it has had adverse development I would say about seventeen (17) years ago. So we are aware of that -- that potential, but I -- I'm -- do not expect it to happen.

MS. KATHY KALINOWSKY: And going back to that KP -- KPMG Actuarial Review by Mr. Lam concludes that you are slightly conservative.

Is that a more desirable conclusion than perhaps being slightly aggressive?

MR. JIM CHRISTIE: Personally, I think so. That is, sort of -- beauty is in the eye of the beholder, whether you want to be aggressive or conservative. I think an organization like MPI values conservatism, I certainly personally do.

I just -- if -- I put myself in the position of the board of the directors at MPI. Would they rather be giving a 2 -- $250 million rebate, or asking this Board for a rate increase to -- to cover $250 million. You know, it's the -- as one (1) of their counterparts in another province is going to be -- have to be doing.

MS. KATHY KALINOWSKY: So perhaps you could explain to this Board what are the consequences of being slightly conservative in the report on unpaid claims liabilities?

MR. JIM CHRISTIE: The result is that the balance sheet liabilities are -- are -- in most cases likely to be overstated when the final results are known. That overstatement will flow through the income statement and appear as a favourable or a reduction in claims incurred in the year that the release happens.

The actual -- to the extent that there is historic favourable development, it is probably reflected in the -- already in the estimates that MPI does for producing their rate filing. I can't speak to that because I'm not part of the rate filing, but I would anticipate the actual results are incorporated in their analysis that leads to the rate filing.

MS. KATHY KALINOWSKY: Okay. And then the other question similar along that line is: What would be the consequences of being slightly aggressive in the report on unpaid claims liabilities?

MR. JIM CHRISTIE: Well, the likelihood is that there would be unfavourable development each year and that would have to be, in effect, charged to next year's policyholders.

MS. KATHY KALINOWSKY: As an actuary that has had a very extensive consulting practice at a national level, are you aware of any actuarial reviews that have an aggressive estimation of reserves? And what has been the result in some of those instances?

MR. JIM CHRISTIE: Yes, I am aware of such. Largely in my capacity as a -- an actuarial support specialist for Ernst & Young when we are doing the audit of other companies, I have identified on a few occasions a report where I have written a letter, much like Mr. Lam, and written where I have said, the reserves are slightly aggressive.

MR. REGIS GOSSELIN: Could I probe a little bit more, please?

In terms of being slightly conservative you indicated that it would impact on the reserve levels.

MR. JIM CHRISTIE: Yes.

MR. REGIS GOSSELIN: In other words, would increase the required reserves to protect against adverse experiences.

Is the -- is the fact that you're doing that, is that cumulative? In other words, is it, sort of, being repeated year after year to the point where it accumulates on the -- on the balance sheet?

MR. JIM CHRISTIE: No, it's not cumulative. It's essentially replicating, so it's there on the opening balance and its there in the closing balance. And in general it doesn't have a significant impact on the current operating results because there is a release from prior years, but then a margin or conservatism put up on the current year that, by and large, off -- one (1) offsets the other.

That's not entirely true in the case of MPI. There would be some growth simply because the MPI -- the PIPP system is not what I'll call in steady-state. It hasn't yet reached the position where the number of claims closing is exactly offset by the number of claims opening. I would expect it's close to that now, but it's probably still not there.

MR. REGIS GOSSELIN: I -- I -- my inclination is to think that if you're running a for-profit corporation involving insurance you would probably more likely be on the slightly aggressive side than would be the case for a entity like MPI, and I -- let me -- let me take that one (1) step further, and probably linked to the levels of profit, you know, because it's -- I would think that by being a bit aggressive you're actually increasing revenues -- not revenue, profits, but -- and also thereby increasing dividends and increasing executive pay?

MR. JIM CHRISTIE: I agree with you in the sense that the -- it's only a few observations. But the -- the companies that I have seen with aggressive operations were typically bottom-line-driven organizations concerned about quarterly or annual results.

MPI I would -- is one (1) of the few publicly-owned insurance companies that I deal with, but there are a number of mutual companies who are -- are in fact owned by the policyholders and have no par -- no shareholders, only policyholders. And they tend to be er -- those kinds of organizations tend to view conservatism as a positive attribute.

MR. REGIS GOSSELIN: Now, in respect of the change in methodology, you indicated that you review a number of methodologies on an ongoing basis to determine the appropriateness of -- of the metho -- methodologies. In other words, I'm looking forward now and saying, Okay, we reviewed the methodologies, 2005, we changed it.

That change in methodology could occur in the future?

MR. JIM CHRISTIE: Yes. There's a slight nuance here. What was changed was the process for establishing case reserves, the value that was attached by an individual claim adjuster to an individual claim. That was changed in 2005 to be a tabular look-up from a -- from a best-judgment process.

The methodologies that we use are what

I'll call the traditional actuarial methods of incurred development, paid development, Bornhuetter-Ferguson paid development, and Bornhuetter-Ferguson incurred development. Those four (4) techniques are being used.

What we are doing and what we did in 2005 is shift the weight that was being used in those four (4) approaches to relying only on the last five (5) diagonals or the year since the case reserving method had changed. I'm not sure if I've made myself sufficiently clear here, but there is always the possibility that any organization will change its case reserving process.

What you try to do with -- with actuarial methodologies is reflect that change. Now, in the case of MPI, that was relatively easy to estimate what the impact was because they had a before and after. What you can't readily measure is whether some -- some creep going on in -- in the way cha -- individual case estimates are being done simply because individual case adjusters read the newspaper and they see a particular event happening.

And -- and like most people, when you -- whatever you -- you recently read you think is more likely to happen to you than stuff you've read before or that you haven't read about. So those kinds of things could happen.

At this point, I wouldn't expect to see a significant change in the case tabular reserving that MPI is using simply because it seems to be working.

MR. REGIS GOSSELIN: The creep, I guess, is the -- I mean, on the one (1) -- on the one (1) hand, we're saying okay, let's be conservative here, let's make sure that we have enough reserves to address any potential adverse consequences, so I can understand that.

So, you know, I -- I'm -- I kind of see that as being a -- sort of a typical insurer's position, to be conservative rather than aggressive.

But I guess the -- on the -- on the other hand, you talked about a creep, related to a number of -- of factors, such as court decisions, regulatory change. And I guess what I'm wondering is is the -- the fact that you're dealing with a creep -- you know, a creep in coverage, how material -- I mean, how material is that generally speaking, in terms of your perspective?

In other words, what I'm saying is that, you compensate for -- you compensate for creep and you add a measure of in -- in -- of comfort I guess, in the -- in the reserve system, to -- to cover you off.

I mean are we talking one (1) and the same here?

MR. JIM CHRISTIE: No. Most of the -- the creep, if we can call it that, is inherently included in the datasets we get. Because we -- we get data from a number of accident years, and if there's been creep, it's been happening if you will, along a diagonal, because the diagonal is the current year of e -- of events.

So, if for instance -- a good example is the -- a new safety feature has been added to vehicles -- an airbag. That may very well be reducing injury claims, but it's probably significantly increasing collision claims because the airbags deploy and then have to be replaced.

So, over time, more and more of the auto fleet that's being insured is going to have airbags and so we're going to see the costs of collision claims creeping upward. You still have to repair the fender and you still have to repair everything else, but now you've got to put -- now in some cars there's sixteen (16) airbags. Not all of them are going to deploy in an accident but more are. So you're going to see that creeping into the costs.

On the other hand, you're going to see probably less claims happening on the injury side, simply because the airbags did deploy. So we'll see that gradually happening in the -- we won't know exactly why. We can rationalize why it's happening, but we won't know exactly what the -- is, because we're dealing with aggregate data. I mean, you can drill down and try to find how many airbag claims there were this year compared to last year, if you've got some idea what it is.

But in broad terms, you -- you've -- typically wouldn't be doing that kind of detailed analysis, unless you were in a rate making environment, where you were trying to say, Okay, I'm going to give a credit for cars with air bags on the injury side, but I'm going to put a surcharge on for the physical damage, because it costs more to repair them.

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: Just only have a few more questions to proceed with and then I can close your direct examination, Mr. Christie, but I want to ask, have you reviewed the three (3) pre-asked questions that were filed by the Consumers Association of Canada, and the cross-examination of Mr. Palmer on those three (3) asked questions?

MR. JIM CHRISTIE: I have reviewed both the questions and the examination.

MS. KATHY KALINOWSKY: The line of questioning seems to suggest whether there should be a mechanical or an arithmetic calculation to determine unpaid claims liabilities. Would you like to comment on this line of questioning?

MR. JIM CHRISTIE: Well, I have a bias that I think you should be using a professional actuary. But anyone who is simply turning a crank on a mechanical process runs a significant risk of missing something that's inherent in the data. This is typically not, simply throw it into a hopper, follow the recipe, and out comes the answer.

A significant part of what I do as the actuary for the Corporation is review the results of the mechanical calculations and look for aberrations or abnormalities or un -- unusual circumstances and suggest where we might want to spend more time looking.

MS. KATHY KALINOWSKY: Thank you for that. Another aspect of the line of questioning from the Consumers' Association of Canada dealt with collision claims rather than bodily injury.

Would you like to comment on that line of questioning?

MR. JIM CHRISTIE: Well, sure. All lines -- all lines of business are important. But in the grand scheme of the liabilities on the balance sheet, not the liabilities for rate making purposes, but in the balance sheet, the big ticket item are the bodily injury, wage replacement, their medical and rehabilitation claims.

In broad terms there's roughly $1.2 billion of claim liabilities on the balance sheet, and roughly 1 billion of those are arising out of wage replacement, medical rehabilitation or bodily injury. And a very small amount is relating the physical damage claims.

And that's largely a function that physical damage claims close very quickly. That -- typically it doesn't take more than a few weeks to get a car repaired, so there's nothing on the balance sheet, but there is in the income statement because you've paid the dollars out.

MS. KATHY KALINOWSKY: Just to follow up a little bit on Mr. Gosselin's question with respect to MPI. It's a Crown corporation, of course.

Compared to a privately held insurer, is there anything different in the review of claims liabilities?

MR. JIM CHRISTIE: No. The standards of practice -- the Canadian Institute of Actuaries do not differentiate between the ownership of an organization. If there were an entity with the same sorts of liabilities that MPI had that was privately held, in my opinion, the liabilities would be essentially the same. The difference between the two (2) would largely be the judgment of the two (2) actuaries, unless it was the same actuary with exactly the same data.

MS. KATHY KALINOWSKY: So at the end of the day then, you would agree that your opinion is slightly conservative. And you specifically prepared your opinion to include those elements of conservatism.

Can you possibly summarize what are the benefits then of incorporating that conservatism into your report?

MR. JIM CHRISTIE: Well, the first one is -- as I've alluded to earlier, there will occasionally be a bad year. The conservatism in and of itself won't cover that directly, but it does allow for the fact that when the bad year happens you've already incorporated that into your analysis and future projections and you don't need to bump up -- in addition to having a bad year, you don't have to bump up your reserves on the balance sheet and therefore have an additional increase flowing through the income statement.

I'd say the -- this is not a direct consideration in my analysis, but for a corporation like MPI there's a decided public relations advantage to paying out a dividend than asking for a rate increase.

MS. KATHY KALINOWSKY: And finally, Mr. Christie, is your review the best estimate of the unpaid claims liabilities?

MR. JIM CHRISTIE: Well, "best estimate" is a -- a very nebulous term. I would say it is my best estimate of the liabilities of Manitoba Public Insurance as at February 2011.

It doesn't necessarily mean it is the best estimate in a statistical sense, which would be a straight aver -- numeric average with no anals - or analysis. I think it is the best estimate for the purposes of financial reporting for this organization.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: With that, I'm finished my direct examination. And I see Board member Gosselin is interested in asking a further question, Mr. Christie.

MR. REGIS GOSSELIN: You've been involved in IFRS, I guess, at the international level?

MR. JIM CHRISTIE: I have.

MR. REGIS GOSSELIN: And I'm trying to look forward here. What potentially could happen in the near term on IFRS with -- with respect to MPI?

MR. JIM CHRISTIE: I have in fact appeared before the International Actuarial Standards

Board to describe how accounting standards and actuarial standards in Canada interrelate because they were quite interested. And we have a fairly well respected in - interaction between the two (2) professions.

In terms -- in short-term, IFRS has been adopted in Canada, it already applies to MPI as to any other large organization. Unfortunately, IFRS as adopted in Canada doesn't include a standard for insurance. There is a standard there but, effectively, that standard says, Do whatever you were doing before. So for Canada that means the old Canadian GAAP prior to the introduction of IFRS.

When -- the Board was supposed to release a final standard several times delayed in June of this year. It's now not expected until at least June of next year and possibly later. Given the past history of delays, I am on the conservative side of saying it won't happen in June of 2012.

Because they are now talking about a new release of a new draft as opposed to a final version there are possibilities that the -- the -- a strong possibility that the new standard that is released is different from the one we have seen. So my answer is, only around the one I've seen, and -- which is about a year and a half old, and listening to what Board member -

- ISB Board members say at the various hearings they've had since.

And this -- so the short answer for MPI is that not a lot will change because the model for claims liabilities that is being proposed is essentially the Canadian model. It's not quite the Canadian model, but it talks about, first of all, a best estimate of the cashflows, which we do, then the present value of them, which we do, and then to add a margin for -- well, they call it a risk margin, we call it a provision for average deviation, which we do.

The difference will be if the current draft comes to -- is the final version is that the requirement for the risk margin will be more formalized in the accounting literature than -- or in the accounting standard than is the -- the case right now.

Right now, the risk margin in Canada is based entirely on what the actuarial standards say. And those actuarial standards are -- well, I helped write them in the early 1990s. The science has progressed since then, so there's some likelihood that the risk margins may change to some extent. You'll still recognize the financial statements.

MR. REGIS GOSSELIN: I guess the long and short of it, from what I'm -- from what I'm hearing, I think from my interpretation of your comments is that it's not likely to have a material impact on MPI's results?

MR. JIM CHRISTIE: It's -- the caveat in that is if the rules around margins for average deviation change significantly. The likelihood is that they will -- the standards will re -- the accounting standards will require them to be expressed as -- as some sort of confidence level, a likelihood of being adequate, which is not inherent in the current margins for average deviation.

So when the -- when and if that happens actuaries will be forced to build models to compute the likelihood of -- of being sufficient, and then state those. And then the margins may turn out to be somewhat different than the ones that are currently being done, which are largely driven by here's the maximum, here's the minimum.

I would characterize the Canadian practice right now is here's the max, here's the minimum, here are examples of high margins situations, here are mar -- examples of low margin situations. Look at your organization and decide where on that spectrum they lie, and then pick a margin that is reflective of where in the spectrum they lie.

THE CHAIRPERSON: All right. Thank you very much for that. And I think we're turning now to you, Ms. Grammond.

MS. CANDACE GRAMMOND: Yes. Thank you, Madam Chair.

MR. BYRON WILLIAMS: Madam Chair -- and I apologize for interrupting, Ms. Grammond. There's just one (1) reference in the direct that I -- I would appreciate some clarification from MPI on if I -- if I might?

THE CHAIRPERSON: Sure.

MR. BYRON WILLIAMS: I -- there was reference to a -- I believe it was a KPMG document by -- by Mr. Lam, and I'm presuming they're referring to the -- the external audit and a review of the appointed actuary's reports.

And I'm just wondering whether that -- I just want to make sure that that document is currently on the record.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I'm advised that it's at PUB-1-28.

MR. BYRON WILLIAMS: Thank you for that.

THE CHAIRPERSON: Okay. I think we can proceed.

MS. CANDACE GRAMMOND: Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: On that note, coincidentally, regarding PUB/MPI-1-28, I actually am going to ask that we go there and it is at the Board's book of documents at Tab 18. So, Tab 18, book of documents, PUB/MPI-1-28.

And for the record, the document that Mr. Williams just referenced, prepared by Mr. Lam, is found at (d). That's not where I'm going right now, but for the purposes of the record, that's where Mr. Lam's report is found.

So, Tab 18, PUB/MPI-1-28 at (b), Mr. Christie, we had a -- a question and answer with respect to -- in addition to some -- some other individuals, your role and responsibilities. And if we look at the answer, we see at page 2, so I'm at PUB/MPI-1-28, page 2. We see the answer to (b). So I'm -- Tab 18 of the book of documents.

We have there a description of the roles and responsibilities of the internal actuarial department at MPI, of Ernst and Young as external actuary, and then as the -- the external auditors, KPMG. So I'd like you, Mr. Christie, to focus on the second section relating to external actuary.

We see a list of bulleted points that reflect the -- the roles and responsibilities. Can you take a moment to review those and tell me if you accept that description as your role for MPI?

MR. JIM CHRISTIE: That's a reasonable description. The only thing I would add is that I take -- we personally write the twenty (20) or thirty (30) page summary that goes at the front of the report. That's not written by the -- MPI, although there is a clear amount of dialogue between the two (2) organizations. We're not trying to -- particularly trying to get the -- the typing of that sort of stuff done by MPI to reduce costs. I -- I review -- I -- I take responsibility for writing that text.

MS. CANDACE GRAMMOND: Okay. Thank you.

Thank you. Mr. Christie, I think another thing you had mentioned in your direct evidence that's not specifically on this list, but that you do, or did, is meetings with the audit committee of MPI?

MR. JIM CHRISTIE: That is correct. Every year I do meet with the audit committee, typically to provide them with assurance that what I've done is appropriate and -- and answer any questions they may have.

MS. CANDACE GRAMMOND: Thank you. Now, we typically describe you, Mr. Christie, as the Corporation's appointed actuary.

MR. JIM CHRISTIE: Yes.

MS. CANDACE GRAMMOND: And there's a specific definition of that term from the standards of practice of the CIA, which I'll read in and you can tell me if it sounds correct. That -- that the definition of the term is, "The appointed actuary" -- or, sorry -- that:

> "The appointed actuary of an entity is an actuary formally appointed, pursuant to legislation, by the entity, to monitor the financial condition of that entity."

Does that sound like the right definition?

MR. JIM CHRISTIE: That is the definition in the CIA standards of practice.

MS. CANDACE GRAMMOND: And would you say that that definition applies to your role within the Corporation specifically?

MR. JIM CHRISTIE: Not quite. Because I

am not appointed under any legislative mandate. I am appointed by the board of directors, hence the terminology "appointed." But my responsibilities are largely those of what was historically termed evaluation actuary, to attest to the liabilities of the -- the policy liabilities of the organization as of their fiscal year end.

MS. CANDACE GRAMMOND: I think you had testified earlier that MPI is actually not required to have an appointed actuary, but it does.

MR. JIM CHRISTIE: It does.

MS. CANDACE GRAMMOND: So your appointment, as you've indicated, is not pursuant to legislation, but rather by the board of directors of the Company.

MR. JIM CHRISTIE: That is correct.

MS. CANDACE GRAMMOND: Okay. I'm going to ask you then to go and, yeah, I think it would probably be best if you go there, to your opinion from October of 2010, and that's found in our filing at AI-13(a).

MR. JIM CHRISTIE: AI-13(a).

MS. CANDACE GRAMMOND: So that's the fat volume -- or, the fat part of Volume III, which contains the AI filings. And we have AI-13(a) and AI-13(b), which are the two (2) reports at the two (2) different points in time.

MR. JIM CHRISTIE: Yes. I have the report in front of me.

MS. CANDACE GRAMMOND: Thank you.

THE CHAIRPERSON: We need help to find it.

MS. CANDACE GRAMMOND: Okay. So it's -- it's Volume III --

THE CHAIRPERSON: Volume --

MS. CANDACE GRAMMOND: -- the fat binder. They're -- Volume III has two (2) parts. Part 1, which is the thin one, and Part 2, which is the fat one. So we're in the fat one.

THE CHAIRPERSON: Volume III, Part 2.

MS. CANDACE GRAMMOND: And then we're at -- behind Tab 13.

THE CHAIRPERSON: Okay. Oh, okay. Thank you.

MS. CANDACE GRAMMOND: So we're in (a), which is the first part of what we find in that binder. And I'm -- specifically we'll go to page 3.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So, Mr. Christie, you've indicated in -- Mr. Christie, you've indicated here, this is as at October, 2010, that you have valued the policy liabilities of MPI in accordance with accepted actuarial practice including selection of appropriate assumptions and methods.

Is that right?

MR. JIM CHRISTIE: That is correct.

MS. CANDACE GRAMMOND: Can you tell us in what respect, if any, does that accepted actuarial practice, as it applies to MPI, vary from accepted actuarial practice as it applies to your work in the private sector? For example, for a federally regulated Canadian P&C insurance company -- or, property and casualty insurance company.

MR. JIM CHRISTIE: To the best of my knowledge there's no difference in the evaluation of the policy liabilities.

MS. CANDACE GRAMMOND: You've also stated in AI-13(a), the October 2010 report that we're looking at, that the amount of the policy liabilities for MPI makes appropriate provision for all policyholder's obligations.

When you refer to the phrase, "appropriate for -- pro -- provision," what do you mean by that?

MR. JIM CHRISTIE: That is the wording suggested by the Canadian Institute of Actuaries. I take it to be the dictionary definition of appropriate, meaning not unreasonable.

MS. CANDACE GRAMMOND: Now at AI-13 we have behind Tab B -- and you -- you can certainly go there if you wish. We have a similar report for a different point in time, whereas Tab A is October of 2010. We have at Tab B report as of February of 2011. And we don't see similar language in the February report that we just discussed, that is -- that there is appropriate provision for all policyholder's obligations.

Should we attach any significance to that difference?

MR. JIM CHRISTIE: No, you should not. This is an internal report to MPI describing the mapping from October to February. In the formal published financial statements of the organization you -- which we spoke about earlier today, I think on page 47 I issue and sign an unqualified opinion and it includes the wording that it is a -- the policy liabilities are appropriate.

MS. CANDACE GRAMMOND: Thank you. And I recall that Ms. Kalinowsky took you to the annual report for the Corporation in your direct evidence.

There's also an -- an annual report that's filed with this Board that's -- just relates to Basic, that's also found in the -- the filing at AI-7 where we have the annual report. And you're -- you're welcome to go there if you -- if you wish to do so. You don't necessarily have to, but if you wish to.

So I'm now looking at Volume III, the skinny volume, AI-7 --

MR. JIM CHRISTIE: Yes.

MS. CANDACE GRAMMOND: -- where we find the -- the coloured bound annual report that we looked at earlier today. Immediately before that there's a black and white report that just relates to the universal compulsory program or Basic.

MR. JIM CHRISTIE: Yes, I have that opinion in front of me.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Now, we see at that document and on the sixth page -- now that's not page 6, but if we count from the front, about six (6) pages in we see a document, Mr. Christie, on your letterhead from Ernst & Young, and it's dated May 2nd, 2011?

MR. JIM CHRISTIE: Yes.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. So we see there, Mr. Christie, just above your signature, your opinion as set out, that the amount of the policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Should -- should any significance be attached to the fact that this opinion wording differs from the October 2010 report wording?

MR. JIM CHRISTIE: There should be no significance attached. They're intended to be standard opinions. The short wording that you see here is the formal report of the actuary. It is deliberately designed to be short, concise, to contain no numbers, and to simply signify to a reader that it is the same wording that they see in any other report.

The report you saw at October is -- it's a summary report consistent with how I report to the regulators wherein they have asked that the -- the numbers be specifically included even though the numbers are not included in the standard of practice of the Canadian Institute of Actuaries.

So where a regulator asks, we do that. I simply followed that practice. In the February letter that went out, the financial statements haven't been prepared yet so I can't make the statement that they fair -- the financial statements fairly present the results. This is getting out there in a hurry or as quickly as we can, "hurry" is not the right word, as quickly as we can so that they can prepare the financial statements.

And then later in the process I actually issue this short form letter once I have actually seen the fina -- drafts of the financial statements.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So the absence of the language with respect to fair presentation in the October document is reflective of the fact that the financial statements are not available to you?

MR. JIM CHRISTIE: In the October document? I just have to get that in front of me.

MS. CANDACE GRAMMOND: Sure. That's back at AI-13.

MR. JIM CHRISTIE: Oh, yes. AI-13.

(BRIEF PAUSE)

MR. JIM CHRISTIE: The reason this -- the reason the wording is as it is is I'm issuing this report in February for as of October. The Corporation is issuing financial -- monthly financial statements and prepare -- and releasing some of them on a quarterly basis.

I cannot -- they wouldn't know what my numbers were going to be in February when they released their October report, so I can't -- I can't make the statement that the financial statements fairly present the results of my report because it wasn't done then.

What I can say is that the numbers that are in here fairly present the results of my analysis, which presumably then a -- MPI management incorporates in their reports once they get them.

Now, they would have had this number basically done in late December or early January. I'm -- it depends on the year, the precise timing of that. So I would presume they would be reflected in the December financial statements that are used internally.

MS. CANDACE GRAMMOND: Mr. Christie, in the context in which you speak and -- and make the statements in the document that the financial statements do fairly present the results of the -- the valuation.

What do you mean by that?

MR. JIM CHRISTIE: What I mean by that is, that I have done an analysis, produced estimates, and that the numbers in the financial statements as they relate to my -- the -- the items in the financial statements on which I have opined, are similar to the numbers I've estimated. In fact, in this case, they are identical to. But the opinion would allow similar to.

MS. CANDACE GRAMMOND: Okay. Mr. Christie, you -- you said earlier this morning that there's an internal policy within Ernst and Young, that work is reviewed -- one (1) actuary's work is reviewed by another actuary within the office.

Do I have that right?

MR. JIM CHRISTIE: Yes, you did -- do.

MS. CANDACE GRAMMOND: And is that something that is followed with respect to the work that you do for the Corporation? So your work is then reviewed by a colleague within your office?

MR. JIM CHRISTIE: Yes, it is.

MS. CANDACE GRAMMOND: And that would be -- that colleague would be an -- another actuary.

MR. JIM CHRISTIE: That is correct. In fact, the actuary who reviewed this year's is in the back row here today.

MS. CANDACE GRAMMOND: And that -- that's Mr. McFarlane?

MR. JIM CHRISTIE: That is correct.

MS. CANDACE GRAMMOND: Okay. Mr. Christie, we've spoken a little bit about the documents at AI-13(a) and (b), those are the two (2) valuation reports. First, October of 2010 and then February of 2011.

Can you tell us about any interaction that you may have had with the Corporation's auditors, external auditors, KPMG, with respect to the valuations that are contained in those two (2) reports?

MR. JIM CHRISTIE: Sure. Because the October analysis is the prime driver of the numbers that go on to the financial statements and February is basically just an update to that, KPMG actuaries requested of me the datasets that were -- would be used in the financials in preparing the October analysis. Those were provided and the -- and basically the triangle that you see in these exhibits -- were provided to KPMG, along with our selections. I presume then KPMG did something with that data to reach the conclusion that's indicated later on, that my estimates are reasonable.

They also asked us for other material.

For instance, the policy liabilities questionnaire we send to each of our clients each year to -- to formally identify any changes in practice that might have taken place. We do that on a regular basis. And the Corporation would typically be telling me these things, but we try to get it down in writing that these are the changes that have happened, or -- or internal memos that have -- might have been sent about a particular change in claim reserving practice, or something like that.

Changes in senior management team, that's always an issue. Not that it created a problem, but simply when -- when management changes there's always the possibility that there -- there may be implicit claims reserving practices being changed because one manager has a different focus than another one.

THE CHAIRPERSON: Ms. Grammond, I'm noticing the clock. And I'm wondering when it might be appropriate for us to break. I don't want to interrupt this line of questioning if you're doing a few more questions on it. But what -- what are your thoughts?

MS. CANDACE GRAMMOND: Madam Chair, I have a -- a few more questions for Mr. Christie. Ballpark maybe ten (10), fifteen (15) minutes of questions.

Now, I know we do have the two (2)

gentlemen from KPMG here and they are to testify this afternoon. And we do want to get them through today, hopefully, as well. I know one (1) of them has come in from out of town. So I -- I think my inclination would be to keep going with Mr. Christie, and I -- I don't know how much the Intervenors may have, but I -- I would at least like to complete my cross of Mr. Christie before lunch.

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: If that's agreeable with the panel's indulgence.

THE CHAIRPERSON: Yes. You go ahead then. And perhaps we'll take a look at the clock when you finish. Thanks.

MS. CANDACE GRAMMOND: Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Mr. Christie, just following up on the -- the question I -- I posed about KPMG, can you tell the Board what, if anything, you look to KPMG for in their capacity as auditors for MPI for comfort in the evaluations that you're doing?

MR. JIM CHRISTIE: In fact, our standards of practice between accountants and actuaries require us to exchange letters of -- exchange letters indicating that we will be doing work and what we will be asking the other professional to do.

From my perspective I look at the -- the datasets that are there and look to see if there appears to be any aberrations in the data. I check that the data adds up to the financial control records. I ask KPMG to review the -- the raw data, or the -- the material flowing into that to assure themselves, or to -- to pro -- to give me some assurance that the process of -- of going from individual case files to the aggregations is appropriate.

I ask them to sample that individual claim files do exist, that individual premium files do exist, that these are not phantom claims or phantom policies. I ask them to ensure that any reinsurance treaties are signed. And to -- just generally provide me with any commentary they may have with some -- anything they notice.

They do not provide an opinion, as such, to me. Their opinion -- they are engaged by MPI to provide an opinion on the financial statements. What they do is provide me with a summary of -- of their findings and allow me to form my opinion. Similarly, I send them letters describing what I have done in my work, which helps them assess whether the -- the -- those particular items on the financial statements are appropriate.

MS. CANDACE GRAMMOND: Thank you. Mr. Christie, turning to your interaction with the actuarial staff at MPI, can you describe for the Board the extent and nature of -- of your interactions with the MPI actuarial people, again, with respect to the evaluations AI-13(a) and (b).

MR. JIM CHRISTIE: Sure. The collation of data is done by MPI staff. The initial selection of -- of factors lea -- in the methods is equally done by MPI and then I -- and roughly a month after the data closes I'm provided with a preliminary analysis. I and my staff then review that analysis, first of all to make sure the -- the data sets tie, and secondly we select our own factors that may be different from the ones that MPI have -- staff have selected. And we may select different weights for the various methodologies.

Having done that, we then have a series of conference calls with the MPI actuarial staff to review the differences and say, This is what we would expect to be putting in there, tell us why you picked something different, let me understand what's there. Also, to get an understanding of any changes that might have taken place within the data sets themselves. Are -- is there -

- as was alluded to earlier, a mistake in -- in the -- in the computer systems. We're not aware of any of those at either February or October.

There was a change in the -- in their underlying data system that's called FINEOS -- or, I'm not sure how it's pronounced, which meant that certain expense estimates were now in the data sets and had not been there in the past. So we had to modify the data to make it consistent over time.

So those kind -- I mean, we'd ask the question, What's changed in the data? In that particular instance the -- the numbers were on the margin of whether they -- we would no -- have noticed them without having been told. They looked a little higher, but not unreasonably higher.

MS. CANDACE GRAMMOND: Okay. Thank you. For the October 2010 evaluation in particular, can you tell us who initiated the decision to change the basis of selection evaluation results from the various methodologies applied?

MR. JIM CHRISTIE: My recollection is it was myself, but I'm not positive of that. Certainly, the individual analysis was -- of the methods was originally done by MPI, but typically the weighting is done later on in an exhibit format. And my recollection of the first run was that the same methods as been used in the past were -- were done, but I'm not -- I -- I can't recall exactly.

MS. CANDACE GRAMMOND: Thank you. Mr. Christie, in -- in current years, and -- and even in -- in recent prior years, MPI has used the expression before this Board "prudent best estimate" as well as the phrase "prudently conservative" to describe the basis for the Basic insurance valuations before consideration for Pfad, or the provisions for adverse deviation.

Would you agree with those characterizations?

MR. JIM CHRISTIE: To the best of my knowledge, "prudently conservative" is a phrase coined in Manitoba for MPI. I'm not aware of exactly what that means. I can only let MPI management express what they mean by that.

MS. CANDACE GRAMMOND: What about "prudent best estimate"?

MR. JIM CHRISTIE: I can infer what it means, but I would presume it's some sort of conservative estimate, but it's not a term that I would personally use. I'm not aware of the term being used -- or defined in the actuarial literature.

MS. CANDACE GRAMMOND: So how would you

then characterize the basis for the valuations?

MR. JIM CHRISTIE: I would characterize the basis as being slightly conservative, and don't read into -- anything that -- more than what's in the dictionary for the word "slightly."

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Again, with respect to the two (2) valuations at AI-13, the October 10 -- of 2010 and February, 2011, valuations. You had indicated that these reflected best estimates, this is -- I'm now referring to your direct evidence today, and that you have no expectation of significantly -- or significant favourable or adverse runoff in the future.

Is -- is that a fair statement?

MR. JIM CHRISTIE: Yes, I think that's a fair characterization of what I had intended to say, so it seems like you got what I said.

MS. CANDACE GRAMMOND: Okay. Good. Can you tell us whether you would have offered the same view three (3) or even five (5) years ago?

MR. JIM CHRISTIE: Yeah, I think I would have. It's hard to separate current knowledge from where I sat at that point in time, but there was no intent ever to deliberately overstate these liabilities. The intent was to put a best estimate with the information we had at the time.

And so if you had asked me that question five (5) years, do I expect favourable development, I would have -- not any -- to any significant amount, and it would have been obviously wrong.

MS. CANDACE GRAMMOND: Do you agree that the -- the Pfad or the provision for adverse deviation, as -- as used by the Corporation, is another source of conservatism?

MR. JIM CHRISTIE: Yes.

MS. CANDACE GRAMMOND: And can you explain then to the Board why the Corporation would make a conservatism provision in the analysis before the application of Pfad?

MR. JIM CHRISTIE: Well, I tried to explain it in my testimony this morning. The likelihood is that there will be more adverse experience showing up in the future, more severe adverse than there is severe favourable. If that's a term -- can use that adjective in front of favourable.

Provision for average deviation, on the other hand, is intended to allow for the random fluctuation within a model. It's not that the -- or that the model is wrong. The best that you can do in an actuarial analysis is create a model that resembles reality. Nobody purports that it is the exactly the same as reality. It's obviously some sort of simplification. So there's always risk that the model is wrong. In fact, there's significant risks for that.

And that's part of what margins for average deviation are -- are designed to reflect the fact that the model may not be the -- first, the model may not be the right model and, second, you may have parameterized the model incorrectly.

MS. CANDACE GRAMMOND: Okay. Thank you, Mr. Christie. I just have a few more questions. The first is specifically with respect to the -- the large releases that were seen in the last fiscal year and that flowed from the October, 2010, valuation.

Can you tell us when you first became aware of the -- the significant reserve releases at that time?

MR. JIM CHRISTIE: Sometime in November. I think towards the latter part of November, an email from MPI staff indicating that there was a -- significant reductions indicated.

MS. CANDACE GRAMMOND: I believe the email was from Mr. Phoa does that sound about right?

MR. JIM CHRISTIE: Yes they were from -- yes, that's correct.

MS. CANDACE GRAMMOND: Okay. Ms. Kalinowsky asked you to look at PUB/MPI-1-26, that was the question that you had provided an answer for. So I just want to ask you a -- a couple of questions about the -- the information that you provided.

Looking at the -- the second page of your document, which is the attachment in -- in particular the second-last paragraph. You've made the statement, with respect to the October, 2010, development, you say:

> "These observations have shown relative consistency in the periodic claims development patterns since the introduction of the new process in 2005. And hence, we felt that the new process was credible."

Given that view, as expressed there, and in the context of the February, 2011, evaluation that followed, what reasons might there by for selecting loss development assumptions generally above recent observed historical levels?

MR. JIM CHRISTIE: The biggest reason for that is that we only have five (5) observations under the new reserving practice. Five (5) observations under any system, doesn't produce a robust answer. The risk is that the next observation may be significantly higher or lower. Unlikely to be much lower, simply the nature of these claims. But there could be a higher one.

And if that happens and we're using an average, then we're going to increase -- and we would typically use an average of the observations. We might discount that one (1) observation to some extent, but it would typically go up.

You then have a double impact. You have the -- the -- the raw data producing extra claims payments or a case incurred in the year, following through the income statement, and a change to the -- the factor, in -- which is then applied to all accident years, which increases the liabilities on the balance sheet and, therefore, increases the incurred claims in the year.

We don't want estimates that are wildly fluctuating. We pre -- prefer to have the estimates as best we can, consistent from one (1) year to the next. In a perfect world, there would be no development. Now, that's not going to happen, but... And that's the reason why I'm -- I'm generally picking a number slightly above the -- the numbers that are indicated from the last five (5) observations.

MS. CANDACE GRAMMOND: Mr. Christie, there was some evidence given on your direct about the issue of certain claimants with MPI that are receiving benefits and the fact that their caregivers are growing more elderly and -- and may need to be replaced with professionals at some point in the future.

Would you agree that that's an issue in the context of the valuations that really goes more to the tail factor than the -- the history?

MR. JIM CHRISTIE: Oh, absolutely. I mean, there might be one (1) or two (2) or even a hundred claim -- such claimants in the data we've seen so far. But the -- the likelihood is that these are going to be happening twenty (20) to thirty (30) years after the claim, when the -- when the caregivers age.

There will be -- I mean at -- at some point in time there -- there might have been a claimant with a sixty (60) year old caregiver, you know, at the date of the accident, that is now seventy-five (75).

But the ra -- most likely incidence is that those people are -- those caregivers were in their thirties to fifties and -- and still have -- we still haven't seen that.

Now, I don't want to make a big issue out of this, because those caregivers are entitled to -- to payments, and many of them do accept those payments. But, some don't, which will increase at -- to some ext -- but you have to remember that it's only for those claimants that are still collecting when their -- I'll call them parents -- that -- they may not be parents -- when their parents are too old.

Most -- a lot of people will get -- will be off the system because they will have recovered and gone. So it doesn't matter that you break your leg and your parents are sixty (60), you go back to work in a years time.

So there won't be a lot of those. And -- and -- but there will be some. I should -- and it was really put out as a -- a spec -- I tried to put this in a specific context that there are -- there are things that can go wrong that we can -- can visualize, but we don't have data to substantiate what that would be at this point in time.

MS. CANDACE GRAMMOND: Mr. Christie, when we speak about what some of these -- these family members are paid now and what the increase in costs might be, at some point when a professional needs to -- to step in, is that information in terms of a range that you have or --

MR. JIM CHRISTIE: I do not.

MS. CANDACE GRAMMOND: Okay. So that --

that's a question then better posed to -- to MPI, that's fine. I think I just have one (1) additional question for you Mr. Christie, and that relates to the -- the February, 2011, evaluation that we've been speaking about.

We've looked at a minute from the audit committee -- one (1) of the audit committee meetings of MPI and there was discussion about a possible additional $100 million provision for claims-related costs associated with IFRS implementation.

Can you tell me if you were privy to that discussion?

MR. JIM CHRISTIE: I don't recall it. And I'm not sure whether it was a -- intended to be an increase in claim liabilities or whether it was intended to be an increase in the operating costs to produce the claim liabilities, I can only speculate.

One (1) of the issues that IFRS was potentially contemplating was a requirement that claim liabilities be required to be discounted at a risk-free rate. That is not the case right now, but it was certainly one (1) of the considerations. If that were to be the case then MPI discounts its claim liabilities basically at the rate related to the assets that they currently hold that match these liabilities, which is somewhat higher, not significantly, but somewhat higher than the risk-free rate.

MS. CANDACE GRAMMOND: Thank you. Madam, I -- I have no further questions, but I think Board member Gosselin does.

MR. REGIS GOSSELIN: Is Mr. Christie going to be here after lunch?

MS. CANDACE GRAMMOND: Well, I -- I note that neither Mr. Williams nor Mr. Oakes are in the hearing room at the moment. I suspect -- I -- I think Mr. Oakes told me last week that he probably wasn't going to have questions for Mr. Christie. But Mr. Will -- Williams may well have questions. So I think we have to ask Mr. Christie to come back.

MR. JIM CHRISTIE: I will be here after lunch.

MS. CANDACE GRAMMOND: Okay. Sorry. One (1) -- one (1) moment. I may have spoken to soon -- about that I was finished.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Sorry. I -- I unintentionally misspoke. I do have a couple more questions for you, Mr. Christie, but on a topic that we haven't talked about yet.

You -- you said in your direct evidence that in the past you had prepared DCAT reports for the Corporation and then that was later taken in-house.

MR. JIM CHRISTIE: Yes.

MS. CANDACE GRAMMOND: Have you seen the most recent DCAT report that the Corporation filed in the --

MR. JIM CHRISTIE: I have not seen the one that was spoken about in evidence this morning. The last one I saw was roughly a year old.

MS. CANDACE GRAMMOND: Okay. How would you interpret a recommendation contained within a DCAT report that the minimum RSR target point for the Corporation be increased from 185 million to 210 million?

MR. JIM CHRISTIE: It's my personal opinion. I think it's low, it should be higher. I've said this to MPI the -- you know, If you guys were a private company running under a regulated regime in another province the regulators would shut you down, you don't have enough surplus.

Now you have to bear in mind that MPI has -- at least in theory, the ability to increase premiums and the policyholders have nowhere to go. The practical reality of that is there's a limit on how much you can increase rates.

MS. CANDACE GRAMMOND: So if I understand you correctly you're -- you're saying the increase from $185 million target point to a $210 million target point is a step in the right direction, but you think not enough?

MR. JIM CHRISTIE: Yes. I have -- I have not read that report, but that would be my initial bias.

MS. CANDACE GRAMMOND: And I appreciate that you haven't read the report, so I'm trying to keep the -- the questions more general in -- in scope.

Can you tell us whether, in your view, the risk profile of MPI has changed since -- within the last year or since a year ago?

MR. JIM CHRISTIE: It probably has, first of all for the reason that Mr. Palmer gave earlier, that they have additional equities on their balance sheet -- or in their asset portfolio. Equities have a much more risky nature to them.

The other reason why I would say the risk profile has increased in the last year is the fact that we've reduced liabilities. When -- whenever you have a significant change in liabilities it clearly indicates that there's some potential for the -- the claim liabilities to swing.

I don't anticipate it would, but if you look at any corporation where a particular item on their balance sheet swings dramatically, that prob -- and hadn't in the past, that probably suggests that their risk profile has changed.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you, Madam Chair.

THE CHAIRPERSON: I think now we can take a lunch break, and we'll reconvene at 1:30.

--- Upon recessing at 12:21 p.m.

--- Upon resuming at 1:32 p.m.

THE CHAIRPERSON: We're just exploring the humming sound. There's a -- but I don't know what it is.

Well, in the interest of time, we'll just have to ignore the humming sound but proceed. And I think we're now at the point where Mr. Williams -- is that right? Mr. Williams, would you like to cross-examine this witness?

MR. BYRON WILLIAMS: Yes. Good afternoon, Madam Chair and members of the Board. Probably be about half an hour in terms of this witness.

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And I should have notified him earlier, but also to the Board, I wonder if you can grab for yourself, first from Information Request CA -- response of MPI to CAC-1-1?

And also, okay, so it's First Round 1-1, and also the CAC Exhibit number 8, which should be the -- the long sheet excerpted from the -- the actuary's report as at October 31st, 2005.

And, Mr. Christie, I probably have a -- one (1) page of that here for you if you require it.

(BRIEF PAUSE)

THE CHAIRPERSON: Go ahead.

MR. BYRON WILLIAMS: Madam Chair, I just see some papers still shuffling, so I'll -- I'll -- I'll wait for a couple of seconds and -- if -- with your permission.

(BRIEF PAUSE)

THE CHAIRPERSON: I think what we're struggling to find is the second thing that you requested us find.

MR. BYRON WILLIAMS: And that would have been distributed on Thursday, and it is a long --

THE CHAIRPERSON: Oh, yes.

MR. BYRON WILLIAMS: -- a long sheet, and there should be -- you might have two (2) in your bundle of papers. One (1) is number 6, which is from 2011, and one (1) is number 8, which is from 2005. And it's the 2005 long sheet that I'm referring to.

THE CHAIRPERSON: Okay. We'll have to share this one. Go ahead.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: The -- the record will show that the Board is cuddling.

Mr. Christie, I was kind of rude, and I forgot to say good afternoon, so good afternoon, Sir.

MR. JIM CHRISTIE: Good afternoon.

MR. BYRON WILLIAMS: And, Madam Chair, are we -- are we okay to proceed or...?

THE CHAIRPERSON: Yes. Yeah, we have it right in front of me. And if the rest don't get closer they won't see it. Okay.

MR. BYRON WILLIAMS: We really should get a photograph.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mis -- Mr. Christie, just for of all, in terms of CAC Exhibit 8, would I be correct -- and -- and you'll agree with me, first of all, that this is reproduced from your report as at October 31st, 2005, with regard to the Basic line of Manitoba Public Insurance.

Would that be fair, Sir?

MR. JIM CHRISTIE: It appears to be. I do not memorize all the numbers in my report.

MR. BYRON WILLIAMS: Will you accept it, Mr. Christie, subject to -- to review?

MR. JIM CHRISTIE: Yes, although I do have the report here. I can get the original.

MR. BYRON WILLIAMS: If that makes you feel better, Mr. Christie, lead on.

(BRIEF PAUSE)

MR. JIM CHRISTIE: I can't find it at the present time, so I'll take this as -- as reasonable.

MR. BYRON WILLIAMS: Well -- well, I'm --

I'm going to ask you actually to -- to...

(BRIEF PAUSE)

MR. JIM CHRISTIE: I have the original document here.

MR. BYRON WILLIAMS: And, Mr. Christie, if you have any concerns that the exhibit doesn't portray the original document you'll check that out and -- and bring that back to the Board's attention?

MR. JIM CHRISTIE: I will.

MR. BYRON WILLIAMS: Okay. thank you.

THE CHAIRPERSON: Sorry. Are we ready or did I miss something?

MR. BYRON WILLIAMS: No, we're -- I think we're all set up.

THE CHAIRPERSON: Okay.

MR. BYRON WILLIAMS: And I just wanted to make sure the Board was -- was with us. Okay, thank you, Madam Chair. I appreciate your patience.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Christie, when -- when I look at this -- this document would I be correct in characterizing this ta -- the table in Appendix E, page 23, as presenting the adverse development in the tabular reserve process which led to the 6 percent loading for the one hundred and twenty-two (122) ultimate tail?

Would that be fair, Sir?

MR. JIM CHRISTIE: Yes, that's a correct characterization of this exhibit.

MR. BYRON WILLIAMS: And, Mr. Christie, so if you can keep this exhibit at hand. And I also would ask if you would pull up, which you should have before you, the response to CAC/MPI-1-1.

Do you have that, sir?

MR. JIM CHRISTIE: I do. I do.

MR. BYRON WILLIAMS: And before we get to the Information Response, Mr. Christie, just in the -- the loss triangle section of the Appendix E, page 23, so that's the long sheet in front of the Board, Mr. Christie, that's from your 2005 report, page 23, mi -- you --

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: Yes. I just want to draw your attention to a figure in the insurance year '93/'94 at one hundred and thirty-two (132) months of development.

Do you see that figure, sir, being

nineteen million sixty-three thousand seven hundred and thirty-one (19,063,731)?

MR. JIM CHRISTIE: I do.

MR. BYRON WILLIAMS: Thank you. Now, Mr. Christie, turning now to CAC First Round Information Request 1-1. If you flip to the second page of -- of that Information Request you'll see the question under (j). And I'm going to paraphrase, Mr. Christie, and -- but essentially I'll suggest to you that the question was asking -- it's looking at Appendix E and seeing this figure of nineteen (19) -- 19 million, and then saying -- but in the appointed actuary's report as at October 31st, 2004, the '93/'94 ultimate is at fourteen seven seven seven (14,777), which is presumably a hundred and thirty-two (132) months of development.

And so it was -- in -- in broad strokes I'll suggest to you that it was asking for a reconciliation between those figures.

Is that your understanding, sir, at reviewing that question as well?

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: And I just want to refer you now to page 3 of that Information Request, which is at the bottom sub -- (j), is the response to that question, I'll suggest to you.

And I'll -- I'll ask you to con -- confirm that -- that essentially the Corporation responded that the 19 million was -- is the ultimate as at February 28th, 2005, adjusted to current 2005 benefit levels, whereas the fourteen seven seven seven (14,777) -- fourteen million seven hundred and seventy-seven thousand (14,777,000) is the adjusted ultimate as at October 31st, 2004.

Is that your understanding as well, sir?

We'll get through the adjustment in just one (1) second, sir.

MR. JIM CHRISTIE: According the text of Exhibit J, it says the fourteen seven seven seven (14,777) is the unadjusted estimate. You asked me whether it was adjusted.

MR. BYRON WILLIAMS: I may -- so, sir, then essentially I'll suggest to you that the thrust of the Corporation's answer -- and I'll restate the question more properly then, is that the 19 million was the ultimate at February 28th, 2005, adjusted to current 2005 benefit levels. Whereas the fourteen seven seven seven (14,777) was the unadjusted ultimate at October 31st, 2004, correct, sir?

MR. JIM CHRISTIE: Yeah, the fourteen seven seven seven (14,777) would have been the unadjusted number as of that point in time, not the ultimate number.

MR. BYRON WILLIAMS: Thank you for that. And if we go to the next page you'll see we're continuing in the response to -- to this Information Request, specifically 1(1)(j).

And essentially, I'll suggest to you, Mr. Christie, that to -- to perform this adjustment you took, first of all, actual paids as at February 28th, 2005, and then adjusted them to current 2005 benefit levels.

MR. JIM CHRISTIE: That's -- yes, that's the basic concept here. The historical data is at prior benefit levels -- in order to project the expected costs into the future we use current benefit levels which requires a restatement of prior data to the current benefit level.

MR. BYRON WILLIAMS: And you did that as well, sir, I'll suggest to you, with the unpaid tabular reserves as at February 28th, 2005. And again, adjusting them to the current 2005 benefit level, correct, sir? That's -- that's lines 3 and 4, sir.

MR. JIM CHRISTIE: Yes, that is correct.

MR. BYRON WILLIAMS: And so on line 5 of that response we see the ultimate as at February 28th, 2005, prior to the adjustment to current 2005 benefit levels, correct?

MR. JIM CHRISTIE: That means that --

MR. BYRON WILLIAMS: Being fourteen million seven hundred and ninety-three thousand (14,793,000)?

MR. JIM CHRISTIE: Yes, that appears to be correct.

MR. BYRON WILLIAMS: And at line 6, sir, we see the ultimate as at February 28th, 2005, adjusted to current 2005 benefit levels, being the, roughly, 19 million figure --

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: -- correct?

In terms of the loss triangle shown at the top of Appendix E, Page 23, of the 2005 report as at October 31st, would it be accurate to say that the ultimates were taken from prior year valuations and brought up to 2005 benefit levels, sir?

MR. JIM CHRISTIE: No, the values as at that point in time were brought up to current benefit levels. The whole point of this exhibit is to get historic data and then estimate the ultimate after the fact.

MR. BYRON WILLIAMS: Okay. Let me restate the question then, sir.

Would it be accurate to say that the

values shown in the loss triangle, on Appendix E, Page 23 of the 2005 report were taken from prior year valo -- valuations and brought up to 2005 benefit levels?

MR. JIM CHRISTIE: Yes. In broad terms this exhibit is designed to show what the historical data would have been had the 2005 benefit levels been in place from 1984 through 19 -- 2005.

MR. BYRON WILLIAMS: Thank you for that. And would it be accurate to say that from these values brought up to 2005 benefit levels in the -- in the loss triangle at the top, would it be accurate to say that the development factors in the middle of the page were calculated?

MR. JIM CHRISTIE: The middle of the page is essentially just an arithmetic calculation of dividing one (1) column by another column.

MR. BYRON WILLIAMS: Mr. Christie, I didn't -- I didn't hear -- hear that response. So, just if you'll repeat it please?

MR. JIM CHRISTIE: I'm not sure I understood the question so I tried to give you the right answer, to what I thought your question was. So if you would repeat the question?

MR. BYRON WILLIAMS: Absolutely. We -- we shall.

The observed development factors are the arithmetic result of the calculations related to the values brought up to 2005 benefit levels, sir?

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: And flowing from this analysis, the -- the -- I'll suggest to you -- the -- and taking into account -- let me back up.

Flowing from this analysis, the selected factors were chosen, sir, is that right?

MR. JIM CHRISTIE: Yes, that is correct.

MR. BYRON WILLIAMS: Now, sir, directing your attention again to Appendix E, page 23, which is the long sheet, would it be accurate to say that in 2005, the last development period with more than two (2) years history on which to base factor selections was two hundred and twenty-eight (228) months?

MR. JIM CHRISTIE: With a proviso. That is two (2) years of observations under a system that predated PIPP. So you have to make the assumption that development under a PIPP system would be identical to that under the pre-PIPP system. A reasonable but not verifiable assumption.

MR. BYRON WILLIAMS: With that proviso, sir, would it be accurate to say that the last development period presented on this table, with more than two (2) years history on which to base factor selection, was two twenty-eight (228) months?

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: And when I look at the selected factor two forty (240) to ultimate, it would be correct to say that that was based upon judgement, sir?

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: And namely, that judgement, sir, was the assumption that there would be a further two (2) years of development at one point zero zero three (1.003), followed by eight (8) years at one point zero zero two (1.002)? Correct?

MR. JIM CHRISTIE: That is correct.

MR. BYRON WILLIAMS: Thank you. And it would be accurate to say that the selected tail factor of one point zero two two two (1.0222) flows from this judgmental selection, sir?

MR. JIM CHRISTIE: That's correct.

MR. BYRON WILLIAMS: And would it be accurate, sir, to suggest that this selection adds 2.2 percent to the ultimate for every accident year in this analysis?

MR. JIM CHRISTIE: No. I'm sorry. Yes, for every accident year in this analysis.

MR. BYRON WILLIAMS: Thank you for that. That's helpful in understanding what you've -- you've done, sir.

Mr. Christie, I -- I have a few questions flowing from your discussion with My Friend, Ms. Kalinowsky, this morning. And I'm fearful of making the Board shuffle around and look for more papers. But -- but they may want to -- they may want to have at hand the big fat volume, which is Volume III. And a -- AI-13(a).

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And the -- the Board might also want to have at hand the PUB book of documents, which is PUB Exhibit number 9. Thank you. Mr. Christie, I don't think you need to turn there, but you'll recall this morning you discussed with My Friend, Ms. Kalinowsky, the actu -- actuarial review performed by Mr. Lam on behalf of the extro – external auditor KPMG with regard to your reports for Manitoba Public Insurance.

Do you recall that, sir?

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: And -- and you'll recall as well your discussion with My Friend, Ms.

Kalinowsky, from this morning in -- in terms -- in terms of the fact that while Mr. Lam considered some of your estimates slightly conservative, there was a suggestion that they remained within his range of reasonableness.

Do you recall that?

MR. JIM CHRISTIE: That was not a suggestion. That was a statement of fact.

MR. BYRON WILLIAMS: Okay. And certainly, sir, I appreciate your precision. You'll recall the conclusion he reached, that they were within his range of reasonableness?

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: And, sir, from your conversation with My -- My Friend, Ms. Kalinowsky, this -- this morning, I took it that -- that disagreements between actuaries on -- on where a particular estimate might lie within a range of reasonableness are really part of the normal deliberations between the practitioners of the actuarial art.

Would that be fair?

MR. JIM CHRISTIE: Yes, I would -- and if one (1) actuary makes an estimate he can only regard other act -- actuaries' estimates as reasonable relative to his own. So each of Mr. Lam and myself have our own observation of what we think the answer is.

And we -- and in the case of Mr. Lam's letter, he is concluding that my estimate is reasonably the same as his estimate.

MR. BYRON WILLIAMS: And indeed, in the course of other reviews you've done of other actuaries' work you have drawn that same type of conclusion, that while the -- the numbers might be a little different, it's within a range of reasonableness, correct?

MR. JIM CHRISTIE: That is correct.

MR. BYRON WILLIAMS: And, sir, If I had your evidence right from this morning, I think you may have performed -- you suggested that you've performed in the range of two hundred and fifty (250) peer reviews of other actuaries' work.

Would that be fair?

MR. JIM CHRISTIE: I have -- my statement was that I had performed over two hundred and fifty (250) reviews either internal, from my firm, or external, for other firms, which would have been the type of question we're talking about here with Mr. Lam. That would have been an external review.

MR. BYRON WILLIAMS: So in the course of those two hundred and fifty (250) reviews, whether internal or external, have you ever expressed the view that another actuaries' estimates were beyond your range of reasonableness?

MR. JIM CHRISTIE: Yes, I have.

MR. BYRON WILLIAMS: And how frequent would that be, sir? And I'm not looking for a count, but I want to know is it a frequent occurrence or a relatively rare occurrence, sir?

MR. JIM CHRISTIE: It's a relatively rare occurrence when the letter is issued. It is a fairly common occurrence when we start to do the analysis. And then we would typ -- when -- if I was doing it, or my staff, we would typically talk to the other actuary to understand why we have a difference.

In many cases, it is because the opining actuary is aware of information which we, as the reviewing actuaries, are not. And when that is explained that often resolves the difference, but not always.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just so I understand your evidence, and I thank you for the thoroughness, I -- I believe your evidence was that it would be relatively rare where a reviewing actuary would suggest in the form of a letter that someone else's estimates were beyond the range of reasonableness.

Would that be fair?

MR. JIM CHRISTIE: In terms of the formal letter? Yes, because typically that dialogue would have taken place long before that, first of all, to resolve differences in -- in knowledge. And, secondly, if we continue to have a difference this is going to create -- at least in my firm is going to create an issue around the audit, and so we have to resolve that difference before I send my letter to the audit partner.

I mean, it's possible it not -- might not get resolved, but this is not a position anybody wants to be in.

MR. BYRON WILLIAMS: And writing that the estimates or the selected claims liabilities with respect to a certain line of business are above the range of reasonableness -- putting that in writing is not something that you or any other actuary would do lightly, fair enough?

MR. JIM CHRISTIE: Be careful. We often have a disagreement about a line of business being materially different or un -- unreason -- like not within our range of reasonableness. We are opining in the audit firm on the overall num -- single number on the balance sheet, not on individual line of business.

And so if there are two (2) offsetting

errors the aggregate amount might very well be reasonable even though two (2) -- two (2) lines of business within fifteen (15) or sixteen (16) individually were not within our range or reasonableness. But we are opining on the number on the balance sheet, not on how the number on the balance sheet was calculated.

MR. BYRON WILLIAMS: And I appreciate that distinction. That's helpful. Let's back up then just for a second, sir. In terms of moving away from the balance sheet --

MR. JIM CHRISTIE: Yes?

MR. BYRON WILLIAMS: -- to whether the suggestion that an es -- a certain line -- estimate of liabilities was above our range -- or above a range of reasonableness or beyond a range of reasonableness, is it your evidence that that is a fairly common occurrence?

MR. JIM CHRISTIE: An individual line? Yes. And, in fact, it is our practice in our -- in Ernst & Young that if the individual differences offset each other we're not going to make this a per -- an issue in the audit because the audit is opining only on the aggregate number, not on the individual component parts.

If there are separate reports issued for auto physical damage and auto liability and there are audit opinions on the separate reports we would worry about that. But when you're only opining on universal comprehensive insurance, the only issue is is the number on the balance sheet reasonable.

MR. BYRON WILLIAMS: And in terms of the type of letter that one might write to an auditor if you were per -- performing that peer review task, would it be incumbent upon you to identify differences in terms of selected claims liabilities beyond a range of reasonableness, sir?

MR. JIM CHRISTIE: That's a issue for individual accounting firms or audit firms to determine. My personal practice in writing to the audit partner would be to -- to describe the differences by line, indicate verbally or in text what the differences were, explain why the -- why -- why it seemed to have caused the difference or speculate what caused the difference. Wouldn't always know because we might not have talked to the other actuary.

And then -- but heading off the thing and -- and the conclusion would be the results are reasonable or the results are not. And even when the results are unreasonable, if I could use that word, typically there would be a lot of dialogue before that letter was actually written.

In the most recent circumstances I can

recall where we've had unreasonable differences has been because there hasn't been support for a statement and we have, as the audit firm, demanded additional support, which was sometimes slow in coming. And they were holding over the company's head was we're going -- the actuary won't sign an -- that the results are unreasonable without evidence to support this assertion.

MR. BYRON WILLIAMS: And, sir, just -- I want to make sure I understand your -- your final point. You're pronouncing an opinion on the -- the balance sheets as -- as a whole?

MR. JIM CHRISTIE: Not the balance sheet as a whole, the unpaid claim liabilities which are a single item on the balance sheet.

MR. BYRON WILLIAMS: Yeah. And my question was imprecise, so I thank you for that. In terms of those claims liabilities, to the extent that there were two (2) estimates beyond a range of reasonableness, from your perspective, but they were offsetting, that would not -- you wouldn't feel necessary to opine upon that in a -- in a -- in a opinion letter.

MR. JIM CHRISTIE: Specifically not. Because the opinion is on the number on the balance sheet. To be extreme about it, if the company was using a Ouija board but they got an answer that was reasonable, that's what our opinion would be, it was reasonable. That's not what we're -- typically is done, but the opinion is on the reasonableness of the final result, not on the reasonableness of the approach to get there.

MR. BYRON WILLIAMS: And -- and I would assume that the Ouija board methodology is relatively rare, sir?

MR. JIM CHRISTIE: I've never seen it in practice.

MR. BYRON WILLIAMS: That's reassuring. In terms of -- I don't think you need to turn there, sir, but if -- if you -- if you wish to, in terms of your February, 2011, report, the appointed actuary's report is at October 31st, 2010, which is AI --

MR. JIM CHRISTIE: Yes, I have it.

MR. BYRON WILLIAMS: You have it? Your AI-13(a). Page -- it's specifically at page 12 of your -- your evidence, or your -- your report. I want to direct your attention to the -- the top paragraph, sir. So that's AI-13(a), page 12 of your actuary's report.

MR. JIM CHRISTIE: I have it in front of me.

MR. BYRON WILLIAMS: And we'll just -- and we'll just give people a -- a moment to turn there, Mr. Christie.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now, Mr. Christie, in -- in your report on this page, you -- you -- and I'm -- I'm -- I'm drawing your attention to the top paragraph on the left, and -- oops, sorry.

THE CHAIRPERSON: We're not sure where you are.

MR. BYRON WILLIAMS: Okay. I apologize for that, Madam Chair. It's the big, fat volume, AI-13(a), page 12. So it's Volume III, and I think it's Part 2, AI-13(a).

We -- we may have set a record for references to big, fat volume on the -- on the record. Page 12, Madam Chair.

(BRIEF PAUSE)

THE CHAIRPERSON: We're all there now.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Christie, just directing your attention to the first paragraph, and -- and you adverted to this in your evidence this morning.

But you're essentially stating, starting at the third line, that when the new reserving method was implemented, the case reserves for accident benefit WI and accident benefit other indexed, decreased in aggregate by approximately 250 million. But that since this new reserving method was based on theoretical models, that you were reluctant to reduce claims liabilities by such a large amount, and instead conservative loss development factors were initially se -- selected to offset the drop in case estimates by increases in IBNR.

Is that a fair representation of that statement, sir?

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: And, Mr. Christie, you can correct me if I'm incorrect in this, but if I went back to the -- your October 31st, 2005, report, would I find that reference to the $250 million there, sir?

MR. JIM CHRISTIE: I can't recall whether it was in there or not.

MR. BYRON WILLIAMS: Mr. Christie, we could probably do this by way of undertaking which might be more efficient, sir. And My Learned Friend can -- can follow with me be -- because, Mr. Christie, I -- what I'd like you to do is examine your -- your reports from -- as at October 31st, 2005, through October 31st, 2009. And if there are references to that $250 million I -- I would appreciate you undertaking to identify those to our -- for our clients.

MR. JIM CHRISTIE: I'm certainly willing to do that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just for the purposes of the court reporter, Mr. Christie, you're confirming that you will undertake to review your reports with regard to Basic in term -- flowing from October -- as at October 31st, 2005, through October 31st, 2009, for the purposes of identifying references to the 250 million in the same context as where it may be referenced in this report?

MR. JIM CHRISTIE: I will either provide you with the references or an indication that there was no reference.

--- UNDERTAKING NO. 19: Mr. Christie to review his reports with regard to Basic as at October 31st, 2005, through October 31st, 2009,

for the purposes of
identifying references to the
250 million

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And just from the po -- the -- the -- from the -- in terms of actuarial standards, sir, would it be -- it's certainly -- if you chose, it certainly would not have been inappropriate to put in a reference such as you put in this report in any of those prior reports.

That would not be inappropriate?

MR. JIM CHRISTIE: Typically, they re -- it would not be inappropriate. Typically, we would describe what changes we -- we were aware of in the underlying datasets. The amount of disclosure in actuarial reports has increased over the years, not so much because the standards have changed, but because practices evolved to include more disclosure of what is in there.

MR. BYRON WILLIAMS: So if -- if I understand your answer, sir, if you were faced with a similar circumstance today you would be likely to -- to disclose a figure of that magnitude?

MR. JIM CHRISTIE: Oh, certainly of that

magnitude. We -- we -- all my of clients, every year we ask the -- the question, What kinds of changes have been made in your case-reserving practices. Sometimes companies are able to describe that in -- in detail, as was the case in MPI, with a particular change in -- in practice.

Other times, it is much more difficult. It's only description that we've -- we've increased the number of claims examiners, we've changed the senior manager on the account, or whatever. But we do take that into account, and we -- to the extent we can in perusing the data, we look for changes and ask the companies to rationalize why this change might have taken place.

If we can identify some rationale for a change we would try to amend the data to reflect that, as in your earlier questions of why we had changed the accident benefits weekly indemnity triangle. We brought it to the current inco -- benefit levels because we knew that had happened, so it was an attempt to adjust the data.

So generally we would try to adjust data, or if we can't adjust the data use methods that rely less heavily on whatever the change was.

MR. BYRON WILLIAMS: Thank you, Mr. Christie. In terms of the Public Utility Board book of documents, Tab 17 now I'm referring you to, sir, and you may have gone there with My Friend, Ms. Grammond, but I'm -- I'm referring you to the fourth-last page, which would be a -- what appears to be an email from a Mr. Luke Johnston to yourself dated, November 2, 2010, yeah.

So it's about four (4) pages from the back. And -- and we're just assisting the Board, Mr. Christie.

MR. JIM CHRISTIE: Yeah.

MR. BYRON WILLIAMS: And it should be from Luke Johnston to -- to yourself dated, November 2nd, 2010.

Mr. Christie, first of all, is -- is this an email that you re -- that you're familiar with or that you recall receiving?

MR. JIM CHRISTIE: I recall receiving this email, yes.

MR. BYRON WILLIAMS: And you will recall within the email communication from MPI – we're directing you to the second -- or the first paragraph, suggesting:

> "It's been very hard to defend our PIPP forecast as best estimate assumptions, when the prior year's development is consistently coming in fifty (50) to seventy (70) cent -- seventy (70) -- 50

percent to 70 percent below our
forecast."

Do you recall that, sir?

MR. JIM CHRISTIE: Yes.

MR. BYRON WILLIAMS: To the -- to the best of your recollection, do you recall inquiring of Mr. Johnston, who the Corporation was having trouble defending its estimates with? Was it the board of directors, or the PUB, or do you recall exploring that conversation, sir?

MR. JIM CHRISTIE: My recollection of -- of a number of conversations was that this was really with respect to the PUB, in terms of their rate applications and -- and the fact that they were showing favourable development for several years.

From my perspective, that -- I didn't -- didn't affect me one (1) way or the other because I -- my work -- well, the -- the MPI may rely on it for the PUB hearings, my work stops and ends at getting the financial statements correct at February 28th each year.

MR. BYRON WILLIAMS: Sir, and -- and if you can't answer this I'll -- I'll understand perfectly, but to the best of your recollection, can you indicate where -- at what point in time you formed the opinion that a revision of the estimates of this magnitude was required?

MR. JIM CHRISTIE: Early November, 2010.

MR. BYRON WILLIAMS: Madam Chair, subject to the undertaking, which I -- I thank Mr. Christie for agreeing to, my clients have no further questions.

THE CHAIRPERSON: Thank you very much.

I should turn to Mr. Oakes and see if he has some questions.

MR. RAYMOND OAKES: Madam Chairperson, I do have several questions. I'll be relatively brief, especially now that the issue of the Ouija board has been fully examined. I can delete my questions relative to that methodology.

CROSS-EXAMINATION BY MR. RAYMOND OAKES:

MR. RAYMOND OAKES: Mr. Christie, you spoke prior to the lunch break, in an exchange with Board counsel, and you talked about actuaries building a model that resembles reality. Do you recall that conversation, sir?

MR. JIM CHRISTIE: I do recall that statement, yes.

MR. RAYMOND OAKES: And you accompanied that statement with a further statement that in building that model, you're always at significant risk for being wrong. Do you recall that?

MR. JIM CHRISTIE: I don't recall that statement, but that would be a true -- true characterization of any model.

MR. RAYMOND OAKES: Okay. And really, what actuaries are trying to do is, in this context, bring some predictability to the unpredictable world of auto insurance.

Is that correct?

MR. JIM CHRISTIE: Yes. In two (2) facets with the model. One (1) is trying to get a model that is reasonably reflective of reality. It will obviously have to be a simplification. That's the first thing we're trying to do with a model.

What we can't do with a model is reflect the random -- even if you have the model exactly right, there will still be random fluctuations with any -- any real life situation, so we can't predict that with the model. We can try to estimate what the -- the range might be, but we can't avo -- we can't avoid the -- the stat -- random statistical fluctuation that may come about, even if you have the model right.

MR. RAYMOND OAKES: And my further question would be, no matter what math or science or art you bring to this application, you're likely to be wrong in the final event.

Isn't that correct?

MR. JIM CHRISTIE: Yes. I -- to give you a really simple example, we -- I think we can all look at -- remember the concept of a dice. The numbers one (1) to six (6) on the -- on the dice. The average roll is three and a half (3 ½). The actuary will predict that you will roll three and a half (3 ½) and, in fact, you will be wrong every single time, because you will never roll three and a half (3 ½). But yet, three and a half (3 ½) is the average roll of the dice.

MR. RAYMOND OAKES: I appreciate that example. It's a very visual one (1). And your inaccuracy is going to range from slightly inaccurate to the present circumstance, where we have some runoff of some $284 million, to being grossly inaccurate.

Is that correct?

MR. JIM CHRISTIE: I would quarrel with the adjective you've used but the -- the estimate can certainly be different for any number of reasons. The models get refined. Even if the models aren't refined, there is still the potential for statistical fluctuation within the models.

MR. RAYMOND OAKES: And I think the adjective you used in your exchange with Ms. Grammond was that it was obviously wrong in this case.

MR. JIM CHRISTIE: Yes.

MR. RAYMOND OAKES: The transcript at page 7,573 of these hearings talks about the case reserves, and I appreciate you weren't here for that part of the hearing. But does it accord with your understanding of MPI that the total amount of case reserves MPI would have would be in the range of $864 million?

MR. JIM CHRISTIE: That's about the right order of magnitude, but I can confirm.

MR. RAYMOND OAKES: That's fine. If you'd just accept that for the pur -- purpose of the example. And the favourable runoff was some $284 million?

MR. JIM CHRISTIE: It was.

MR. RAYMOND OAKES: And you -- you mentioned the State Farm example. Would you agree with me that that's a gross anomaly in the experience of the insurance forecasting?

MR. JIM CHRISTIE: It's an anomaly. Whether it's gross or not, I'm not sure.

MR. RAYMOND OAKES: You're not trying to tell the Board that being a billion dollars out on a forecast would be acceptable forecasting standards?

MR. JIM CHRISTIE: I have no knowledge of how they established the estimate, or -- or why they changed it. I'm only dealing with the published facts. I know that they published a result that showed a million dollar loss.

I can say that in the case of MPI, in two (2) thou -- knowing now, if we had known that in 2005, I would not have put up the liability that I did. That's why it was obviously wrong. But was it -- it wasn't necessarily wrong -- in fact it wasn't wrong, in my opinion, when we made it in 2005, because we didn't have the information we have today.

And I just go back to the dice example. After you roll the dice it's pretty obvious what the answer is. But before you roll it, there's no way of knowing what it's going to be.

MR. RAYMOND OAKES: Well, in 2005, sir, you did have a material difference between the two (2) results produced by the two (2) methodologies.

MR. JIM CHRISTIE: No. The first was a case estimate process, it was not a methodology. It was a change in the way case estimates were established.

The case estimates were changed by an amount of roughly $250 million by applying a tabular reserve. The meth -- actuarial methods that were used were the same for 2004, 2005, and 2006. The standard actuarial techniques of incurred development, paid development, Bornhuetter-Ferguson development, and paid Bornhuetter-Ferguson development.

The technique -- the meth -- the methods were unchanged. What we had was a significant change in the underlying data. The fact that you dropped a quarter of a billion dollars out of the case liabilities was clearly going to impact the results of any of the methodologies.

And, in fact, no reasonable actuary would use a technique where the factors were based on historic data when he -- when he or she knew that the -- the current data was at a significantly different level of -- of sufficiency.

The fact that we knew that -- that the Company had changed its reserving practices and had dropped out of the case reserves two hundred and fifty mill -- roughly $250 million. You had to take that into account when you apply the methodologies. Failing to do that would be very poor actuarial practice.

MR. RAYMOND OAKES: Would you agree with me, that the result of assigning zero credibility is the same as ignoring that data?

MR. JIM CHRISTIE: Arithmetically, yes,

they are. But the fact remains we didn't ignore it. We knew very much about it and we adjusted for that change. And the adjustments were broadly speaking, to -- to effectively ignore -- to replace the existing numbers at October, 2005, with what they -- what would probably have happened if that change in reserving prac -- case-reserving practice had not taken place.

MR. RAYMOND OAKES: Did you issue a qualified report that warned of the consequences in the event that there was significant credibility to be applied to that data?

MR. JIM CHRISTIE: No.

MR. RAYMOND OAKES: And why not, sir?

MR. JIM CHRISTIE: Because, in my opinion, it didn't need to be qualified. We'd made our best estimate. And, in fact, what we're engaged to do is establish a best estimate. My best estimate at the time included making an allowance to offset the changing case-reserving approach.

MR. RAYMOND OAKES: Well, if you didn't point up a warning of the alternative consequences how could Mr. Lam then provide any meaningful acceptance of the report that you produced?

MR. JIM CHRISTIE: I'm not sure how Mr. Lam could -- or could not have done his work. And, in fact, I don't know who did the review in 2005. I'm typically not privy to those letters. Those are internal documents for the audit firm. I would only be apprised if they had concerns.

And certainly we would have been describing to the audit firm in some context what we had done. So it wouldn't have been just a, Here's a number, take it or leave it. There would have been some description of what was going on and our explanation of the rationale.

It was no secret within MPI that this change in practice had taken place. It took a se -- series -- a significant amount of time to get the process in place. It was carefully monitored when it was put in place. That's why we collect -- the Corporation was able to collectively estimate the impact of about -- at about $250 million because they had monitored the estimates on the fi -- case files before the application of the new case-reserving methodology and the value on the case file after the application of the new methodology.

MR. RAYMOND OAKES: My Learned Friend talked about the email from Mr. Luke Johnston of November 2nd, and we examined that, where he -- and I'll repeat what Mr. Williams has read into the -- the record:

"It has been very hard to defend our

PIPP forecasts as best estimate
assumptions when the prior year's
actual development is consistently
coming in 50 percent to 70 percent
below our forecast."

My question to you, sir, is, especially in -- in recognition of your distinguished work in the actuarial field for some decades, why does it take a junior relative to your own experience and achievements, a junior actuary, to bring this to your attention or to -- to make that statement, that he can't defend the PIPP forecast as best estimates with those numbers?

MR. JIM CHRISTIE: My presumption was he was referring to the PIPP forecasts that were brought to the PUB for rate-filing purposes. I am not part of the rate-filing process.

I have appeared here -- this is I -- either my second or third time in fifteen (15) years to address specific issues relating to my appointed actuary's report, which I understand is an input into the rate-filing process, but it in no way or matter does my report attempt to forecast what two (2) -- next year's claims are going to be for which next year's premiums have to be set.

My report is an analysis of the

liabilities of the Corporation as of a particular date for the claims that have occurred up to that date.

MR. RAYMOND OAKES: Were you not annually reviewing the MPI PIPP runoff?

MR. JIM CHRISTIE: I was reviewing the PIPP runoff, but that is not -- well, at least not my understanding of what the first paragraph of Mr. Johnston's letter referred to.

MR. RAYMOND OAKES: Well, let me make the question simpler. How did you not know that the prior year's actual development is consistently coming in 50 percent to 70 percent below the forecast?

MR. JIM CHRISTIE: In my opi – first of all, it wasn't coming in 50 to 70 percent lower. That was the forecast that MPI was bringing to the -- the PUB. What we always look at every year is the cha -- is the development triangles. We were aware of those. We saw that there was a change.

As I've alluded to in my filed testimony, we saw that the -- the new case-reserving approach seemed to be accurate in -- from third year onward in that the development fa -- factors that we saw in the first year subsequent to the implementation of the change were close to unity, implying that the factors were roughly accurate.

But we had only one (1) observation. I chose for two (2) years to assign zero credibility to that because it was a theoretical method, at that point still unproven.

In the third year, where we saw still relatively consistent, close to unity, factors, we started to apply -- allow credibility -- put more credible -- credibility to the -- the new data. I had -- we had done that to a greater extent the next year, but it was only in 2010, when we had five (5) years of observations, that all showed the same thing, that we decided it was -- that I decided that it was time to release that.

Because our standards of practice require, when we have a true change in the estimate, that I'm convinced the new number is better, to go to it. Not to smooth it over a period of time, but to release it then.

MR. RAYMOND OAKES: So did you decide to change prior to his memo or after his memo? His email.

MR. JIM CHRISTIE: It would have been after his memo, because until we get the data, we don't -- we don't do an analysis. So I was -- we were starting the analysis in November. It's October data, so we wouldn't typically get it until mid-November.

MR. RAYMOND OAKES: You -- in your cross-examination by Board counsel, you were asked of any benefit of your use of conservatism in the MPI review. And your answer was that it assists with public relations if you're so conservative as to result in dividends.

You're not suggesting that you have any role to play in this process with helping MPI and government with public relations or being so conservative as to result in dividends, are you sir?

MR. JIM CHRISTIE: Absolutely not. I'm not suggesting that in any way.

MR. RAYMOND OAKES: Those are my questions, Madam Chairperson.

THE CHAIRPERSON: Thank you very much. Now, I'm -- oh, go ahead.

MR. REGIS GOSSELIN: I have a follow-up question. This is -- I'm not looking for anything in the closet, I just want to find out if, for example, the opposite had occurred. You know, if you had adverse -- your forecasts were too low relative to the experience. I guess the question is, would you have pulled the trigger a lot sooner?

Like, I mean --

MR. JIM CHRISTIE: It's a hypothetical question, but I'd have to say that I probably would have been more inclined to pull the trigger sooner with -- if it was the adverse than if it was favourable. That's my personal inclination and that's -- I don't think there's a -- I -- I think you're supposed to be unbiased, but the reality of my personal inclinations is that I would be much more biased to get bad news out than to get good news out.

MR. REGIS GOSSELIN: And I would do the same, I think.

THE CHAIRPERSON: I'm looking now to CAC. Do you want to -- CCA, sorry. CCA. Do you want to ask any questions?

MS. LIZ PETERS: No, we have no questions.

THE CHAIRPERSON: Okay. Thank you. I think then we're ready for -- is it new witnesses? We maybe should be taking a break and -- for them to be able to...

MS. CANDACE GRAMMOND: We should probably take a break before KPMG goes --

THE CHAIRPERSON: Yes.

MS. CANDACE GRAMMOND: -- but we just should ask if Ms. Kalinowsky has any redirect?

THE CHAIRPERSON: Oh, right.

MS. KATHY KALINOWSKY: No, I have no redirect questions of Mr. Christie.

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: Yeah. I would -- I would say then, Madam Chair, Mr. Christie can be excused. We should take a short break.

THE CHAIRPERSON: I want to thank you, Mr. Christie, for giving us your time. And it was very informative. I found it very interesting. Up until the time you got to the loss triangles. I find them a little challenging but -- but it's been a very interesting day.

MR. JIM CHRISTIE: I'll take that as a personal compliment that I made an actuarial presentation interesting, because I don't often get that.

THE CHAIRPERSON: Well, and understandable. You made it understandable and that's not easy.

(PANEL STANDS DOWN)

THE CHAIRPERSON: All right. We're going to take a break and we'll be back at about quarter to 3:00.

--- Upon recessing at 2:31 p.m.

--- Upon resuming at 2:45 p.m.

THE CHAIRPERSON: well, Ms. Kalinowsky, you're ready to begin with the witnesses?

MS. KATHY KALINOWSKY: Yes, I am. I'm very pleased to have with me as witnesses, they have to be sworn, but it's Mr. Neil Parkinson to my immediate right, and to his right is Mr. Rob Kowalchuk.

(BRIEF PAUSE)

MPI PANEL 3:

ROBERT KOWALCHUK, Sworn

NEIL PARKINSON, Sworn

THE CHAIRPERSON: Go ahead.

EXAMINATION-IN-CHIEF BY MS. KATHY KALINOWSKY (QUAL.):

MS. KATHY KALINOWSKY: Thank you. I'd like to proceed in the same manner and framework that I did with -- earlier this -- today with Mr. Christie. So I'll talk a bit generally and guide the witnesses through some questions for the direct with respect to their qualifications first.

But, Mr. Kowalchuk, can you please explain what your present position is at KPMG and can you describe your work?

MR. ROBERT KOWALCHUK: Yes. I'm currently a partner in the audit practice of KPMG here in Winnipeg, over twenty (20) years of experience. I'm responsible for several financial statement audits both in the private and public sectors, including those in the insurance industry.

MS. KATHY KALINOWSKY: And, Mr. Parkinson, same question.

MR. NEIL PARKINSON: I'm the national director of KPMG's insurance sector practice. I'm based in Toronto. I have over thirty (30) years of experience in dealing with insurance enterprises, both public, private mutuals, stock companies, workers' compensation boards, and similar organizations. I'm a chartered accountant in Ontario since 1978 and FCA Ontario, 2008.

MS. KATHY KALINOWSKY: And Mr. Kowalchuk, what are your qualifications to be the auditors of MPI?

MR. ROBERT KOWALCHUK: I'm a chartered accountant in good standing, as I mentioned, with twenty (20) years of practice, almost exclusively in the audit side. I have experience auditing Crown corporations, government entities, as well, as I mentioned, companies in the insurance industry.

MS. KATHY KALINOWSKY: And same question for you, Mr. Parkinson.

MR. NEIL PARKINSON: Well, I mentioned my -- my year -- years of experience. In addition to that I should mention the -- some of the industry and technical involvements. I'm the chair of the Auditors Advisory Committee for Insurance to the Federal Superintendent of Financial Institutions. I'm a member of the Canadian Accounting Standards Boards, Insurance Accounting Task Force, let's see, KPMG Global Technical Committee on Insurance, and also the advisory committee to OSFI, the federal regulator with respect to IFRS matters. All three (3) of those bodies relate really to the development of IFRS now and going forward.

Also was the chair of the CICA working group that produced the guidance on how auditors use the work of actuaries that resulted in Audit Guideline 43. And the joint task force of the CICA and the CIA which updated those standards for the interpretation of the new Canadian audit standards that were effective at the end of 2010.

Accounting advisor to the Canadian Institute of Actuaries on reinsurance matters, and co-chair of the CICA/CIA task force on communications with actuaries. And as previously mentioned, also national director of our insurance practice.

MS. KATHY KALINOWSKY: Thank you for

that, Mr. Parkinson.

Mr. Kowalchuk, for how many years has KPMG prepared the MPI audit?

MR. ROBERT KOWALCHUK: We've been the external auditors from 2003 till present day. I believe we were also auditors in the mid 1990s.

MS. KATHY KALINOWSKY: And who was the team that performed the 2010/'11 audit of MPI from KPMG?

MR. ROBERT KOWALCHUK: I was the lead audit engagement partner. Another partner in our Winnipeg office, Scott Sissons assisted me on the engagement. Mr. Parkinson was the engagement quality control review partner on last year's audit. The senior manager in our office, Scott MacLennan, from information risk management was involved in the audit. Mr. Edward Lam was our audit support actuary from our Toronto office. And as well, there were several other CAs and CA articling students on the engagement team.

MS. KATHY KALINOWSKY: And, Mr. Parkinson, you performed what is known as the second partner review of the audit.

Can you just explain that function?

MR. NEIL PARKINSON: Yes. I've been carrying out that role since 2003, in my case. What the EQCR does -- that's the acronym for what you described, is be involved in and concur in all the key decisions related to the planning, execution, gathering, and interpretation of evidence and, ultimately, forming our opinion on the financial statements.

MS. KATHY KALINOWSKY: And it's common to have a second partner review?

MR. NEIL PARKINSON: Based on our own internal standards we would always have a second partner review in an engagement of this type that is a significant financial institution.

MS. KATHY KALINOWSKY: And all of your responses and answers today will be from your point of review as an engagement as an auditor of MPI.

Is that correct?

MR. NEIL PARKINSON: Yes, that's correct. It really relates to our issuing an opinion on the financial statements of MPIC.

MS. KATHY KALINOWSKY: At this point, I'd like to have both gentlemen -- both witnesses qualified as experts in the audit function, and also for Mr. Parkinson the audit of insurers.

MS. CANDACE GRAMMOND: I have no comments or objections to that, Madam Chair.

THE CHAIRPERSON: Okay. I'll just turn to our Intervenors. Mr. Williams...?

MR. BYRON WILLIAMS: We accept the qualifications of the witnesses as presented.

THE CHAIRPERSON: And Mr. Oakes...?

MR. RAYMOND OAKES: As do we.

THE CHAIRPERSON: Right. And I should have the names in front of me here, but...

MS. LIZ PETERS: Ms. Peters.

THE CHAIRPERSON: Pardon me?

MS. LIZ PETERS: It's Ms. Peters. Yeah, we have --

THE CHAIRPERSON: Ms. Peters. Sorry. Do you accept these witnesses?

MS. LIZ PETERS: We do.

THE CHAIRPERSON: Okay. Thank you.

MR. REGIS GOSSELIN: Can I ask a question? We referred to a document earlier today that talks to the roles of the external auditor. Can you -- can you bring us back to that document?

MS. CANDACE GRAMMOND: Sure.

MR. REGIS GOSSELIN: Do you remember where that is?

MS. CANDACE GRAMMOND: It's -- it's at 1-28. It's at Tab 18 of the book of documents, page 2. And that -- that relates on page 3 to the -- there's a blurb there about the KPMG auditors. This does relate though to the actuarial role component. But is this what you were referring to?

MR. REGIS GOSSELIN: Yes, that is. Thank you.

MS. CANDACE GRAMMOND: Okay.

RULING (QUAL.):

THE CHAIRPERSON: Okay. Hearing no objections, I think we're prepared to accept your witnesses.

EXAMINATION-IN-CHIEF BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: Thank you very much for that.

Mr. Parkinson, can you just explain the purpose of an audit? I know Mr. Gosselin, of course, will be very familiar with this.

MR. NEIL PARKINSON: Okay. It's for an independent firm of public accountants to express an opinion on the financial statements of the organization as to whether they fairly present the financial position, results of operations, and cashflows within a prescribed accounting framework.

At the time, this was Canadian generally accepted accounting principles, although going forward it will be under IFRS as the accounting framework.

MS. KATHY KALINOWSKY: And, Mr. Kowalchuk, perhaps you could explain to the Board members as to who would be interested in or rely upon the audited financial statements of Manitoba Public Insurance?

MR. ROBERT KOWALCHUK: Sure. Well, there would be several stakeholders. Certainly, management of MPI who's responsible for the preparation of the financial statements, the audit committee of the board of directors of MPI who recommends to the board that the statements be approved, the chair of the board of directors of MPI who would deliver the report to the minister.

Of course the minister responsible for MPI would be a stakeholder, government since MPI's financial statements form part of the consoli - consolidated financial statements of the province. The auditor general of the province of Manitoba would be an interested party, as would the Crown corporation's counsel in their oversight role of all the Crown corporations, the various provincial political parties as they review and are required to pass the annual report in the standing committee of the legislature, the Public Utilities Board in their role as the regulator and, in general, the public, those who have insurance, driver's licence, or vehicles registered with MPI would have a general interest in the financial state of the Crown corporation.

MS. KATHY KALINOWSKY: Thank you. And, Mr. Kowalchuk, I'll proceed with asking you the following questions. But the audit is done by working with the office of the auditor general.

Do you just want to explain to the Board what actually occurs in that regard?

MR. ROBERT KOWALCHUK: Certainly. We do work with the office of the auditor general on the audit engagement. The OAG receives a copy of our planning information. They receive copies of our draft audit opinion, financial statements, any recommendations in draft as well as in final form.

We understand and acknowledge that the OAG will be using the KPMG audit work for the purposes of consolidation in the public accounts. We also see the OAG present at every audit committee meeting of the MPI board of directors, where monthly and quarterly and annual financial statements are presented and policies and procedures are discussed.

MS. KATHY KALINOWSKY: And, Mr. Parkinson, I can also see that KPMG coordinates and uses the work of the external actuary, who has been Jim

Christie, from Ernst & Young, who testified earlier today?

MR. NEIL PARKINSON: That's correct. And the relevant professional standards for these purposes, and -- and I'm using the new references, Canadian audit standards are under Section 500, audit evidence, and also Section 620, use of the work of an auditor's expert.

And these really supplant but were consistent with the previous Audit Guideline 43 which testified on last year in describing what we do in coordinating work with the actuaries, and was updated with the updated CICA guidance that I referred to as having been issued last January.

What we do in this -- in these circumstances, because the work of the external actuary is, you know, obviously one (1) of the largest amounts shown on the financial statements and certainly the most judgmental and susceptible to differences arising, is, you know, take a fairly structured and disciplined approach to how it's done.

We have to insure that the data used by the appointed actuary is appropriate, ties into the records that the -- so we do provide, you know, some assurance as to the data used by the actuary in terms of how it's sorted out by duration, year, by type of loss and things of that nature that are relevant to the actuarial analysis.

We look at the methodologies, the assumptions and the judgements reached by the appointed actuary, and we also do recomputation testing of the work of the -- the appointed actuary. All -- all directed at coming to a conclusion on whether the valuation that the appointed actuary has come to is within a reasonable range of actuarial estimates, based on what -- what would be -- I think we would say generally accepted actuarial standards.

MS. KATHY KALINOWSKY: And, Mr. Kowalchuk, can you provide an estimate to the Public Utilities Board of how much time is spent on the MPI audit by KPMG?

MR. ROBERT KOWALCHUK: Yes, we would spend in excess of eight hundred (800) hours in total by the total team.

MS. KATHY KALINOWSKY: And that's annually?

MR. ROBERT KOWALCHUK: That's annually, yes.

MS. KATHY KALINOWSKY: And Mr. Kowalchuk, KPMG provides two (2) -- or audits two (2) financial statements of MPI. The Basic and the overall corporate.

Can you outline the different types of audit procedures performed on the Basic as opposed to the overall corporate?

MR. ROBERT KOWALCHUK: Yes. The audit procedures are very similar, with the exception for the Basic line of business. We need to perform audit procedures over the allocations in order to provide a clean audit opinion on the Basic line of business as a stand-alone set of financial statements.

So even though we don't specifically refer, in our auditor's opinion, to the fairness and reasonableness of the allocations, if in our opinion they weren't fair and reasonable we would have to qualify our audit opinion on the Basic line of financial statements.

MS. KATHY KALINOWSKY: And, ultimately, when you talk about your opinion, your opinion is found in the annual report. One (1) for Basic and one (1) for the overall corporate.

Is that correct?

MR. ROBERT KOWALCHUK: That's correct.

MS. KATHY KALINOWSKY: And would the Board members like to turn towards the annual report? It should be on page 46. Actually on -- it's on page 47 of the annual report. But would you like to quickly outline each item of the opinion, why it is there and what it tells us?

MR. ROBERT KOWALCHUK: Certainly. So the -- the first paragraph of the independent auditor's report -- first I got -- I've got to step back. It's addressed to the board of directors of MPIC.

The first paragraph sort of outlines the scope of our audit engagement, the various statements that are subject to audit, including all of the notes to the financial statements, which collectively form the financial statements.

The next paragraph outlines management's responsibility for the financial statements, and they are responsible for the preparation and a fair presentation of the financial statements. If -- in this example, in accordance with Canadian generally accepted accounting principles. As well, they are responsible for internal control.

The next three (3) paragraphs outline the auditor's responsibility. So the first paragraph under that heading talks about that it is the auditor's responsibility to express an opinion on these financial statements, and that we have conducted our audit in accordance with Canadian generally accepted auditing standards.

The next paragraph talks about what is

involved in the audit, introduces the concept of performing testing to gain sufficient appropriate audit evidence. It also highlights to the reader that we are not expressing an opinion on the effectiveness of the entity's internal control.

The final paragraph, under auditor's responsibility, confirms whether or not we've obtained sufficient and appropriate audit evidence in order to form an opinion on the financial statements.

And, finally, the last paragraph is our opinion, which would state that the financial statements present fairly in all material respects, the financial position of the Corporation, its results of operations and its cash flows for the year ended February 28th, 2011, in accordance with Canadian generally accepted accounting principles.

MS. KATHY KALINOWSKY: And in fact, you've prepared two (2) such opinions. One (1) is for the overall corporate and the other is for the Basic, and both are virtually identical other than the name for which the financial statements are? Correct?

MR. ROBERT KOWALCHUK: That is correct.

MS. KATHY KALINOWSKY: And this is what's known as a "clean audit"?

MR. ROBERT KOWALCHUK: That is correct.

This is a -- a clean audit opinion, or an unmodified audit opinion is another terminology.

MS. KATHY KALINOWSKY: And for each year that KPMG has audited MPI, has KPMG issued a clean audit opinion?

MR. ROBERT KOWALCHUK: Yes, we have.

MS. KATHY KALINOWSKY: Mr. Kowalchuk, you've been involved with the MPI audit since 2003. Has KPMG ever identified any fraud or noncompliance with laws or regulation? Any material misstatements, material weakness in internal controls, significant difficulties encountered during the audit, going concern issues, reporting issues?

MR. ROBERT KOWALCHUK: No, we have not. Any matters that we have identified during the audit that have been brought to the attention of management has been satisfactorily dealt with by management of MPI.

MS. KATHY KALINOWSKY: And further, Mr. Kowalchuk, KPMG's audit of MPI is also reviewed by the Office of the Auditor General, is that correct?

MR. ROBERT KOWALCHUK: That is correct.

MS. KATHY KALINOWSKY: And has the Office of the Auditor General raised any issues with KPMG?

MR. ROBERT KOWALCHUK: No, they have not.

MS. KATHY KALINOWSKY: So the Office of

the Auditor General has not expressed any concerns with the audit or the financial estimates -- or sorry, financial statements of MPI?

MR. ROBERT KOWALCHUK: That is correct.

MS. KATHY KALINOWSKY: Has the Office of the Auditor General identified any areas for improvement to KPMG with regard to the KPMG audit or to MPI's financial statements?

MR. ROBERT KOWALCHUK: No, they have not.

MS. KATHY KALINOWSKY: And has the Office of the Auditor General made any recommendations to KPMG with regard to the audit or to the financial statements of MPI?

MR. ROBERT KOWALCHUK: No, they have not.

(BRIEF PAUSE)

DR. LEN EVANS: Okay, the two (2) audits, but which audit covers DVL?

MR. ROBERT KOWALCHUK: DVL would be included in the overall corporate financial statements.

DR. LEN EVANS: I'm sorry, I didn't hear you.

MR. ROBERT KOWALCHUK: DVL would be included in the overall corporate financial statements, not the Basic financial statements.

THE CHAIRPERSON: But, I understood you to say there were two (2) audits. One (1) on the Basic. The other one was on the other aspects of MPI? Is that true?

MR. ROBERT KOWALCHUK: There is one (1) on Basic, correct.

THE CHAIRPERSON: Yes.

MR. ROBERT KOWALCHUK: And then the other one is the total corporate, including Basic.

THE CHAIRPERSON: Okay. So that's where DVL would be found, in the total corporate?

MR. ROBERT KOWALCHUK: That's correct.

THE CHAIRPERSON: Okay. Thank you.

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: And just to clarify that then, Mr. Kowalchuk, for the Board members. DVL would be found within the extension line of business which is in -- within the overall corporate?

MR. ROBERT KOWALCHUK: Yes, that is correct.

MS. KATHY KALINOWSKY: And the overall corporate would also contain SRE or special risk extension?

MR. ROBERT KOWALCHUK: Yes, that is correct.

MS. KATHY KALINOWSKY: In addition to Basic?

MR. ROBERT KOWALCHUK: In addition to Basic, yes.

MS. KATHY KALINOWSKY: Moving -- moving forward now, we're going to talk a little bit about IT optimization. And no, it's not Mr. Geffen making a -- an appearance. That will be tomorrow. But we're going to talk about the accounting treatment of IT optimization that was brought forward in questions in cross-examination from Board counsel.

But, Mr. Kowalchuk, you're aware of the accounting treatment of the IT optimization reserve?

MR. ROBERT KOWALCHUK: Yes, I am aware of that. The -- we feel that the reserve is appropriately accounted for and disclosed in the financial statements of the Corporation, in accordance with Canadian GAAP, or generally accepted accounting principles. The accounting treatment is also acceptable under IFRS.

MS. KATHY KALINOWSKY: Can you give us an example of any other reserves in other situations? Are you familiar with the treatment or reserves in other situation -- treatment of reserves in other situations?

MR. ROBERT KOWALCHUK: Yes, I've seen that treatment before in other sets of financial statements. One (1) example might be an appropriation of retained earnings set aside for a capital project, such as a construction of a building or a plant.

MS. KATHY KALINOWSKY: And KPMG has discussed the matters of the accounting treatment of IT optimization reserve with both senior management at MPI, and also the audit committee of the board of directors?

MR. ROBERT KOWALCHUK: That is correct. And it is normal course of action for management to bring such accounting matters to the attention of the auditors prior to recording any such transactions. So we did have several conversations with -- with senior management.

As well, it was discussed at -- at one (1) of the -- at least one (1) of the audit committee meetings that we were in attendance at, specifically, the January 27th, 2011, audit committee meeting, where management discussed the creation of the IT optimization reserve with the committee members. And we also obtained evidence that the reserve was approved by the MPI board of directors on February 24th of 2011.

MS. KATHY KALINOWSKY: And you have no concerns with the IT optimization reserve as the accounting treatment?

MR. ROBERT KOWALCHUK: No concerns, no.

MS. KATHY KALINOWSKY: Moving towards IFRS 4, Mr. Kowalchuk, you're aware of a potential $100 million that was earmarked from retained earnings for IFRS 4 that was discussed at the audit committee meeting on January 27th, 2011?

MR. ROBERT KOWALCHUK: Yes, I was in attendance at that meeting.

MS. KATHY KALINOWSKY: And you're ultimately aware that this hundred million dollar earmark was -- for IFRS 4 was not proceeded with?

MR. ROBERT KOWALCHUK: That's correct. You know, the standard is still not close to being finalized. A number of decisions still need to be made which would impact ultimately how the claims liabilities will be measured under IFRS on a go-forward basis. Therefore, there really is too much uncertainty at this time to come up with an estimated impact.

MS. KATHY KALINOWSKY: And, mis -- Mr. Parkinson, you were present earlier on today when Mr. Christie testified about IFRS 4. Would you agree on an overall basis with his testimony?

MR. NEIL PARKINSON: Yes, I would. I think that the impact of measurement under the -- first of all, under the existing IFRS standards was really a non-event from the standpoint of measuring claims liabilities for -- and going forward, it is unlikely we will see new of -- new IFRS standards effective prior to 2015. And those standards will not be known for -- even in their basic shape we won't have any great certainty on it for a few months as they're -- they're still in a state of transition for the next while.

MS. KATHY KALINOWSKY: Thank you for that. I'd like to move into some other questions with respect to the allocation methodology reviews. And I know that Mr. Gosselin has asked some questions in the past, so.

MR. REGIS GOSSELIN: Before you go there, I wonder if I could ask a question in relation to a response from Mr. Kowalchuk, I believe. You talked about eight hundred (800) hours allocated to -- or at least spent on the audit.

What portion of that would have related to the examination of the insurance reserve that we just spoke about earlier today?

MR. ROBERT KOWALCHUK: The insurance -- the 250 million reserve? Is that...?

MR. REGIS GOSSELIN: That's right, yeah.

MR. ROBERT KOWALCHUK: Right. You know, I don't think that that time was tracked specifically, but certainly, you know, it was an issue identified in the audit planning process, and we ensured that an appropriate amount of time was spent examining it. I couldn't give you an exact hour figure.

MR. REGIS GOSSELIN: Okay. And in relation to -- given the fact that this was an issue identified in the pre-planning, you would have increased the number of hours, I guess, to address that issue specifically, relative to what you would have done in other years?

MR. ROBERT KOWALCHUK: Yes, that is correct.

THE CHAIRPERSON: Proceed.

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: Thank you for that. With respect to the allocation methodology reviews, Mr. Kowalchuk, MPI implements an allocation methodology to allocate costs between Basic and the other lines of business.

How does this come into play when you're preparing two (2) different audit opinions?

MR. ROBERT KOWALCHUK: So, as I mentioned previously, we do perform additional procedures on the allocation methodologies. Each year management performs its own internal review of the allocation methodologies and that KPMG was satisfied that in the course of our financial statement audits that the allocations were fair and reasonable.

In terms of procedures, we review what is new in terms of the methodologies, any updates from a prior year, assess those changes for reasonableness. We use what we call information risk specialists on the audit team to ensure that the formulas are coded properly and -- and producing the proper results.

And after assessing the reasonableness of the allocation methodologies we do take a look at the numbers to ensure that they're being allocated into the correct line of business. We also perform an overall analytical review of the Basic allocations as compared to the Corporation as a whole which includes the -- the Basic line of business, and we would investigate any anomalies from that analysis.

MS. KATHY KALINOWSKY: And, Mr. Kowalchuk, has KPMG reviewed the cost allocation methodologies that have been prepared by Deloitte at the request of MPI?

MR. ROBERT KOWALCHUK: Yes, we did perform a review of the allocation method -- methodologies last year.

MS. KATHY KALINOWSKY: And, Mr. Kowalchuk, what was the conclusion reached?

MR. ROBERT KOWALCHUK: The conclusion reached in our report indicated that we found that the proposed allocating methodologies are reasonable and result in a fair allocation of costs and assets and liabilities among the relevant lines of business at MPI.

MS. KATHY KALINOWSKY: And over to you, Mr. Parkinson. In your professional experience, is allocation methodology the usual way to attribute costs between lines of business within a corporation?

MR. NEIL PARKINSON: Yes, and specifically for insurance organizations. There are very, very few indeed insurance organizations that would only have, perhaps, one (1) very narrowly defined line of business or product. And so it -- there's really no other way to measure profitability on a, you know, fair and reasonable basis without allocating common costs.

And there are quite a number of costs that are not necessarily specifically attributable to any one (1) product line or activity, that you have to take into account in assessing overall profitability in a line of business. Things like finance, management, HR. IT functions quite often have a lot of costs that you cannot specifically attribute to any one (1) line of business or product.

And so my experience is that, really, all insurance organizations in particular, have some form of allocation methodology to arrive at a fair allocation of costs across those lines in order to ensure that they're not fooling themselves as to what the profitability is of a particular activity or line. And also, in some instances, whether regulated or not, to ensure there's no cross-subsidization of products so it -- one (1) product doesn't look like it's better than it is and -- and another worse.

So it's really -- pretty much the only way to go about allocating costs to get to a, you know, an assessment of profitability in any given line of business.

MS. KATHY KALINOWSKY: Thank you for that.

Mr. Kowalchuk, in summary then, you've audited the Basic financial statements for the year ending February 28th, 2011?

MR. ROBERT KOWALCHUK: Yes, that's correct.

MS. KATHY KALINOWSKY: And based upon your audit the financial statements accurately reflect the Basic financial status of MPI on its 2010/2011 fiscal year end?

MR. ROBERT KOWALCHUK: Yes.

MS. KATHY KALINOWSKY: And after the allocation of expenses there is no material cross-subsidization between MPI's line of business and -- MPI, sorry, Basic line of business and other lines of business?

MR. ROBERT KOWALCHUK: That is correct.

MS. KATHY KALINOWSKY: Is there anything in the financial statements that indicates that the extension and SRE lines of business and the DVL, which is included in extension, have any material financial impact upon the Basic line of business?

MR. ROBERT KOWALCHUK: There is nothing to suggest that. Again, as I mention, KPMG did examine the process and methodologies and allocations, and have not identified any audit differences with respect to any cross-subsidization.

MS. KATHY KALINOWSKY: Thank you for that, Mr. Kowalchuk. I'll be concentrating most of the questions now on Mr. Parkinson as I move into the realm of audit support and the actuarial specialist now.

Mr. Parkinson, last year in the general rate application the PUB specifically wanted to hear from KPMG on the audit support with respect to the actuarial evaluation of Basic claims liabilities including the findings of -- and reporting on what was then Auditing Guideline 43, which is now CAS 620, for the actuarial specialist for this latest and recent prior fiscal year ends?

MR. NEIL PARKINSON: That's correct.

MS. KATHY KALINOWSKY: And, Mr. -- Mr. Parkinson, why are you particularly well suited to testify on audit support and specifically the actuarial specialist function?

MR. NEIL PARKINSON: Well, in -- in part because really virtually all of my clients are insurance enterprises where we use actuary a lot of support and work with valuation actuaries on the other side of the table in producing the numbers that are audited.

But in addition to that, I've been at the sort of leadership positions in developing the professional guidance on how you go about that as auditors.

I mentioned before, I chaired the CICA task force that produced the Audit Guideline 43, that deals with how auditors should carry out audits of actuarially determined amounts for insurance enterprises. And then, last year, developed guidance that would be suitable under the new Canadian Audit Standards for the same thing, broadened into not just insurance enterprises, but also pension and benefit plans.

So I've been very much involved at the standards setting level and I'm now also dealing with that at a sort of a training level at a global level for our firm, as well.

And as mentioned, my practice is pretty much devoted organizations where we have to deal with these or -- problems on a day to day basis.

MS. KATHY KALINOWSKY: And, Mr. Parkinson, perhaps you could explain to the -- the Board that, as auditors conducting an audit of an insurance company, an actuarial specialist is indeed required now?

MR. NEIL PARKINSON: Yes. Both under the former audit guideline 43 and under the -- the new guideline that's titled, rather ponderously, The CICA-CIA Guide to Audits of Financial Statements That Contain Amounts That Have Been Determined Using Actuarial Liability Calculations. You'll be forgiven for still staying Audit Guideline 43, I still do.

The -- one (1) of the fundamental aspects of this is it's a very complex and subjective area of estimates. And accountants are not actuaries and require professional expertise of actuaries to verify actuarial calculations.

I've been operating and serving insurance enterprises for over thirty (30) years, have built actuarial projection models myself and, you know, had a mathematics background, but I would not dream of going to, you know, the coal face on this without an actuary at my side myself. So you really do need that and that's one (1) of the fundamental principles of what you do in carrying out an audit of an insurance company.

As mentioned, the new guidance is substantially the same as the old Audit Guideline 43. Then in some measure that was because we built Audit Guideline 43 on the same chassis as the new international audit standards were.

The actuarial specialist, as touched on briefly before, is involved in doing the things -- and understanding and interpreting what the valuation actuary is doing, understanding the methodologies, the assumptions and judgments, concluding whether they are being done within appropriate actuarial professional standards, but importantly, you know, testing the co -- the application of those -- those standards and principles and judgments and doing recomputation testing of how they, you know -- basically how they did their sums and what the end result was, and then forming a view about whether the result was within a reasonable range of estimates. And that's really the critical judgment you get to at the end.

The actuary is just that. It's a -- I haven't run into any actuary who is also an accountant or vice versa, but the -- these are, for MPIC, always KPMG employed actuaries.

Historically, up until this past year, it was a quite seasoned fellow by the name of Blair Manktelow who was only maybe seven (7) or eight (8) years less experienced than Jim Christie.

Last year it was Edward Lam, who is another fully qualified and accredited actuary, who had been assisting Blair before he left our firm to -- to take on a senior actuarial role with another major insurance company.

MS. KATHY KALINOWSKY: Thank you for that.

And, Mr. Parkinson, I'll ask you to explain, in step by steps, the process for incorporating the review of basic policy liabilities into the audit.

MR. NEIL PARKINSON: Okay. And I'll maybe touch on maybe a couple of specifics as it applies to MPIC.

Somewhat differently than -- than is the case with some organizations where this is a once a year event, in this case as mentioned there was an October 31st take on the actuarial liabilities, which is where a lot of the, you know, the change in experience and -- and the heavy lifting from an analysis standpoint is done. So we're very much engaged in reviewing the actuarial valuation at that point, as well as doing a roll forward at the end of the year.

So we involve the -- or our actuary at that point. We exchange correspondence to confirm the mutual use of each other's work with the appointed actuary, in this case Mr. Christie in the past. We obtained the -- you know, the - the same reports that the external actuary is working with. And we reconcile and test that data back to the corporate records to ensure that the external actuary is dealing with appropriate and accurate data.

We then, as -- also as mentioned, have a look at what is done from a, you know, pro -- from a process methodology and judgment standpoint. Quite often, that is done while the -- the actuarial work is still a little bit in progress to try to identify issues early. And in, I -- I guess the -- as Mr. Christie mentioned, where there are issues or differences that are apparent or questions that we have, they tend to be surfaced earlier on in the process with a view to reconciling or bridging any of those differences, undertaking further analysis, asking questions about what's going on in order to deal with those issues.

And, typically, the -- that -- that addresses most issues well before we issue, you know, a final internal memorandum indicating what our findings are. It would be unusual for our memo to come out in finished form, and that would be -- and that be a surprise to anyone that we had an issue. Ordinarily, that's been dealt with interactively with management and the external actuary earlier on in the process.

Ordinarily, any differences we find are resolved, as I mentioned, by, you know, further analysis and understanding of the data, in some instances by changes made by the external actuary. And at the end of the day, we get a memo as has been provided. In this case, this year's memorandum was provided as part of the pre-filing, I believe, that summarizes the work done, some -- does certain other things that are required under the professional standards, and we'll come to that memorandum in detail in a few moments.

The -- we then, in the overall audit team, take that overall opinion and that becomes part of our work papers as part of our assessment of whether there are any audit differences.

If we have a finding that the appointed actuary's evaluation is within a reasonable range of estimates the view is that we do not have an audit difference or audit error to -- to contend with, and so we -- we don't have anything out of the ordinary to report to anyone.

And if -- you know, if there were any differences that couldn't be resolved, and in my experience as they virtually always are, we might have an audit difference that would go on our report to management and the audit committee indicating that we had an audit difference that was immaterial, or if it was a material difference that we couldn't resolve then -- and unless that could be resolved, it could result in a qualification of an audit report, but that is very rare as you might imagine.

MS. KATHY KALINOWSKY: Thank you for that. Mr. Parkinson, what is the responsibility of KPMG in the valuation process?

MR. NEIL PARKINSON: Well, we -- we explicitly don't have a responsibility for the valuation. We're auditing it, and we have some -- some input from the standpoint that we are basically validating or providing assurance on it.

And the -- that -- that provides assurance to the audit committee and management as to whether there's, you know, a sort of a second view on whether the financial statements properly portray the actuarial evaluation.

MS. KATHY KALINOWSKY: And, Mr. Kowalchuk, has the actuarial specialist ever provided a report to the audit committee of the MPI Board of Directors that you are aware of?

MR. ROBERT KOWALCHUK: No, not that I'm aware of.

MS. KATHY KALINOWSKY: And what about you, Mr. Parkinson? Would you know whether it's common for the actuarial specialist to provide a report directly to an audit committee of any board of directors of an insurer?

MR. NEIL PARKINSON: No, the result of the -- the actuarial review is a significant part of the audit and would be included in our main audit filings report that would summarize the work we did and our findings in all major areas of the audit, but typically there would not be a separate report to the audit committee.

MS. KATHY KALINOWSKY: So typically there would not be a separate report. Well, under what circumstances could you perhaps think of that a actuarial specialist would provide that report to the audit committee?

MR. NEIL PARKINSON: Well, on request, par -- it is possible, and it happened on occasions when the -- an audit committee of an organization has asked for more granularity of reporting, particular where there's been substantial growth or changes in an organization.

In some cases, the auditor's actuary also carries out a peer review report on a periodic basis, and that peer review report might go to the audit committee.

And lastly, as mentioned, if there was an unresolved audit difference of any size then there would likely be some additional reporting to the audit committee with respect to those actuarial matters, whether it was a separate report or otherwise.

MS. KATHY KALINOWSKY: And, Mr. Kowalchuk, for each year that KPMG has audited MPI, there have been no significant issues or concerns been raised by the actuarial specialist to qual -- to cause a qualified opinion to be issued?

MR. ROBERT KOWALCHUK: That is correct.

MS. KATHY KALINOWSKY: Has the actuarial specialist ever raised an issue that has caused the MPI appointed actuary to alter his basic review of policy liabilities?

MR. ROBERT KOWALCHUK: No, they have not.

MS. KATHY KALINOWSKY: Did KPMG provide specific permission for MPI to file with the PUB the internal KPMG model -- memo from the actuarial specialist to the accounting auditors?

MR. ROBERT KOWALCHUK: Yes, we did.

MS. KATHY KALINOWSKY: Had this internal memo ever been disclosed to MPI prior to the request last year of the Public Utilities Board?

MR. ROBERT KOWALCHUK: No, not prior to last year. And, you know, no previous memos had ever been disclosed. It would -- it's very unusual for detailed audit documentation to be disclosed to the entity that's subject to audit. You know, we try to -- we need to make the audit process unpredictable for management, and also because we're not providing audit opinions on separate parts of the financial statements, but rather as on the financial taken as a whole.

MS. KATHY KALINOWSKY: Mr. Parkinson, the Pubic Utilities Board last year and this year specifically requested this internal memo from the actuarial spec -- specialists. You've provided accounting and audit services to numerous insurers throughout Canada for in excess of thirty (30) years.

For any of these insurers that you have provided these services to, are you aware as to whether its rate setting board has requested a copy of this internal memo from the actuarial specialist on the audit?

MR. NEIL PARKINSON: No, I'm not.

MS. KATHY KALINOWSKY: Has KPMG ever been asked to disclose this internal memo from the actuarial specialist to an insurance rate setting body?

MR. NEIL PARKINSON: No, not previously to my knowledge.

MS. KATHY KALINOWSKY: Mr. Parkinson, as somebody who is very much at the forefront of insurance accounting and auditing matters, are you aware of any other circumstances in which the copy of the internal memo from the actuarial specialist has been requested by an insurance rate setting board?

MR. NEIL PARKINSON: Not to my knowledge.

MS. KATHY KALINOWSKY: Mr. Parkinson, as the Chair of the CICA Auditing Guideline 43, audit of actuarial liabilities of insurance enterprises, and also the subsequent CICA-CIA task force, can you provide some circumstances as to when an external body might request a copy of this actuarial memo?

MR. NEIL PARKINSON: Well, events of this sort aren't really provided for in any standards or guidance on this. So the only circumstances that I can think of where this sort of thing might happen is in the event of some catastrophic circumstances, you know, bankruptcy or financial failure of an organization where the auditor's working papers as a whole might be the subject of review by third parties due to litigation or other -- other reasons.

But other than that, in Canada, I would say, no.

MS. KATHY KALINOWSKY: And the memo that Mr. Lam prepared, that's a fairly standard memo?

MR. NEIL PARKINSON: Yes, aside from the specifics pertaining to MPIC, it's of the same format and content as we see in our other audit support memos for our other insurance audit files.

MS. KATHY KALINOWSKY: And were there any concerns regarding noncompliance with actuarial standards and auditing standards?

MR. NEIL PARKINSON: No, the -- this provides complete coverage of the issues that we need to address from the standpoint of auditing standards and the memorandum also refers to the work of the external actuary as having been conducted, you know, within the standards of practice of the actuarial profession.

MS. KATHY KALINOWSKY: Moving into a

slightly different area here, Mr. Parkinson, but in your experience across Canada, is a program like PIPP difficult to forecast the ultimate losses? PIPP, of course, was legislated in 1994 and many of these costs for PIPP might be very long-term.

MR. NEIL PARKINSON: Well, I -- I think that, as was mentioned this morning, there -- while there are some broadly similar automobile insurance schemes, Ontario and Saskatchewan were mentioned this morning, they're of, you know, similar vintage to this, so they don't give a longer term clue on the performance of the program than what you have yourselves.

It's a fairly long duration product, a lot of exposure to changes in the costs of care, the types of care, and -- and how injuries can evolve; so it's certainly unpredictable. I would say that auto insurance generally, not just this particular program, has tended to be somewhat unpredictable, somewhat resistant to analysis no matter what its terms over the past couple of decades.

And it is fundamentally something where, you know, significant changes that are unanticipated can happen and do happen and have -- have occurred with all kinds of insurance organizations, whether they're stock companies, workers comp boards, you name it.

MS. KATHY KALINOWSKY: And for this PIPP product at this stage of its life you would expect to have deviations or adjustments on unpaid claims reserves every year?

MR. NEIL PARKINSON: Well, you would expect some level of differences to run through due to re-estimation every year. You would probably not expect them to be of the sort of magnitude as was the case last year, but certainly you're going to have differences due to changes in estimate every year.

MS. KATHY KALINOWSKY: And getting more into the accounting issues, Mr. Parkinson, but could you explain the relationship between a change in the review of unpaid liabilities and the impact that has on the income statement?

MR. NEIL PARKINSON: Well, quite simply, if you make a change in the estimation of the liabilities the -- 100 percent of that change in estimate goes through the income statement in the year in which you make that change in estimate. So something that might not even we'll call that large in the context of an overall balance sheet can nevertheless have a fairly significant impact on income.

For instance, in this case, about a 1 percent change in liabilities is -- amounts to about $15 million in net income, so it's not hard to see that, you know, you can have significant impacts on income, even with something that a fairly small percentage change.

I think most actuaries would be grateful if they could get their estimates within two (2) or three (3) percentage points of ultimate. And so it's -- it's very easy to see such significant differences arising in unusual years and normally not insignificant differences in any year.

MS. KATHY KALINOWSKY: Thank you. I want to move towards the opinion as at October 31st, 2010. In particular, Mr. Parkinson, in reviewing the As At October 31st, 2010 Report on Unpaid Claims Liabilities, what was the conclusion of the KPMG actuary?

And perhaps to answer that question for the Board and provide for their education you might want to walk through PUB-1-28, which is found, the Board's book of documents, at Tab 18.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: It should be the fourth page in. It's the KPMG confidential memo.

(BRIEF PAUSE)

MR. NEIL PARKINSON: Just wanted to do just a check to see whether everyone's got hold of the memo. Okay.

THE CHAIRPERSON: The Board has.

MR. NEIL PARKINSON: Okay. No. So this memo is titled at the top, "To Rob Kowalchuk from Edward Lam," who was the audit support actuary, and it's dated, April 12th. Specifically, this memo deals with the Basic coverage, and there are a number of sort of introductory pieces to this that lay out the purpose of the memorandum, distribution and use.

At the bottom of the first page it talks about the appointed actuary and just provides a summary comment, as is required in these memos, that the:

> "We have eval -- evaluated the qualifications and experience of the valuation actuary whose work we're checking."

And then there's some discussion on scope of actuarial support, and you'll see it talks about the types of liabilities, but also there's a reference in there to data and the materiality used.

We -- at the bottom of that second page there's a specific comment on what Mr. Christie used as his materiality level for the purposes of his review, and we always conform the materiality levels we and the actuary are working at so they're both working from the same sort of tolerances.

There is on the third page some discussion about the changes from prior year -- year analysis referred to here, and so I don't have anything in detail to say about that.

But at the top of page 4 you'll see that there is just a summary comment that the -- for some of the lines of business reviewed we considered the estimates to be slightly conservative while remaining within our range of reasonableness. And this was also true in the overall sense. That was the conclusion that was reached by the audit support actuary, that there were some individual lines that might have been slightly conservative but still within range, and, overall, it was certainly within range.

Then there are a couple of pages talking about the actuarial analysis, conducted the nature of the audit support done, the actuar -- actuarial details. And you can see there's a certain level of detail, for instance, at the bottom of page 4 for Basic Autopac coverage, the -- the level we were drilling down to.

And carrying on to the top of page 5 with the same sort of thing, referencing back to the October

2010 analysis which was done probably in a little greater level of detail by both the appointed actuary and ourselves.

The last couple of sections of the memo deal with -- you know, just saying that we did some computation testing on unpaid claims, looking at LAE, or loss adjustment expenses, because you have to include in claims liabilities the cost of adjusting and administering claims as well.

Discussion on the -- how present valuing or time value of money was applied at the top of page, and indicating the discounting calculations are reasonable. And the -- there is a reference at the bottom of the memo under, "Other," saying that the -- the audit support actuary had relied on the audit team to confirm certain amounts regarding inter-company recoveries and so on.

And I can tell you that, in fact, the audit team did do that, so that's just closing the loop to make sure that we had all done our thing there. Okay.

MS. KATHY KALINOWSKY: Just so that the Board understand this, Mr. -- this is a opinion specifically on Basic.

Is that correct?

MR. NEIL PARKINSON: Yes, that's correct.

MS. KATHY KALINOWSKY: And Mr. Lam also produced another opinion, which is not contained here, but on other lia -- other say overall corporate?

MR. NEIL PARKINSON: That's correct. There was a separate memo for the total corporate.

MS. KATHY KALINOWSKY: So, for instance, on page 4, when Mr. Lam is referring to for some of the lines of business reviewed, he's not referring in the -- to SRE or Extension, he's referring to lines within Basic?

MR. NEIL PARKINSON: That's correct. He was referring only to the lines included in the Basic coverage.

MS. KATHY KALINOWSKY: Thank you. And when you read, as an auditor, what -- what is your reaction when you read,

> "The estimates are slightly conservative while remaining within our range of reasonableness"?

MR. NEIL PARKINSON: This would be interpreted to mean that actuarial review did not detect an error. We would only conclude that there was an error to the extent that we felt that the -- the actuary's number was outside of reasonable range of estimates.

MS. KATHY KALINOWSKY: And based upon

this actuarial review, as auditors at KPMG, you were prepared to issue an unqualified opinion on the financial statements, subject, of course, to the other audit work that had to be done?

MR. NEIL PARKINSON: That's correct. There is nothing in this to indicate that there would have been a material error in the financial statements, and so nothing that would have affected our opinion adversely.

MS. KATHY KALINOWSKY: I'd like you to take a moment for you to look at PUB-1-25. And I'll -- I think it'd be helpful for the Board members to take a look at that.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: And this is a very similar question to what was also asked. I believe it's the next question, 1-26, and that was addressed to the Corporation's external actuary which Mr. Christie discussed this morning?

Tha -- is that correct?

MR. NEIL PARKINSON: That's correct.

MS. KATHY KALINOWSKY: I'd just let the Board members review this question briefly. But there's also another follow-up question which you don't have to pull out right now. But CAC-2-14. 2-114.

Can you just res -- give an overall summary as to your response to both of those questions?

MR. NEIL PARKINSON: I think the gist of the questions was whether the large release of -- from actuarial liabilities that was made was indicative of anything that needed to be changed in the prior financial statements. In fact, whether those statements should have been amended and -- and -- and reissued.

And our response in both of these -- both the documents that counsel was referring to, indicate that we were satisfied that the adjustment to claims liabilities that flowed through the 2010/'11 fiscal year, represented a change in estimates based on the best available information at the time, and that they were not indicative of an error in the -- the financial statements in previous years which also reflected estimates that were the, you know, appropriate actuarial judgments and estimates made at the time.

It is -- and we, in the second document, went on to recite some of the professional standards backup for that and describing in -- in what circumstances financial statements would be amended and which ones they were.

And in summary, I would say that we were con -- we were content that the changes in estimates did not represent an error and, accordingly, our previous opinions did not require revision, nor did the previous financial statements they pertained to.

MS. KATHY KALINOWSKY: At KPMG's insurance practice, are you often asked a question similar to this?

MR. NEIL PARKINSON: It is not uncommon to have discussions about when there is a change in estimate of any significance, whether it represented an error or not. But I would say that it is commonly understood amongst actuaries and financial accountants that the -- the changes in estimates are not indicative of errors and don't require revisions of prior statements.

MS. KATHY KALINOWSKY: So, if I could summarize then. Could you conclude that the financial statements from 2005 to 2010, still fairly present the Corporation's financial position?

MR. NEIL PARKINSON: Yes. I think that the -- to say again, that the reserve release made was -- represented a change in estimate as -- as we -- we see it and very clearly, the GAP literature and for that matter the new IFRS literature, require -- don't just permit, but require that changes in estimates be reflected in income in the current period. And not be amended in prior years' financial statements.

And there is a distinction to be made between what's an error and what's a difference in judgment. The -- the -- there's a large difference and our conclusion was these did not represent mistakes or errors in actuarial assessments in prior years.

MS. KATHY KALINOWSKY: Mr. Parkinson, upon reviewing the report in the Ernst & Young actuarial memo, were you concerned with the actuarial report on unpaid claims liabilities as at October 31st, 2010?

MR. NEIL PARKINSON: Oh, we're very interested in understanding the -- the -- the scale of the difference, but we were not concerned with the -- the report, either our report or Mr. Christie's report.

MS. KATHY KALINOWSKY: And just getting towards the end of my direct examination. But KPMG ultimately issued an unqualified opinion for the year ending February 28th, 2011?

MR. NEIL PARKINSON: That's correct.

MS. KATHY KALINOWSKY: And I note that the KPMG's actuarial review with -- by Mr. Edward Lam concluded that Mr. Christie's report is slightly conservative.

Is that a more desirable conclusion than being slightly aggressive?

MR. NEIL PARKINSON: Well, first -- first of all from an auditor's perspective, we're not meant to care whether you're slightly -- slightly high or slightly low - a difference is a difference. But the -- we would be concerned if an organization went from slightly conservative to slightly -- to somewhat aggressive from time to time, because that's a mechanism for, you know, jockeying numbers around. And so we look for consistency in approach and we -- we think we've seen consistency in approach here.

I think that the other comments that were discussed this morning really come down to, I would say, more of a man-in-the-street view of what is a more troublesome problem? If you are somewhat low, and you prove to be low, it puts more pressure on costs having to be paid for out of future premiums and maybe future premium rates.

Having said that, it's not my -- my mandate or role figure out -- to -- to tell you how to set premiums, but I -- I think it -- not -- it may be that being too high is logically no better than being too low, but it can sometimes be more painful to deliver people unhappy surprises in the form of higher premium rates.

MS. KATHY KALINOWSKY: Thank you. And what would -- I think you've already touched on this a bit, but what would be the consequences of being slightly aggressive in the report on unpaid claims liabilities?

MR. NEIL PARKINSON: Well, simply, if it proves out -- if your estimates are -- are relatively low and the -- the facts, the final costs, turned out to be -- be true and you end up having to pay more than you -- you had allowed for, some -- somehow it's going to have to be paid for presumably out of other -- out of future premiums, and that does put more pressure on future premium costs.

MS. KATHY KALINOWSKY: As the head of the insurance practice at KPMG, you've seen -- and -- and involved -- being involved in so many different professional committees and task forces, are you aware of internal actuarial memos that conclude of a slightly aggressive reserving practices?

MR. NEIL PARKINSON: Yeah, that -- that is not infrequent. And -- and I would say that's not just for public sector organizations or mutual companies. It also applies to stock companies. That many organizations dislike unhappy surprises, so a lot of public companies are reluctant to be on the aggressive side of the ball on -- on claims liabilities because the analyst community really hates it. They really punish companies who have adverse development emerging from their -- their claims liabilities.

And so I would say, generally, a lot of organizations tend to the conservative. But there's -- there's certainly the case that there are any number of organizations out there where we will see memos indicating that there may be somewhat below the -- the line numbers on -- while still being within a reasonable range.

MS. KATHY KALINOWSKY: And fin -- one (1) final question, Mr. Parkinson, but how do other insurance companies provide for an accounting treatment of favourable actuarial releases?

MR. NEIL PARKINSON: Well, in the same way any changes in estimates are -- go through and come in the current period.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: At this point, I have no further questions in my direct examination, so both Mr. Parkinson and Mr. Kowalchuk, of course, are willing and able to stay for cross-examination questions, and questions from the Board too.

THE CHAIRPERSON: Any questions?

MR. REGIS GOSSELIN: I do. In respect of the -- the phrase that suggests that Mr. Christie's estimates are slightly conservative, can you point me to the variables that would cause you to come to that conclusion?

What variables are -- are at play here when we -- when you say the estimates are slightly conservative? There must be some variables that are on the high side for you to come to that conclusion. I'd like to know what those are.

MR. NEIL PARKINSON: Well, while there are a number of items here, I think you were taken through the concept of a claim's triangle before. And basically all the actuaries are trying to do is fill in the numbers on the blank side of the -- the rectangle.

To do that, they set loss development factors that are meant to say, Well, if claims went up by a certain percentage over a duration thirty-six (36) months to forty-eight (48) months, the last couple times it'll probably go up by about that much this time.

Actuaries don't always make the same statistical judgment about what that development factor ought to be. So, ordinarily, it's about the selection of those things. It can be about the selection of interest rates used in discounting. And there is a certain amount of judgment around the provisions for adverse deviation for a range of factors because they're inherently somewhat judgmental under Canadian standards of practice on the actuarial side.

So it can be any number of things. But I would put a little bit of a box around it in a way. When we say "slightly conservative," it -- I couldn't quote you the individual lines and they're not referenced in the memo, but, you know, it could be 2, 3 percent, maybe up to fi -- anywhere up to 5 percent plus or minus as a typical range of reasonableness for most property casualty companies.

MR. REGIS GOSSELIN: Now, your roles as an auditor is not to look at that -- those factors and say, That one's out of line, or -- or am I wrong here?

MR. NEIL PARKINSON: That's why I get an actuary to do it. I -- well, I -- as I say, I have done the math and have done -- I actually did build, not having a life, the actuarial projection model some years ago for -- for a simple 'p' and 'c' operation I -- that's what we have actuaries of our own to do the detailed computations on that.

So I wouldn't expect -- you -- I could

probably do it better than 99 percent of the insurance auditors in the company because of my experience, but I wouldn't dream of trying.

MR. REGIS GOSSELIN: I guess what I'm trying to get at is, you know, I -- I can understand the part where you say the calculations are correct. You know, the calculations that derived from that variable of correct.

But at what point do you say that variable is too high, or too low or...?

MR. NEIL PARKINSON: Well, for -- for some things, for instance, the selection of provisions for adverse deviation and so on, there is guidance that is published periodically by the Canadian Institute of Actuaries for some things that help put some sanity range around where an actuary's judgment might go, right. So that helps to try to provide some black and white guidance to actuaries.

And I think that a lot of it then goes to the actuarial judgment. I'm not talking about Mr. Christie's judgment. In our case it's our own actuarial staff's judgment based on what they're seeing with other auto insurers. And we do a lot of auto insurance work both on a -- on an audit and also on the rate making side, so we've got a lot of experience in the -- in the space.

MR. REGIS GOSSELIN: I guess what the -- what -- what I'm struggling with is the fact that the sudden result seems to have happened suddenly. You know, this -- it was a sudden result. I mean, in other words the data was under the radar and all of a sudden it burst into bloom and we have a $250 million surplus reserve situation.

And I guess I'm wondering what could be done differently to avoid that happening in the future because it sounds like it could happen again. I mean, we -- we have inde -- we have actuaries internally working for MPI, we have the external appointed actuary, we have KPMG's actuary looking at it.

So all of these -- all of these salaries are being paid by people who subscribe to MPI insurance. And we're sort of sitting here and wondering, Why couldn't this have been picked up a lot earlier? I mean, why couldn't there have been some flag go up and say, There's too much money here. Let's get it back in the pockets of the people who are paying for insurance. I guess that's really what I'm struggling with.

MR. NEIL PARKINSON: Well, I think Mr. Christie answered some of that better, perhaps, than -- than I will. So I'll try to answer it maybe a little bit differently.

I think, for instance, he indicated that, okay, he had so many years of indications and then, finally, got to a point where he couldn't ignore the data. But I guess in looking at that with hindsight, he -- he was not in a position to say two (2) years ago or three (3) years ago, I think, in his view, that the next couple of years were going to turn out the way they -- they did.

And when I -- when I say "with hindsight" someone might say, Well, that -- that turned out to be too conservative, maybe you should have got money back to people sooner.

But nevertheless, I think from our standpoint our -- it was a defensible judgment. It may have been rooted in conservatism, but the -- the other part of your question though, was you -- what -- to say, Why -- why couldn't it happen again?

And the exposure you have to these kinds of events is based on changes in products or systems. And it is far less likely you're going to see these kinds of wild swings, I would say, in the future on the basis that you're getting more information all the time. And you -- if you were to come up with a whole new way of delivering auto insurance benefits in the province, you would, just as been the case in other provinces, notably Ontario, have periods of significant uncertainty around whether the product is going go work out and cost the way you think.

And really what you're coping with here is that perhaps very substantial, perhaps even extreme ver -- result of having a certain amount of uncertainty about how the costs of delivering these benefits was going to play out. I think you have a lot less exposure to it going forward just because of the continuing maturity of the data and analysis around it.

MR. REGIS GOSSELIN: I guess the -- the other question I have is in relation to the -- to the statements themselves.

I realize that they're addressed to the Board of Directors, but you know, Mr. Kowalchuk indicated a long list of -- of readers of those financial statements who come to rely on their statements.

I guess I'm wondering, would -- would that cause you to -- the fact that it's read by and relied upon by so many people, would that cause you to be -- to err on the side of transparency as opposed to -- to providing less information?

What I'm getting at is: Are you prodding the MPI people to provide additional information for the greater audience that's out there looking at these statements?

MR. ROBERT KOWALCHUK: I would say that, certainly we recognize the long list of stakeholders that I read out, place some reliance on the financial statements. But at the end of the day, what we're trying to do is gain sufficient appropriate audit evidence on those financial statements taken as whole.

Certainly, we recognize all of the users of the financial statements, but there wouldn't be, you know, any extra -- or procedures in excess of what we considered necessary, you know, for MPI compared to an organization with -- with maybe less stakeholders.

You know, we perform enough audit procedures and gather enough audit evidence in order for us to form our opinion, no matter how many readers or stakeholders.

MR. REGIS GOSSELIN: Now, in relation to -- to the discussion about similar organizations. You mentioned Ontario and Saskatchewan and so on. I realize that when you're doing a review of -- when you're doing audited financial statements you're probably looking at bench marking -- some bench marking to evaluate the reasonableness of data that you're getting from -- from MPI.

What benchmark are you using if you're -- if you're doing those kinds of assessments?

MR. NEIL PARKINSON: Well, I think the -- the similarity with Ontario is -- is not an easy one (1) because it's of course, still private sector insurance. So you've got a couple of hundred different property casualty insurers delivering a product which is conceptually somewhat similar, but not identical in the way the -- the benefits come out.

I think there are also some difference in the -- the SGI product from the Manitoba product, as well. So it's difficult to benchmark specifically, you know, how the -- exact data across and I think that the more compelling analysis I think in view of the -- in my view and I won't speak for the external actuary is, really, to look at your own data on the -- the -- the claim payments and claims reserves that you are booking.

And it is just awfully difficult. And they're not going to tell you a lot more either, simply because they are of about the same duration as yours.

MR. REGIS GOSSELIN: I draw your -- your attention to page 66 of the annual financial statement for -- for MPI, the one that's part of the rate application.

This is the -- page 66. I'm looking at

the paragraph that talks to the rate stabilization reserve. It's the -- it would be the second paragraph after the two (2) sets of bullets. They -- it starts by,

"basic retained earnings are comprised of rate stabilization reserve."

That paragraph.

So, you -- you reported that, in his report, the Corporation's internal actuary concluded a minimum RSR level of 185 million would be required to bas -- for Basic to achieve a satisfactory blah-blah. If you had a SR -- RSR lo -- level lower than 185 million, it would resul -- result in a not satisfactory opinion. Now you -- you reported that information.

I guess my question is: Do you share the view of the internal actuary? I -- and I'm assuming you don't because otherwise you would -- you have -- would it have caused you to qualify the financial statement?

MR. ROBERT KOWALCHUK: So, I would answer that, you know, it was factual that the DCAT analysis did come up with a not satisfactory rating. That, however, does not mean that that would cause us to issue a qualified opinion on the financial statements taken as a whole.

I mean, it's a -- it's one (1) test used to measure capital adequacy, but does not bear a direct relation to an audit opinion that we are providing on the financial statements.

MR. NEIL PARKINSON: I might just clarify what a DCAT is, just to -- in case there is anyone who doesn't know what that represents.

The actuary -- it stands for Dynamic Capital Adequacy Testing, and it actually is a future projection under both the business, or base case, of the organization. So, call it your business plan. It also then applies certain plausible adverse scenarios, like claims liabilities, where claims costs would be a lot worse, or investment performance will be bad, or things like that.

So it's very much future oriented. We do not audit it. It is very much a projection or a forecasting exercise undertaken by the actuary in cooperation with management. So it's not ex -- actually expressly audited.

MR. REGIS GOSSELIN: Now, moving now to the IT optimization fund. I -- I -- and I -- Mr. Kowalchuk, you talked about the fact that other entities will establish reserves for buildings, for example.

And, I believe that there was also reference or a discussion about the IFRS reserve that had been discussed at the audit committee. In that case, that reserve was not retained, but the IT optimization fund was established.

I guess the question is -- I'm trying to understand why one (1) was retained -- and why I'm questioning this is because IFRS was not retained because you couldn't come up with a level of cost related to IFRS, as I understand it but the IT optimization fund was established.

So, it would suggest to me that you had a pretty good fix on the amount of -- of the cost of -- of the program that was going to be undertaken?

MR. ROBERT KOWALCHUK: Yeah, I would say, certainly, that there was far less predictability on -- on any impact of the IFRS adjustment, if any, compared to the IT optimization fund, you know, which would have had, you know a budget prepared, et cetera.

So, there -- I would say that would be the main difference between the two (2) is the level of certainty on which you could estimate how much the -- the reserve should be.

MR. REGIS GOSSELIN: I guess -- I'm -- what I'm wondering is there -- is there a particular set of documents that you could point to that says this is -- this is why we need to have 75 million?

What did -- what did you base your

decision as to reasonableness in that particular case?

MR. ROBERT KOWALCHUK: I believe we would have examined information that management would have put together and presented to the audit committee, and ultimately the Board, which would have been budgets and forecasts of expenditures on the various IT projects. So that would be primarily what -- what audit evidence we would have obtained.

MR. REGIS GOSSELIN: Now, in -- in relation to that, whether the level was sixty-five (65), or seventy-five (75) or eighty-five (85), I mean -- that, in your view, would have been a management decision, or -- you say for example, you see a set of documents that says we're going to spend, you know, there's a hundred million dollars we could spend here.

The level of reserves that are set is a management decision against that hundred million, right. Or -- am I ...?

MR. ROBERT KOWALCHUK: Well, the level of the reserve set was management's best estimate of, ultimately, what would be spent on the various IT projects. So it was that amount that was appropriated from retained earnings.

THE CHAIRPERSON: Okay. Thank you very much. I think now, we're ready to go to Ms. Grammond and your line of questioning.

MS. CANDACE GRAMMOND: Yes. Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: I'll begin with some questions with respect to Mr. Lam's report, so I'll -- I'll come to that in a moment. Before we get to the report specifically, I'd like to ask some questions about the roles and responsibilities of the -- the actuarial specialist.

We have at Tab 18, of the Board's book of documents, the question posed at PUB/MPI 1-28(b), this is where -- and if we look at page 3 of that, this is where the Board had asked a question about the role and responsibility of the -- the actuarial specialist. And the Corporation provided an answer with three (3) bullet points of the -- the role with respect to that.

I'm assuming that you've had a chance to review that?

MR. NEIL PARKINSON: Yes.

MS. CANDACE GRAMMOND: And do you accept, Mr. Parkinson, this description of the role of the actuarial specialist?

MR. NEIL PARKINSON: Well, it's at a --

it's a fairly high level. There's -- I -- I think my own answer earlier was probably a little more granular on what the audit support actuary would do.

MS. CANDACE GRAMMOND: So together with your earlier description you'd be comfortable with that standing on the record?

MR. NEIL PARKINSON: Yes.

MS. CANDACE GRAMMOND: And before we go to Mr. Lam, specifically, I just want to clarify, you gave evidence that the auditing guideline 43 has been replaced, and I think you said it was CAC-620.

Is that the -- the proper term for what the -- the successor document is?

MR. NEIL PARKINSON: The successor document is -- and if you'll just bear with me for a moment I'll give you the --

MS. CANDACE GRAMMOND: You're not going to say that long thing again, are you?

MR. NEIL PARKINSON: Yeah, it's in there somewhere. You'll see it in the transcript. But what it is is a joint -- CICA-CIA was a joint guidance note. The reference to paragraphs 500 and 620 in Canadian Audit Standards are general standards related to evidence and the use of an expert.

They -- they would apply equally to a

mineralogist or geologist, use of a geologist in an audit. But what wa -- the guidance note did was put it entirely in the context of using actuarially determined amounts, and so it is a good deal more detailed, and focussed on insurance, in particular, than those -- those CAS standards chapters are.

MS. CANDACE GRAMMOND: So just for the purposes of our discussion, if we just continue to call it auditing guideline 43 is that okay with you --

MR. NEIL PARKINSON: I'm -- that's --

MS. CANDACE GRAMMOND: -- in the context of the evidence you've given?

MR. NEIL PARKINSON: I'm fine with that code, yeah.

MS. CANDACE GRAMMOND: Okay. So we note that Mr. Lam, the author of this year's actuarial specialist report, is new. As you described, Mr. Parkinson, previously, the role was filled by Mr. Manktelow. And I know you said that Mr. Lam assisted Mr. Manktelow in the past.

Can you give us a little bit more detail in terms of Mr. Lam's previous experience in this audit engagement?

MR. NEIL PARKINSON: Well, I couldn't give you the exact number of years, but I believe he'd worked in the role of providing a lot of the technical checking, the computation testing, and the detailed work under Mr. Manktelow's supervision for probably at least four (4) years, probably five (5) previous.

He's very -- he was fully accredited as a fellow the cas -- of the Canadian Institute of Actuaries and the -- the Casualty Actuary Society I want to say about two (2) years ago, by memory. And so he had several years of experience in working specifically on these liabilities.

MS. CANDACE GRAMMOND: And given his relatively short time as a fully qualified actuary, is there anything else other than his prior experience with this engagement that you looked at to satisfy yourself that he was properly qualified and experienced to fulfill the role that he did this year?

MR. NEIL PARKINSON: Well, in part, I was perhaps remiss in not referring to the fact that this -- these reports actually get peer reviewed internally on our part, and so the -- our actuarial practice leader, Jacquie Friedland, who is an actuary with something like twenty-five (25) years experience, also reviewed this and was sort of the mentor, if you like, on this one.

MS. CANDACE GRAMMOND: Thank you. If we talk then about the report prepared by -- by Mr. Lam specifically. And I know we've -- you've already referred to the statement by Mr. Lam, that Mr. Christie's estimates are within the range of reasonableness and the -- the reference to the estimates being slightly conservative.

Can you comment on that characterization compared with the characterization in last year's report prepared by Mr. Manktelow?

MR. NEIL PARKINSON: By memory there, there were a handful of lines that were also identified as being somewhat conservative, and I think we may have given -- we may have given some percentage differences on a couple of those, but I -- I do not recall the specific numbers.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: All we're really getting at, Mr. Parkinson, is that last year there was bit -- a bit more of an issue of conservat and -- conserva -- conservatism expressed than there was this year.

Would you agree with that?

MR. NEIL PARKINSON: Yes.

MS. CANDACE GRAMMOND: And can you tell

us to what the -- this change, if you will, in characterization is -- to what that is attributable?

MR. NEIL PARKINSON: I don't think that the level of conservatism referred to in either last year's or this year's is sort of out of the ordinary. It -- but I think in both instances they were certainly relatively small as compared to the release year over year.

MS. CANDACE GRAMMOND: Can you tell us...

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So would the -- the large release in the '10/'11 fiscal year have been a factor in the -- the change in characterization?

MR. NEIL PARKINSON: No, I don't believe so. I think that the -- the degree of conservatism assessed in the memo last year did not reflect any kind of guessing that there might be a large release in the offing.

I think that the -- in the preceding year we accepted the assessment of the external actuary, that there wasn't enough credibility around the -- you know, the data. And -- and so wasn't reflective at all of any suggestion that there will be a very substantial release coming in the current year.

MS. CANDACE GRAMMOND: Mr. Parkinson, when Mr. Lam speaks about there being some slight conservatism, can you clarify which lines of business he's speaking about.

MR. NEIL PARKINSON: No, unfortunately I can't tell you the specific lines. But I would simply say that the -- I think they were probably pretty much the same lines as last year. And again, we're talking about levels of conservatism where we might have been a couple of percentage points different.

MS. CANDACE GRAMMOND: Okay. And you -- you commented a little bit on this earlier, but when Mr. Lam uses the phrase "range of reasonableness" -- like, conservatism within the range of reasonableness.

How -- how do we define that range?

MR. NEIL PARKINSON: Well, the -- I -- I would say a widely held view of what that relates to for property causality insurance liabilities both here and in the United States, and I understand as well in other major econ -- economic jurisdictions like the UK and Europe, is that a range of reasonableness around property casualty reserves would typically be about plus or minus 5 percent around a central estimate.

MS. CANDACE GRAMMOND: And so would Mr.

Lam and Ms. Friedland on this review have used that plus or minus 5 percent?

MR. NEIL PARKINSON: Yes, I believe they would have done.

MS. CANDACE GRAMMOND: Okay. Do you know, Mr. Parkinson, whether there would have been any additional testing of either a assumptions or methodologies undertaken by KPMG beyond those that are described in Mr. Lam's document?

MR. NEIL PARKINSON: Well, this is summer -- summary memo. And so there is certainly more detail about what was done. I would say that, you know, in the broader work papers and I think I touched in general on what sort of things those would be.

I -- I think that we would plainly have spent some time -- and I know because I was involved in some of those discussions, understanding what the nature, you know, of the release was, how it -- how it was justified, and -- and what -- what it sprang -- sprang from.

MS. CANDACE GRAMMOND: And would KPMG have been aware at the time that the results of the October 2010 evaluation were based on the selection of methodologies that were different than those that had previously been used in February of 2010?

MR. NEIL PARKINSON: I -- I believe we became aware of the changes after the decision making occurred between management and the external actuary.

MS. CANDACE GRAMMOND: So by the time Mr. Lam would have been preparing this document, KPMG would have been aware of that? It's dated April of 2011.

MR. NEIL PARKINSON: Well, certainly by then we were, I think, aware of it before that because, you know, we -- we were doing the -- the take both at year end. This is the summary memo at the end of the process after the February 28th audit was concluded, so we were aware of it certainly before this date.

MS. CANDACE GRAMMOND: Thank you. And would KPMG have taken steps to test the appropriateness of the changes in the selection of result to the different methodologies?

MR. NEIL PARKINSON: Yes.

MS. CANDACE GRAMMOND: And what were those steps?

MR. NEIL PARKINSON: Well, review of the analysis, pri -- primarily. And, you know, looking at the -- the justification for the shift and what data was considered to be credible and assessing whether that was appropriate in the circumstances.

DR. LEN EVANS: Excuse me, could I ask

you exactly when were you aware?

MR. ROBERT KOWALCHUK: We were aware of the potential release of the actuarial reserve -- I'm going to, off the top of my head I believe it was in late December that Mr. Palmer had -- had notified me about that.

The number at that point wouldn't have been quantified, or finalized, but he did make me aware of -- of -- of that fact.

DR. LEN EVANS: You -- you referred to -- you used the term "release." What do you mean by that?

MR. ROBERT KOWALCHUK: Well, potential release of the -- the claims liability. The reduction of the liability.

MR. NEIL PARKINSON: Yeah, you'll have to forgive us. We -- we were lapsing into actuary-speak and we're not even actuaries, but actuaries conventionally would talk about a reserve that they would hold and when they reduce the reserve, they are releasing it. So, different professional background, I guess. So it's just a reduction.

DR. LEN EVANS: All right. Thank you. I think I understand.

MR. NEIL PARKINSON: Yeah, you may be a step ahead of me if you fully understand that.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Just on that, with respect to the timing, what is the typical schedule, if you will, for when KPMG does its interim work over the course of the MPI fiscal year?

MR. ROBERT KOWALCHUK: Typical timing would be -- we would start some initial planning in September, the month of September. Typically there is an October audit committee meeting which we attend and present our audit planning report to the audit committee.

Subsequent to that, we would usually perform some interim work and it can vary from year to year, but November, December, January time frame we would be on site at MPI performing some interim work.

Typically, the year end field work is concentrated, I'm going to say starting at the end of March and all through the month of April, and then typically, the audit committee meeting to review the financial statements is end of April or early May.

MS. CANDACE GRAMMOND: Thank you. And -- and you said in this instance, with respect to the significant releases that came in -- ultimately in the 2010/'11 fiscal year, that you and Mr. Kowalchuk were informed in late December. I take it -- and that's of 2010.

I take it that neither MPI nor Ernst & Young informed you of that any earlier?

MR. ROBERT KOWALCHUK: That is correct.

MS. CANDACE GRAMMOND: Okay. And this question can be for -- for either of you. It may be for Mr. Parkinson.

Given your experience with other insurance, including automobile insurance companies, have you seen IBNR adjustments of the percentage magnitude of this that -- that MPI experienced in this instance, over the last several years?

MR. NEIL PARKINSON: Well. I think there was some reference made by Mr. Christie to what happened with State Farm last year, for instance, and that is of a broadly similar magnitude, although on -- on the bad side of things.

There was another property casualty group since -- largely defunct, which were the auditors for a few -- a few years, called Kingsway that, you know, is a matter of public record. If you look at the increases in IBNR that were booked in stages in the US, there, I think it would be of a broadly similar magnitude. Those were both pretty adverse kind -- kinds of situations. In other words, the adjustments were bad ones.

I would say that there are bound to be

instances where relatively new organizations have been applying what Mr. Christie referred to as a Bornhuetter-Ferguson method, which is kind of a -- you know, you book what -- you're a priori assumption of what your loss ratios are going to be, to oversimplify, on an immature or new product line.

And there have been some smaller organizations that have had, you know, in a percentage sense, significant declines in claims liabilities as the data matured. The numbers, of course, were smaller than we're talking about.

But from a percentage magnitude standpoint, yeah, it wouldn't be unprecedented. But it's -- it's not particularly usual, I would say, either.

MS. CANDACE GRAMMOND: Any of the instances that you've experienced, Mr. Parkinson, and I know the ones you've been speaking about have involved adverse development, what about another situation that you're aware of involving an insurer that had the -- the same on the positive side?

MR. NEIL PARKINSON: Actually, the -- the last ones I talked about where someone was starting out with a new line and was booking a conservative and fairly high percentage and yearly going, and then settle down to lower numbers over time, that -- those were positive, okay.

The -- the first two (2) I mentioned by name were adverse, but the other ones were tended more normally to be favourable.

MS. CANDACE GRAMMOND: Thank you. Okay, I have a couple of questions then relating to IFRS. We've heard some evidence in this hearing with respect to the implementation of IFRS as of this fiscal year. And we know that MPI had to make some accounting adjustments or some adjusting entries with respect to that transition.

And I -- I assume that KPMG reviewed those provisions in connection with the audits that were conducted?

MR. ROBERT KOWALCHUK: Those adjustments have not been subject to audit yet, but we have reviewed those transitional adjustments, yes.

MS. CANDACE GRAMMOND: And did KPMG have any comments with respect to the transitional adjustments or did they agree or disagree with what was done?

MR. ROBERT KOWALCHUK: We were in agreement with the transitional adjustments, yes.

MS. CANDACE GRAMMOND: So that would include the reclassification of the bonds from 'available for sale' to 'held for trading'?

MR. ROBERT KOWALCHUK: Yes, that was an appropriate election under IFRS.

MS. CANDACE GRAMMOND: And we know that some of the adjustments resulted in changes to the retained earnings.

Did KPMG review the calculations in support of those entries?

MR. ROBERT KOWALCHUK: Yes, we have reviewed them, yes.

MS. CANDACE GRAMMOND: And were there any issues with respect to those?

MR. ROBERT KOWALCHUK: There were no issues discovered.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Evidence was given this afternoon, and I think it was from you, Mr. Parkinson, about the possibility of a $100 million provision relating to IFRS 4 and the fact that that was discussed but that it was not ultimately booked?

MR. ROBERT KOWALCHUK: I believe that might have been myself speaking of that topic. It was a 50/50 chance.

MS. CANDACE GRAMMOND: Fair enough. Kind

of like flipping a coin. But let's not get into the probabilities of -- of doing that. My question, Mr. Kowalchuk, thank you, was going to be whether KPMG had a view with respect to that particular provision that was expressed to MPI?

MR. ROBERT KOWALCHUK: Well, in our view, it was premature to record any sort of provision or reserve just because of the inherent uncertainty on -- on trying to estimate what, if any, amount might be required to address any adverse for adjustments.

MS. CANDACE GRAMMOND: So KPMG was supportive of the entry not being booked?

MR. ROBERT KOWALCHUK: That is correct.

MS. CANDACE GRAMMOND: Okay. I'm going to turn then to a few questions relating to the accounting for the rebate moneys that were -- that have now been paid out to ratepayers, the -- the 45 percent rebate ordered by this Board in the spring of this year.

As the evidence reflects, that was booked within the 2010/'11 fiscal year?

MR. ROBERT KOWALCHUK: That is correct.

MS. CANDACE GRAMMOND: And what I -- what I want to speak to you about, Mr. Kowalchuk, is the concept of a constructive obligation in -- in accounting and in -- in auditing relative to how, if at all, you might see a constructive obligation arising in the event that the retained earnings in Basic exceed the -- the range determined by the Board.

And if that were to occur, would you consider that to be a constructive obligation?

MR. ROBERT KOWALCHUK: I know that management undertook an analysis of that -- of that very topic enlisting the support of Deloitte, who was their IFRS advisors. And, from memory, I recall that the conclusions reached that it was that that would not represent a constructive obligation.

MS. CANDACE GRAMMOND: And would you agree with that conclusion?

MR. ROBERT KOWALCHUK: I would agree.

MS. CANDACE GRAMMOND: So from KPMG's perspective, would it be fair to say that no obligation would arise that should be recorded unless and until an Order was made by the Board for a rebate?

MR. ROBERT KOWALCHUK: That has been the past practice and likely what would still continue, yes.

MS. CANDACE GRAMMOND: Okay. Thank you.

I'm just going to take a moment, Madam Chair, if you don't mind, to review my notes because there were some things that have been covered off already.

(BRIEF PAUSE)

THE CHAIRPERSON: Maybe we'll just take a five (5) minute break while you do that.

MS. CANDACE GRAMMOND: Definitely. Thank you.

--- Upon recessing at 4:27 p.m.

--- Upon resuming at 4:33 p.m.

THE CHAIRPERSON: Okay. Let's go ahead.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you, Madam Chair. I just have a few more questions for -- for you -- the two (2) of you.

Some evidence was given earlier with respect to the cost allocations done within the Corporation. Can you tell us what, if any, steps KPMG took to review or satisfy itself as to the appropriateness of the amounts being allocated to Basic?

MR. ROBERT KOWALCHUK: In terms of the appropriateness of the amounts, I think I mentioned, for example, some of the audit procedures that we subject the allocations to; investigating any changes from prior periods; ensuring that we feel that the allocation to a various line of business is reasonable.

Besides that, the use of our information risk management specialists in terms of the coding to ensure that the, you know, the calculations themselves are -- are being carried out correctly. So it's those types of procedures that we subject the allocations to.

MS. CANDACE GRAMMOND: And does KPMG undertake management interviews as part of that process?

MR. ROBERT KOWALCHUK: Management interviews would be part of the process, yes.

MS. CANDACE GRAMMOND: Okay. And, in the same vein, still with cost allocation, was there anything different with respect to the cost of the business process review that KPMG did than other costs being allocated?

MR. ROBERT KOWALCHUK: I don't think there was anything special about it. I think it was all part of the cost -- or part of the allocation subject to audit.

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

THE CHAIRPERSON: I guess we're ready for Mr. Williams.

MR. BYRON WILLIAMS: Madam Chair, I

assure you there will be no loss triangles this afternoon. I wasn't that hurt by your comments.

Just -- just for the Board, there's one exhibit which we wish to distribute. I've shared that with my colleagues from MPI and it's the -- the actuarial consultant's report from last year to KPMG.

Subject to any comment by My Learned Friend, Ms. Kalinowsky, I'd suggest that that be marked as CAC Exhibit Number 10 and will ask the Board secretary to distribute it. It hasn't been distributed to you yet.

Madam Chair, it hasn't been distributed yet.

THE CHAIRPERSON: Okay.

MR. BYRON WILLIAMS: And I -- I think I'd ask the Board secretary to -- to distribute it.

THE CHAIRPERSON: Yes. She's going to do that.

(BRIEF PAUSE)

THE CHAIRPERSON: Yeah, I think she's trying to keep up with her regular work and do this too. Not that -- it's not that she's not paying attention. She's got a heavy work load.

MR. BYRON WILLIAMS: And I have

distributed it to MPI, so I think -- and if there's anyone else who needs copies, I have a few extra here.

And -- and, Madam Chair, I would mark -- suggest it be marked as CAC Exhibit Number 10.

THE CHAIRPERSON: So that's number 10? Thank you.

--- EXHIBIT NO. CAC-10: Memo from Mr. Manktelow to Mr. Neil Parkinson dated April 22nd, 2010

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes, and -- and these -- this -- this first question does not relate to this -- this exhibit, but it's -- it's more a general one (1) and I may be testing the memories of the KPMG witnesses, for which I apologize. But -- but maybe this one won't be that much of a test.

Mr. Kowalchuk or Mr. Parkinson, you've heard the testimony throughout the day. Have you been listening in to the testimony? I see your heads nodding.

MR. ROBERT KOWALCHUK: Yes.

MR. NEIL PARKINSON: Yes.

MR. BYRON WILLIAMS: And you were aware of a discussion that -- or do you recall a discussion I had with Mr. Christie about a statement appearing in his actuarial report as of October 31st, 2010, that report, talking about the -- when the new reserving method -- method was implemented, the case reserves on ABW and AB other index benefit claims to which the new tabular reserves were applied immediately decreased in aggregate by approximately 250 million?

Do you re -- you recall that discussion to some degree?

MR. NEIL PARKINSON: Yes.

MR. BYRON WILLIAMS: And my simple question which may test your memory or not is, in terms of that figure of $250 million relating to the -- coming to MPI's attention in 2005, at what point in time, if ever, was -- did that figure come to the attention of KPMG?

MR. NEIL PARKINSON: I'd have to say, for my part, I simply do not recall if that -- you know, at what point. You know, thinking back over the period of 2005, I'm just not -- not prepared. I don't remember and haven't reviewed our files to see anything going back into that time period.

MR. BYRON WILLIAMS: So -- so you're unable to -- to recall whether that came to your attention, sir?

MR. NEIL PARKINSON: That's correct.

MR. BYRON WILLIAMS: Mr. Kowalchuk...?

MR. ROBERT KOWALCHUK: No, I'll just add I wasn't part of the MPI engagement team that far back, so I -- I don't have a recollection either.

MR. BYRON WILLIAMS: One (1) question for Mr. Kowalchuk, and then I think the rest are proba -- probably for Mr. Parkinson for the next five (5) or six (6) anyways.

Mr. Kowalchuk, you testified that every year since 2003 KPMG had given Manitoba Public Insurance a clean audit.

Is that correct, sir?

MR. ROBERT KOWALCHUK: That is correct.

MR. BYRON WILLIAMS: Mr. Parkinson, if you want to turn to CAC Exhibit number 10. I just want to explore with you this document. And -- and you'll agree me, first -- first of all, that in -- in terms of the audit for last year this would have been one (1) of the documents considered by KPMG.

Is that correct, sir?

MR. NEIL PARKINSON: Yes, it was.

MR. BYRON WILLIAMS: And I'll -- I'll suggest to you that this is a memo from Mr. Manktelow to you dated April 22nd, 2010.

Is that your understanding as well, sir?

MR. NEIL PARKINSON: Yes.

MR. BYRON WILLIAMS: And Mr. Manktelow, at the time of the writing of this document, was a Fellow both of the CIA and also the CAS.

Is that correct, sir?

MR. NEIL PARKINSON: That's correct.

MR. BYRON WILLIAMS: And your evidence, sir, is that he was -- today is that he's quite an experienced actuary with years of experience relatively comparable to those of Mr. Christie.

Would that be fair, sir?

MR. NEIL PARKINSON: He's not quite retirement age yet. I think that Blair is still doing improbable numbers of chin ups, and so I think -- place him more in his early 40s. But the -- it's -- it's really quite annoying.

Anyway, he -- he -- but, no, he -- he's a very seasoned actuary, has a senior vice-president position at Northbridge Financial, which is a major P&C company.

MR. BYRON WILLIAMS: Between myself and yourself, Mr. Parkinson, how many chin ups do you think we might be capable of?

MR. NEIL PARKINSON: Well, I wouldn't

hazard a guess.

THE CHAIRPERSON: As Chair, I'm saying you're moving off topic.

MR. BYRON WILLIAMS: Thank you, Madam Chair. I thought this late in the day it might be welcome.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: The subject of Mr. Manktelow's report was a review of the appointed actuary's reports as of October 31st, 2009, and February 28th, 2010.

Is that fair, sir?

MR. NEIL PARKINSON: Yes.

MR. BYRON WILLIAMS: And I wonder if you could turn, first of all, to page 3 of his report under the heading of, "Concerns or Recommendations."

Do you have that, sir?

MR. NEIL PARKINSON: Yes, I do.

MR. BYRON WILLIAMS: That's page 3 under the heading "Concerns or Recommendations." It may be two (2) sided, I'm not sure. And we're just waiting for Board members to get it.

And in terms of Mr. -- I -- directing your attention, first of all, to the second sentence there.

Mr. Manktelow concluded that the -- I'll suggest to you:

"The approach followed by Mr. Christie is a conservative approach that tends to result in favourable development in most years. In particular, he expected the two (2) major lines in Basic AutoPac, being accident benefits weekly benefits and accident benefits -- other benefits indexed, to continue having favourable developments similar to the outcomes in the last few years."

And he also suggested that Mr. Christie's total claims liabilities estimate is closer to the top end of our range of reasonableness.

Is that your understanding of his opinion, sir?

MR. NEIL PARKINSON: Yes, it is.

MR. BYRON WILLIAMS: And in -- in your conversation with My Learned Friend, Ms. Grammond, earlier about Mr. Lam's report of this year end and -- and lines that might be slightly conservative, you suggested that they might be the same lines as -- as last year.

Do you remember that suggestion, sir?

MR. NEIL PARKINSON: Yes, I do.

Although, again, I don't -- the -- Mr. Lam's memo doesn't specifically delineate which of the lines are in -- in play and -- as this memo does.

MR. BYRON WILLIAMS: At the -- but, sir, your understanding would be -- but -- or, let me try that again.

In terms of the same lines as last -- last year, you were referring to the PIPP -- or accident benefits weekly benefits and accident benefits other benefits.

Would that be fair, sir?

MR. NEIL PARKINSON: Yes.

MR. BYRON WILLIAMS: Now, I just again want to direct you to Mr. -- Mr. Manktelow's report of -- again to Page 4 now and just above the heading, "Total unpaid losses." And I'm -- I'm -- again, I'm directing you to the head -- the paragraph just above the heading "Total unpaid losses," and in particular the second and thir -- third sentences.

Mr. -- again, Mr. -- he suggests:

> "Mr. Christie tends to select assumptions that result in estimates that are an aggregate -- or, are at the upper end of our range of reasonableness. For some lines of

business Mr. Christie's selective claims liabilities are above our range of reasonableness."

Was -- was that your understanding of Mr. Manktelow's opinion at that time, sir?

MR. NEIL PARKINSON: Yes, it was.

MR. BYRON WILLIAMS: And again, just to confirm. In terms of the -- the lines where Mr. Manktelow was of the -- the view that the selected claims liabilities were above their range of reasonableness, I'll suggest to you those were Basic accident benefits weekly indemnity and Basic accident benefit others.

Would that be your understanding as well, sir?

You performed an undertaking on that last year, I recall.

MR. NEIL PARKINSON: I -- I'm sorry --

MR. BYRON WILLIAMS: Sorry. Would that be your understanding as well in terms of the line?

MR. NEIL PARKINSON: I -- I do not recall the specific lines he was referring to as being above the range. There were some lines where I think he'd identify numbers that might have been, say, 6, 7, 8 percent over. But the overall total he was giving was, you know, at the upper end of the range of reasonableness, so it would have been closer to about 5 percent.

MR. BYRON WILLIAMS: Mr. -- Mr. Parkinson, we can -- just in terms of my question we can do it in one (1) of two (2) ways. Last year you were asked to do an undertaking in terms of which were the lines where they -- they were above the range of reasonableness, I could ask you to do that now.

Or, alternatively, I could ask you to accept subject to your check and review that the -- the select -- the lines of business in question were AB-WI and AB Other.

I'll leave that. What would you -- would -- would you be prepared to accept that subject to check, or would you pre -- prefer to do an undertaking?

MR. NEIL PARKINSON: We -- we can accept that sub -- subject to check. I think that the -- the point is that the lines identified as being somewhat above the range of reasonableness this year -- we're not -- there were none this year that were considered to be above the range of reasonableness. There were some that were identified as being somewhat conservative which was different than what was stated in last year's memorandum.

MR. BYRON WILLIAMS: Yes, and I appreciate that, sir. And I guess a point that I'll suggest to you and you can agree or disagree, is that when one gets a clean audit that is not a representation that the estimates for all lines of business are within a range of reasonableness.

Would that be fair, sir?

MR. NEIL PARKINSON: Not on a line by line basis. That's right. I think it -- the -- it is on an aggregate basis that -- that that's what is implied, that there's no material difference, you know, on an all lines combined basis.

MR. BYRON WILLIAMS: Now, this question can go to either Mr. Kowalchuk or Mr. Parkinson. And if you don't recall I -- I won't be hurt. But you may recall from last year we had an -- a fairly extensive discussion about cost allocation.

Does that ring a bell?

MR. NEIL PARKINSON: Yes, it does.

MR. BYRON WILLIAMS: And, Mr. Parkinson, you'll be glad to know I won't bore you with repeating that conversation this year. But based on your many years of experience, it would be fair to say that -- that you've seen a variety of approaches of cost allocation taken to -- to a variety of businesses.

Would that be fair, sir?

MR. NEIL PARKINSON: Yes.

MR. BYRON WILLIAMS: And certainly you would agree with me that while there may be wrong ways of allocating costs between different lines of business, there are probably more than one (1) -- one (1) way of -- of reasonably allocating costs between different lines of business.

Would that be fair?

MR. NEIL PARKINSON: Yeah, I would say that there's typically more than one (1) reasonable approach.

MR. BYRON WILLIAMS: Madam Chair, I have no further questions.

THE CHAIRPERSON: Okay. Thank you for that. Now, I'm wondering, do you have any questions?

No. Okay. I think maybe we have come to the end of the day.

MS. CANDACE GRAMMOND: Unless Ms. Kalinowsky has any re-direct?

MS. KATHY KALINOWSKY: No, I have no further redirect.

THE CHAIRPERSON: Well, I'd like to thank these witnesses for the time that they've spent with all of us. And I think we're ready to adjourn. We'll be back again tomorrow at 9:30.

(PANEL STANDS DOWN)

--- Upon adjourning at 4:49 p.m.

Certified correct,

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Cheryl Lavigne, Ms.