MANITOBA PUBLIC UTILITIES BOARD

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

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 213 to 434

APPEARANCES

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

THE CHAIRPERSON: Good morning. Well, we're ready for our second day. And, Ms. Grammond, do you want to tell us what's going to happen this morning? You're proceeding with your line of questioning?

MS. CANDACE GRAMMOND: Yes, Madam Chair, I'll continue with cross-examination on a variety of topics. I just had a brief discussion with Mr. Palmer about what's coming down the -- the pipe. So with the Board's permission I'll proceed. Thank you.

MPI PANEL:

MARILYN MCLAREN, Resumed

DONALD PALMER, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. So, Mr. Palmer, we were speaking yesterday about driver premiums, and there's one (1) further related topic to that. I'd ask you to go to Tab 26 of the Board's book of documents. This is the question and answer at 78 in the First Round, so Tab 26, book of documents 1-78.

This IR deals with the relativities between vehicle premiums and driver premiums collected by the Corporation?

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

MS. CANDACE GRAMMOND: And under the table at (a) on the first page we have a span of a number of years reflecting net written vehicle premiums which the note provides -- includes reinsurance ceded, net written driver premiums, and then the percentage of the total represented by driver premiums. Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And we see that driver premiums over the -- the time frame represented here, the 2006/'07 fiscal year through to 2014/'15, is somewhere between 3 and 5 percent, but more typically in the 4 or 5 percent range?

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

MS. CANDACE GRAMMOND: A couple of years ago in the 2009 order that the Board made relative to the 2010 GRA the Board asked the Corporation to research the issue of this division of driver premium relative to vehicle premium, and then report back to the Board at last year's GRA.

And the Corporation did that, stating that, in its view, the current split between vehicle and driver premiums was justified and appropriate and -- and did not recommend changes at that time.

Can you tell us whether the Corporation continues to have that belief and the reasons?

MR. DONALD PALMER: We continue to have that belief, yes. The -- the split between driver and vehicle premium, we have always said that the driver premium is a contribution to the overall pool. In terms of an actuarially sound driver premium there isn't really one (1) because we don't assign a specific group of coverages that we can cost and assign those classes. So -- so, we have looked historically and thought that 5 percent is a reasonable target as a -- a contribution from driver premium to the overall insurance pool.

MS. CANDACE GRAMMOND: In addition to the -- the reasons that you've cited, does the Corporation think about the fact that new drivers should have lower rates and there should be principles of universality and affordability in terms of driver premium?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So we see, looking back at the table here, that the dip if -- if we'll call it that, in the relativity was started in the 2010/'11 fiscal year and then dropped again in 2011/'12. I take it that, that decrease, when I'm -- I'm looking at the 4 percent and then the three and a quarter (3 1/4), was a result of the implementation of DSR.

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And the increases that we see projected for the year of the application and the two (2) subsequent years are a result of the aff -- the evolution of the DSR scale.

MR. DONALD PALMER: That's also correct. Yes.

MS. CANDACE GRAMMOND: And as we know, the Corporation's applied for some increases in the demerit side of the scale and that's reflected here as well.

MR. DONALD PALMER: Right.

MS. CANDACE GRAMMOND: If we turn over the page, at this IR -- at Tab 26, and we look at 'B' -- the answer to 'B'. This is an IR that deals with a comparison between claims that arise with drivers that have no vehicle registered as compared with drivers that do have a vehicle registered.

Is that right?

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: And the Corporation makes the statement below the -- the second table in the paragraph there that, based on the data, the experience of the drivers with and without vehicles appears to be very similar?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And it would appear that in -- in both cases, the driver premium is -- that's collected is obviously much less than the claims incurred and that's true in either category.

MR. DONALD PALMER: Yes, it is. Again, the -- majority of the insurance premium is on the vehicle, so yes that would be expected.

MS. CANDACE GRAMMOND: And I -- I gather that even in the cases where a claim is incurred wi -- involving a driver that doesn't have a vehicle in their name, somebody paid a vehicle premium with respect to that vehicle in any event.

MR. DONALD PALMER: Yes, and with the expectation that other people would be driving that vehicle, too.

MS. CANDACE GRAMMOND: Okay. Thank you. I'm gonna go then to a discussion with respect to some of the Corporation's goals, or at least one (1) of those goals. I know that there are a number of them. And that's the goal that the Corporation has expressed that it seeks to have rates that are lower than those charged by private insurance companies for comparable coverage. I'm sure both of you are well familiar with that.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And that's, for context, set out in a number of places in the material, but one (1) of the places where we see the corporate goals is in the annual report, page 24. And that's just for the purposes of the record.

I'm -- I'm gonna ask you to look at the book of documents, Tab 12. This is -- so that's Tab 12, book of documents. This is question 4, posed by the Board in the first round of IRs. And this IR related specifically to that corporate goal.

And so, at question A, 1-4(a), Corporation was asked to file a copy of the rate comparison study that it used to -- with -- with respect to this particular goal. And so if we take a look at the attachment that the Corporation's provided, that's set out over the following three (3) pages, we see a comparison, across Canada, dealing with eight (8) specific driver profiles.

Is that right?

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

MS. CANDACE GRAMMOND: And I gather that in the past, at least as far back as 2006, the Corporation used one (1) driver profile with respect to this analysis but that's been upped to eight (8).

MR. DONALD PALMER: Yes. We have eight

(8) that we have studied with the -- with this. In our annual report, we do publish a graph with lines with three (3) profiles. If you have more than that, it tends to get a little cluttered and it loses some of the -- the message. So from that standpoint we have selected three (3) but did the analysis with eight (8).

MS. CANDACE GRAMMOND: And I gather, and we see in the far right-hand column for each profile there's a description of the individual and what their -- in terms of their DSR level and what the -- their vehicle premium discount is, what their driver premium is, so this analysis includes those details?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And how are the vehicles selected? We see under each profile about eight (8) vehicles listed ranging in year and model. How are those determined?

MR. DONALD PALMER: They were selected as being common vehicles.

MS. CANDACE GRAMMOND: Is it fair to say that these are the -- the eight (8) most common vehicles or close to the eight (8) most common?

MR. DONALD PALMER: They're probably not the eight (8) most common but they would be among the most common.

MS. CANDACE GRAMMOND: And was this analysis something that was done internal at the Corporation or was this done by a third party?

MR. DONALD PALMER: It -- it was done by a third party.

MS. CANDACE GRAMMOND: Okay. And I'm going to get into some of the -- the detail that we see here. I just want to clarify one (1) thing before we move forward with that. In the Second Round we asked a follow-up question and that'll -- that's at the same tab just after 1-4. So this was 2-3 and so this is the last page at Tab 12 of the book of documents.

We asked the Corporation to explain how it determined what premium amounts were charged in non-monopoly jurisdictions, because obviously in those provinces there would be many insurance companies that could be used for insurance. And the Corporation has advised that those rates were purchased from Compu-Quote Inc.

Can you just explain that a little bit, what that service is?

MR. DONALD PALMER: Compu-Quote Inc. is a insurance service company who is familiar with the insurance industry, has access to the rates from other jurisdictions. Have -- we have contracted with Compu-

Quote for a number of years. Their core business is comparing rates for customers.

MS. CANDACE GRAMMOND: So individuals in those jurisdictions with private insurance may go through Compu-Quote to figure out who has the best buy or whatever the case may be?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And so I --

MS. MARILYN MCLAREN: Just a little bit more on that if I could. Most individuals living in jurisdictions where there's private auto insurance I believe still purchase their insurance through independent insurance brokers.

So, you know, that is the service that brokers provide, that they would provide a number of different quotes for -- based on the markets that they have access to. But there is a growing segment of the market that is owned by direct writers and so Compu-Quote does have access to broker-based insurers as well as direct writers so that they would have a broader base to give consumers the rate quotes.

MS. CANDACE GRAMMOND: Okay. And with respect to this analysis then I -- I take it that the Corporation would have given these specific vehicles and driver profiles to Compu-Quote and then Compu-Quote would have provided options?

MR. DONALD PALMER: Would pro -- have provided the prices, yes.

MS. CANDACE GRAMMOND: And as per the answer to the IR, this is 2-3, Compu-Quote provided ten (10) quotes for each scenario in each jurisdiction and then the third party that was doing the analysis would have calculated the average. And that -- that's the figure that would have been used in the table?

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

MS. CANDACE GRAMMOND: Okay. So if we go back to those tables and we look at the Corporation's ranking, if I'm reading this correctly it would be the second column from the right that's entitled "MPI Rank Lowest to Highest." So if we look at the first one just to make sure that -- that we understand for -- in driver profile 1 the 2010 Dodge Caravan SE, MPI has the second lowest premium.

Is that right?

MR. DONALD PALMER: Across Canada, yes.

MS. CANDACE GRAMMOND: Yes. As compared with the other provinces. And then the second entry still under driver profile 1 is the 2003 Chevrolet Malibu. There, MPI would have had the fourth lowest premium across the country?

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

MS. CANDACE GRAMMOND: So we see on the first page if we just look down the column of MPI rank, lowest to highest, we see some 2s, some 4s, a couple 5s, some 3s, for driver profiles 1, 2, and 3?

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

MS. CANDACE GRAMMOND: Just a -- a question with respect to the -- the vehicle selection. You had said that these were the eight (8) vehicles that were among the most common. Would that be true Canada-wide, or would that be true in Manitoba specifically?

MR. DONALD PALMER: They were selected more from a Manitoba context, but they would be common vehicles across Canada. We have a tendency to have a little older fleet in Manitoba than other jurisdictions would have. Manitoba does not have the same experience with rust, for instance, that Eastern Canada would have, so there would be -- some of our vehicle fleet would be somewhat older than an Ontario fleet, for instance.

So -- but they would be common vehicles right across Canada. Being the most common, again, it would be -- this -- they were selected based from a Manitoba context.

MS. CANDACE GRAMMOND: Okay.

THE CHAIRPERSON: Can I interject by just asking if that age characteristic of our vehicles skews the results in any way? Like when you're looking at whether you're the lowest valued or priced?

MR. DONALD PALMER: No, I don't believe it does, because we are still doing the comparison on a vehicle by vehicle basis. So because we have specific vehicles that we are doing the comparison for, then that is taken into account with the comparison.

THE CHAIRPERSON: And I just have another question and that is if we take all these 3s, 4s, 2s, and 1s that are on that column, and we averaged them out to get an MPI sort of average, would we be at 1, 2, 3, what would the average be?

Because I guess I'm expecting that if we have the least, or lowest price across the country, or this is one (1) of our goals, that we would land up somewhere in the below 3.

Is that unrealistic?

MR. DONALD PALMER: We would likely be, and I'm just looking through the table, probably at 2. Manitoba and Sask -- Saskatchewan are neck and neck, very similar products. So from that standpoint that would be the main comparison, so we would be likely around 2.

THE CHAIRPERSON: Would you like to provide that figure, just take all those 1s, 2s, et cetera, do a quick calculation and give us that figure?

MR. DONALD PALMER: Sure, we can provide that.

THE CHAIRPERSON: Because at first glance it kind of doesn't look that low, at least to me, anyway, because there's lots of 3s, 4s, 5s, you know, I -- I don't know.

MS. MARILYN MCLAREN: It would have been helpful for us to file the second page as the first page. That would have helped too, because there's lots of 2s on the second --

THE CHAIRPERSON: Okay. Well, maybe I'm just looking at the first page.

MS. MARILYN MCLAREN: Well, it does. And I -- I guess I would add a couple of other things for context. First of all, Manitobans, you know, we -- we hang onto our vehicles. The average passenger vehicle in Manitoba is probably about a 2002, maybe 2003 model level.

So you can see here that we haven't got anything on this comparison older than a 2001. So you can see that ours is -- is -- it -- this is not affected by the fact that we do keep our vehicles for a long time.

The other thing that -- that -- you know, the founding principle and the goal is about, you know, that lowest cost for the comparable coverage. The honest truth on that is -- is there -- there is no comparable coverage.

Ontario was reasonably close for a private competitive jurisdiction until they recently passed a law to reduce the mandatory accident benefits. But I can tell you in Alberta and the Maritime Provinces, the mandatory accident benefits are incredibly low, generally providing income replacement maximum to maybe, you know, like a minimum wage level, about eighteen (18) or twenty thousand dollars ($20,000) a year; very, very limited medical coverage.

So that is a significant part of the coverage that we provide here on a monopoly basis. So you really cannot do a pure apples to apples -- easy on the cars, easy on the actual cars themselves, but Saskatchewan and Quebec and Manitoba have very, very similar accident injury coverage.

BC is the only jurisdiction in Canada that is still a tort jurisdiction where there's unfettered access to the courts to sue. But ICBC, because it is a government auto insurer, has also significantly increased the accident benefits that are payable on a no-fault basis, so they're kind of in the ballpark. But Alberta and the Maritimes have very, very minimal accident benefit coverage as part of their -- part of their programs, mandatory programs.

THE CHAIRPERSON: Thank you.

MS. CANDACE GRAMMOND: Yes, I -- I would say that's an undertaking.

MR. DONALD PALMER: Yes, we have that as an undertaking.

THE CHAIRPERSON: All right. So you'll get back to us on that as an undertaking, the average of all those final column -- or not -- second-last column.

--- UNDERTAKING NO. 2: MPI to indicate Manitoba's average ranking on the national rate comparison

THE CHAIRPERSON: But Mr. Gosselin has a question as well.

MR. REGIS GOSSELIN: A couple questions. In relation to -- to the table, have you got data that relates to trucks, specifically farm trucks? I mean, would you have access to that data?

And I guess the second part of that is one (1) of the presenters yesterday very forcefully indicated that there was a quite a spread between insurance rates for motorcycles in Manitoba relative to the other juri --

jurisdictions.

So I guess my question is do you have data that compares the rates charged in Manitoba for similar driver profiles as to those charged in other jurisdictions?

MR. DONALD PALMER: Two (2) parts of that question. First, the -- for the motorcycle coverages we do have a comparison amongst jurisdictions and we are higher from a motorcycle rate perspective in many cases.

Of course, the difficulties with a comparison, as Ms. McLaren outlined, is doing a comparison of comparable coverage. And with the no-fault injury compensation in Manitoba, to compare premiums between Manitoba and Alberta, for instance, is really not a valid comparison at all because their coverage would be third-party liability. So it's not coverage for damage -- injury damage that is done to the rider, it's injury damage that they cause.

So, generally, if a motorcycle hits another vehicle there's less injury to the other vehicle, and so the third-party liability coverage has relatively low costs, so there isn't really a comparison.

The comparability with us and Saskatchewan is more of a valid comparison and -- and our rates are higher than -- than Saskatchewan. But Saskatchewan, over their last rate applications, has come out publicly and said, These are our rates, but if we get to rate adequacy we need rate increases of -- I think the number was in excess of a hundred percent.

They're, quite frankly, about where we were ten (10) of fifteen (15) years ago. We had very much inadequate motorcycle rates. The decision essentially encouraged by this Board was to pursue actuarially sound rates, rates that are justified by the claims experience of the individual rate classifications and vehicle types, to avoid cross-subsidization wherever possible.

So over the last number of years the motorcycle rates were increased year over year subject to the rate shock considerations that have been set by this Board. We are now to the point where we've got overall rate sufficiency on motorcycles, Saskatchewan doesn't.

So I -- and -- and depending -- their rate regulatory process is -- is quite different than here in Manitoba. But, if they are pursuing actuarial rates, they will be seeing increases in the 15 percent range over the next number of years, just like -- like we had over the last ten (10) years. Over the -- I think last year, they did increase motorcycle rates by 15 percent and sport bike rates by 20 or 25 percent.

So, again, to -- to compare Manitoba rates with Saskatchewan rates, we're higher, but we have sufficient rates and they have publicly said that they do not.

On the farm truck, I'm not sure that a service like Compu-Quote would be able to provide that kind of comparison to the same rigour that they have in -- for private passenger vehicles. That's not their core market. We can probably take a look and -- and compare farm truck rates between Manitoba and Saskatchewan and maybe another -- get a couple of other quotes, but it would be more -- more difficult.

And, so again, a company like Compu -- Compu-Quote would not have the same rigour because that's not their core business.

MS. MARILYN MCLAREN: In my memory we have never had any sort of rate comparison across the country for farm trucks. If -- if that was something the Board wanted us to do between this proceeding and the next proceeding, we could certainly do our very best to do that.

A couple of other things with respect to motorcycles. The thing that makes rating motorcycles and the comparison so significant is that, as -- as we talked about earlier with regular, overall, Basic compulsory

Autopac premiums, about 35 percent of our costs are injury cost related.

Motorcycles -- it's between 80 and 90 percent of their total claims costs are injury costs. So it makes it such a -- a much more significant part of the -- of the rating picture. And therefore, the comparison, you know, between jurisdictions that don't have the kinds of coverage that we have here.

The last -- twice I think in the -- probably in the last eight (8) or ten (10) years, we completed what was known as a motorcycle risk study. We filed one (1) last year and we can certainly put that back on the record this year if that would be helpful. It gives us an overall assessment of where the losses are, what -- you know, what -- what is the story with respect to motorcycle claims cost. So we can put that on the record.

We can also go back and see if we have a reasonably current national comparison of motorcycle rates, and -- and if we do, we can file that shortly as well.

THE CHAIRPERSON: Mr. Gosselin, do you want to ask something more about the farm truck? Expand upon it? Oh.

MR. REGIS GOSSELIN: I -- I guess my

question is are you -- just eye-balling the data, it appears to me that Saskatchewan globally has lower rates than Manitoba. Marginally lower, but nonetheless lower. And I guess what I'd like to know is, is there something about their coverage that allows them to come in a little bit lower than -- than Manitoba? Given that, we've -- you've indicated already that there's fairly similar coverage throughout the province to our home province, so.

MS. MARILYN MCLAREN: No, there -- there's nothing really with respect to the coverage, other than -- and it really wouldn't show up in the comparison because we price it on a -- on an apples-to-apples basis. Their -- their Basic plan has a higher deductible than the compulsory program, but because almost everybody here buys it down, we've com -- we've priced it on a -- on a bought-down basis.

So the coverage is very, very comparable. There are some other differences, though. For whatever reason, people in Saskatchewan do not file injury claims to the extent that they do here in Manitoba. They just don't. And that means they just don't have a lot of the minor claims.

If you look at the serious claims, they're very, very comparable. Two (2), you know, jurisdictions with similar topography, populations and so on. But they just don't have the -- the small claims come forward that still make up, you know, some reasonable portion of our costs.

They also don't have a large, large centre like Winnipeg. I mean, it's -- it's really an anomaly in this province, with almost three quarters of -- of your population living in one (1) large centre. So they have a number of larger centres across the province and that changes the -- the -- the driving behaviour and, you know.

So I think there are some important differences, but -- but coverage isn't one (1) of them.

They also, I mean, the -- sorry. The rate review process that Mr. Palmer alluded to. They -- they do not have a robust process such as this. And some years they keep rates the same, some years -- for man -- for many years they keep rates the same. They don't do clear adjustments every year like we do.

So things can get out of whack a little bit more. They can find themselves in a position where they have to re-establish with more significant changes. And then sometimes that means there's more pressure not to have the significant changes. So overall they have a very similar process.

They have had one (1) rebate because they had excess retained earnings much like we do. We have, you know, had more the last few years but they have the same model. But overall, I would put it down primarily to they -- they don't have one (1) big, big city like this and they just don't claim the same way we do.

MR. DONALD PALMER: Just to add what Ms. McLaren said about the urban areas. If we had put Brandon on this chart, for instance, we do have territorial differentials. Brandon rates are lower than Winnipeg rates.

In Saskatchewan they do not have territorial differentials, so the people in Moose Jaw would pay the same as in Regina. So if we put comparable cities like Brandon and Moose Jaw on this chart again, the comparisons would be somewhat different with Brandon being somewhat lower.

In answer to the Chair's question regarding the average ranking, if I can discharge that undertaking at this point in time, just taking a simple arithmetic average of the rankings is two point four (2.4).

THE CHAIRPERSON: Thank you for that. And just one (1) other question about the farm trucks. I think that you do have some qualifiers as to what is a farm truck, and that is dependent on how much time I think the producer spends at farming, but I could be wrong.

Anyway, I just wondered if across Canada there are sort of sort of the similar qualifiers. How do you set this? Do you look at what other people are doing in Canada when it comes to defining a farm truck or what -- what is the answer to that?

MS. MARILYN MCLAREN: Every licensing authority in Canada defines farm vehicles or -- or not, in the way that they choose. So that is something that's really under the Highway Traffic Act or the Drivers and Vehicles Act. Manitoba Public Insurance has a definition for farm car, but the trucks themselves are put into that category through the licensing authority and then we simply rate for insurance purposes the vehicles that are in there. So they can be quite, quite different across the country. The -- yeah.

THE CHAIRPERSON: And what would yours be? Like what -- what -- what are you working with, do you know?

MS. MARILYN MCLAREN: I -- I used to. It's a certain numbers of hours per year --

THE CHAIRPERSON: Yes, that's --

MS. MARILYN MCLAREN: -- engaged in farms

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THE CHAIRPERSON: -- what I'm --

MS. MARILYN MCLAREN: -- and we --

THE CHAIRPERSON: Yes.

MS. MARILYN MCLAREN: -- can -- we'll find it here and put it on the record in the next couple of minutes.

THE CHAIRPERSON: Yeah. I think that I'm aware of what that is --

MS. MARILYN MCLAREN: Yeah.

THE CHAIRPERSON: -- because I had that licence. But anyway, I just wondered what it might be, but you've said it's --

MS. MARILYN MCLAREN: M-hm.

THE CHAIRPERSON: -- all different.

MS. MARILYN MCLAREN: They're very different --

THE CHAIRPERSON: Thank you.

MS. MARILYN MCLAREN: -- yes.

MR. DONALD PALMER: And may I just add one (1) more thing? With regard to the -- the ratings, all of the ratings for all of our classifications are based on the exper -- the claims experience of that classification. So we can do a comparison with other jurisdictions, but really the -- the rates are set by the experience of the -- of those vehicle classifications within Manitoba.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Just then to confirm for the record a couple of things that arose out of that exchange. We have an undertaking to file the motorcycle risk study from last year, as well as whatever national data the Corporation has on motorcycle rates. I think, Ms. McLaren, you said there -- there might be some --

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: -- kicking around?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So we'll have that -- either -- whether that's one (1) undertaking or two (2) it doesn't matter. And then we have an undertaking with respect to the farm truck threshold number of hours. You said you'd be able to provide that?

MS. MARILYN MCLAREN: Yes.

--- UNDERTAKING NO. 3: MPI to file the motorcycle risk study from last year, as well as whatever national data the Corporation has on motorcycle rates

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Just I know for Madam Clerk, she likes to have that specific, and that -- that's a good thing.

So, okay, coming back to this issue, I -- I just want to clarify and make sure that -- that I understand where the Corporation is coming from with respect to this issue of comparable coverage. Like the goal as reflected is to have the lowest premium in -- you know, where there's comparable coverage. And I think the evidence that I've heard is that the -- the coverage in Saskatchewan is similar but in some of the other provinces it's really not. And Ms. McLaren you specifically mentioned Ontario.

So are -- I mean, are there adjustments done to this analysis to try to make the coverages more comparable for the purposes of comparison, or is the Corporation really saying, comparable coverage (but really it's not comparable because ours is way better).

I -- I just want to -- I want to try to understand what -- what the Corporation is saying.

MR. DONALD PALMER: It would be the latter. That to -- to start doing adjustments to all of these rates is essentially impossible, because we just don't know. With -- when we did the pricing of the no-fault coverage back in 1994 the first time, we had some rudimentary data and some assumptions that we were working with, but over -- over time the rates evolve, because you don't necessarily know what the claiming behaviour of individuals will be under new claiming protocol.

So you can make some assumptions regarding the -- the rates and what would happen, but to do that from a cross-country rate comparison would be very difficult.

MS. CANDACE GRAMMOND: Does the Corporation typically gat -- gather statistics or data on what the coverages are in other provinces? Is that something that -- that the Corporation would have readily available, or -- or does the Corporation focus more on Saskatchewan than the other provinces?

MR. DONALD PALMER: Yes, we could do that, and in fact we've filed it. It would be in Volume 3 --

MS. CANDACE GRAMMOND: It's in one (1) of the AIs. Okay. Okay. We'll track that and if we have any specific questions we'll --

MR. DONALD PALMER: Specifically --

MS. CANDACE GRAMMOND: -- advise.

MR. DONALD PALMER: -- it would be AI-2 in Volume --

MS. CANDACE GRAMMOND: Thank you.

MR. DONALD PALMER: -- III.

MS. CANDACE GRAMMOND: Thank you for that. One (1) other follow-up question with respect to Saskatchewan. Mr. Palmer, you had said that Saskatchewan, unlike Manitoba, doesn't change rates across territories, it's just all one (1) territory.

Is there any indication or knowledge that the Corporation has of why that's the case, why Saskatchewan doesn't -- doesn't change rates across territories?

MS. MARILYN MCLAREN: We don't have any information as to why specifically that continues to be true today. But I do know that years ago there was simply no actuarial basis for it, for the reasons that I said, you know, they have ma -- many similarly-sized cities. Most people in Saskatchewan go to these cities on a regular basis. There was no evidence, and I'm talking probably a couple of decades ago, whereas unlike Manitoba, right, the actuarial data is that there's clear differences in the claims costs between the territories that we have. They simply did not have that in

Saskatchewan. Again, because of the way the population is -- is dispersed.

MS. CANDACE GRAMMOND: I think my next question is going to be for Mr. Palmer. Okay. So just one (1) more question with respect to Saskatchewan, so we've heard your evidence with respect to their rate regulation process being very different, their motorcycle rates, for example, not being reflective of -- of claims costs.

Is it -- is it the Corporation's view that the rates in Saskatchewan aren't necessarily actuarially sound?

(BRIEF PAUSE)

MR. DONALD PALMER: They have said that themselves in some instances, specifically with the motorcycle rates. Now, overall, they do have rates that are reflective of that overall experience. So from an overall perspective because -- because the rates are -- are set with the expectation of claims on an overall basis, I don't have any reason to say that they aren't actuarially sound.

But for individual coverages, certainly their actuarial rigour for a classification rating would not be the same as -- as what is in Manitoba. And from a comparison in -- in looking at what they file with regards to their rate applications, I think recently one (1) of their rate applications to their regulator was about twenty (20) pages.

Our total amount, I think in evidence, was -- ours was eight thousand six hundred (8,600) pages. So there really is a -- a major difference from that perspective.

MS. CANDACE GRAMMOND: Okay. Just one (1) more question with respect to this analysis. In the instances where MPI's rates are coming in, not -- maybe not even necessarily at second, but at third or fourth or fifth lowest, there are some here where PEI seems to be, especially for driver profiles 1 and 2, lower than -- than Manitoba.

Is MPI doing any further analysis with respect to that to -- to try to determine if it is an apples to apples comparison or -- or is this simply a case of gathering the information and presenting the numbers?

MS. MARILYN MCLAREN: We're not doing anything more. This depiction in our communication to the public is really for that basis. It serves as a discussion point. We're very, very comfortable with where our rates rank, particularly given the features of coverage and service that go along with those prices.

At MPI we talk a lot about the value equation, which is made up of what -- what is the cost, what is the coverage, what is the service and the access to -- to the service and the coverage. We're very comfortable with it. I -- I would have no concerns about explaining the difference in price between Winnipeg and Charlottetown.

MS. CANDACE GRAMMOND: Okay. Thank you. Oh.

MR. REGIS GOSSELIN: An -- one (1) of the presenters yesterday talked about the rates that are chargeable by body shops and so on back to Autopac. And I guess my question in relation to that presenter's comments is whether or not you do any comparison with respect to shop rates for different jurisdictions.

MS. MARILYN MCLAREN: We do. And we work very hard with the Motor Dealers Association and the Automotive Trades Association to negotiate agreements with them that we believe are -- are representative and fair in the Manitoba market, but we certainly also, you know, look at the information from other places.

I can tell you the Manitoba rates are on the lower end of what's paid across the country. First of all, the -- again given -- and I think most body shop owners will tell you they have as much work as they can handle. The monopoly program provides them with regular, steady access to work. They -- we -- we're able to pay a rate that really accommodates virtually no downtime, whereas hourly rates tend to be higher. The -- the rates that insurers pay to shops can -- can be higher because they are not always filling all the time that they have.

We really believe strongly that we have to pay an appropriate amount to the body shops particularly. You know, this is just not the days of banging out the fender with a hammer, it's just not. And we are very committed to work with them to lower the costs of doing their work, as well as ours, when it comes to administrative efficiencies and things like that. We -- we've talked a little bit in the application about an initiative underway right now that is a physical damage re-engineering project to figure out how can we make that whole process more effective.

But separate from that, the repairs themselves, you know, are -- are just an area that is going to get more and more attention as it becomes more and more challenging. I think there is -- there's an approach that some of the higher-end vehicle manufacturers have, you know. Like, for example, there are certain -- maybe all of them, I'm not sure, but specifically certain makes and models of Audis and BMWs that -- that they simply will not allow anyone to have their specialized tools other than dealerships that -- that deal with those vehicles. It becomes more and more complex.

So we are comfortable with what we pay. We have -- for the first time, we have a four (4) year agreement with the ATA and the MMDA that was signed last year. Maybe it was even the year before now, I'm not sure, but I think it was even filed as part of these proceedings, the -- the agreement between MPI and those two (2) associations with respect to rates and quality of work and -- and all of those things.

And again, if it's not in this filing we -- we can put it on the record because I think it was last year.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay.

MS. MARILYN MCLAREN: It was filed in this year's proceedings at CAC Round 1 253.

MS. CANDACE GRAMMOND: Thank you. And just for the record, Ms. McLaren, you mentioned the ATA. That's the Automotive Trade Association?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And MMDA is the Manitoba Motor Dealers Association?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: Okay. Okay, so just one (1) last question from me with respect to this. This -- this analysis is something that the Corporation does really, as a communication tool to be able to include in its annual report where it's at with respect to the -- the corporate goal that was identified. This isn't something specifically that the Corporation uses in this rate setting process that we're here to talk about?

MS. MARILYN MCLAREN: No, this is certainly not an input to the rate making process. But it -- it's more than a communication tool. We do pay a lot of attention to this ourselves. You know, and -- and as I said yesterday, we -- we are very much guided by the founding principles. This is one (1) of them and we pay a lot of attention to it.

MS. CANDACE GRAMMOND: Okay. Madam Chair, if -- if it would please the Board, I'd move into my next area, which is rate stabilization reserve?

THE CHAIRPERSON: Go ahead.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Okay, so I have some questions then with respect to the rate stabilization reserve, or what we typically refer to here as the RSR. And this is a -- a reserve that is established and maintained by the Corporation with a specific purpose. And that has been identified by the Corporation as the protection of motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

Is that right?

MR. DONALD PALMER: Word for word. Yes.

MS. CANDACE GRAMMOND: And that's been the consistent purpose of the RSR for many years now, right?

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

MS. CANDACE GRAMMOND: Okay. So let's go to Tab 9 of the book of documents. That's TI-14. So, Tab 9, book of documents, TI-14.

This is the statement of basic retained earnings, which includes reference to the RSR. We know that the Board has previously set the range for the RSR, and that's reflected here for the year of the application 2012/'13, as between 76 and 152 million?

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

MS. CANDACE GRAMMOND: And I understand,

Mr. Palmer, from some of your comments yesterday that, although in the past there have been discussions and -- and considerable amount of evidence at this Board and at these hearings with respect to the RSR range, MPI, while it still tracks its own RSR target point, does accept the Board's range for rate setting purposes.

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

MS. CANDACE GRAMMOND: And as shown here, on TI-14 for the year of the application, MPI's RSR target point is 182 million. So it's 30 million more than the top end of the Board's range?

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

MS. CANDACE GRAMMOND: Okay. And we see here, again sticking with the year of the application 2012/'13, that the projection is by year end, the total Basic retained earnings will be 204.2 million.

That's right?

MR. DONALD PALMER: The total retained earnings? That's correct, yes.

MS. CANDACE GRAMMOND: I think -- I think that's what I said. That -- it is labelled total Basic retained earnings?

MR. DONALD PALMER: Yes, that's correct. Whi-- which would be inclusive of the RSR and the IT optimization fund.

MS. CANDACE GRAMMOND: Yes. And I'll -- I'm gonna get into some -- some questions about that fund a little bit later on.

Now we know that in the past there have been three (3) specific tools that have been considered by MPI and by the Board at times, with respect to the -- the RSR range or target point. Those are the risk analysis/value at risk; the DCAT, or dynamic capital adequacy test; as well as the minimum capital test.

That's right?

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

MS. CANDACE GRAMMOND: And, with respect to the risk analysis/value at risk study, MPI has advised the Board in this proceeding that that could not be completed for this GRA, but it would be done for next year's GRA proceeding.

MR. DONALD PALMER: The order from the Board was that the risk analysis/value at risk would be completed on a triennial basis. The request was made with some of the changes this year that was requested this year.

We have been unable to complete that, just because of actuarial resources. So from that standpoint, it may still be possible to have it filed by the end of the hearings, but if not then certainly we will have that filed next year.

MS. CANDACE GRAMMOND: When will you know if it's possible to do for this year?

MR. DONALD PALMER: Probably by the end of next week.

MS. CANDACE GRAMMOND: Okay. I knew you were going to ask that. What -- what I'm going to say is why don't we -- I don't think we need to record that as an undertaking, I'll just put that on my list of other items. Mrs. -- Ms. Kalinowsky had mentioned some items yesterday that are going to be provided so I'll just put that on that list and we'll follow that up.

Okay. And on that, Ms. Kalinowsky had advised that the DCAT will be provided hopefully by next week. Would that still be the plan?

MR. DONALD PALMER: That's the plan, yes.

MS. CANDACE GRAMMOND: Now what is the Corporation's position at this time with respect to its risk profile? We -- we speak about the Corporation's risk -- risk pile -- profile usually at these hearings. Does the Corporation agree that its risk profile has changed due in part to the recognition of changing claims experience and patterns as well as the adoption of new reserving practices?

MR. DONALD PALMER: In terms of the

reserving practices, and I'll go back to some terminology that Mr. Olfert used at these proceedings last year that -- that those reserving practices are a measuring stick. So it does not really fundamentally change the eventual claims that are paid out by the Corporation. What it does change is your measurement of those at a point in time.

So from that standpoint our coverage has changed somewhat with the PIPP enhancements that have been introduced over the last couple of years. So that would increase the risk profile mainly because it -- it deals with catastrophic losses, those are due to some variab -- add variability so that would add to the risk profile.

The change of the reserving by itself in it -- in itself probably does not change the -- the fundamental risk profile. The other topic that we've -- we've added that would change the risk profile of the -- the Corporation is that with regard to the IT optimization. Certainly that's something that has been added and has -- with the IT optimization fund has more importance in the risk profile this year.

MS. CANDACE GRAMMOND: And -- and so in which direction are you saying that fund affects the risk profile, makes it more risky or less risky?

MS. MARILYN MCLAREN: I think Mr. Palmer was referring to the -- you know, the overall risk framework the Corporation has. We have identified this -- these requirements to improve the IT infrastructure, that is what the IT optimization project will do.

I think on that basis the risk profile of the Corporation has reduced somewhat because we have identified this risk, we have a plan to address it. So the IT area has more attention in the overall risk framework this year.

MS. CANDACE GRAMMOND: Oh, okay, so I think I understand your evidence between the two (2) of you. Mr. Palmer, you identified that there have been some changes in PIPP benefits which could be an increase to risk because there could be more paid out to, in particular, catastrophic injury victims. And Ms. McLaren you've clarified with respect to the IT optimization fund that that may be a factor that would lessen the risk profile?

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

MS. CANDACE GRAMMOND: What about the -- the facts that last year there was a 4 percent rate reduction and this year there's a 6.8 percent rate reduction applied for? Should those -- either or both of those things be a factor for the Board's consideration in looking at the Corporation's risk profile? The idea being if you need to collect less rates, things are going well and there's less risk.

MR. DONALD PALMER: In -- in both those -- those cases the rate is the expected cost of the transfer of risk. So again, because part of that transfer is higher claims benefits for catastrophically injured, that increases some of the variability.

In terms of the variability on collision claims, we do get some weather-related ups and downs from years -- year to year, but that has been very -- very stable. The one (1) -- one (1) risk that we're continuing to monitor is that on weather-related comprehensive claims, namely hail, that over the last couple of years that we have had higher instance of small hail storms which cumulatively have been at higher levels than historically that we've seen.

They haven't reached our reinsurance retention levels this year or last year. We had a couple of storms, one (1) last year, one (1) this year that got close to our retention, but didn't quite make -- make it there.

So from that standpoint there could be an increase in -- in the risk -- risk profile due to hail from a -- a climate-change perspective, but again the comprehensive claims are a much smaller percentage of the total claims than collision claims or -- or injury claims at this point in time.

MS. MARILYN MCLAREN: Another short answer. With respect to the view that the overall cost of claims is -- is lower than we thought it would be at this time last year, with respect to the fact that we have, and believe we should once again lower rates, the Corporation's risk profile, I think, is in very good shape and lower than it was a year ago.

THE CHAIRPERSON: Can I just ask, since you raised the two (2) words, "climate change," what kind of studies, or investigations, or support the Corporation seeks from, say, a climatologist? Because, I mean, we do know that weather changes are occurring, higher winds, torrential rains, these are the kind of things, drought, that climatologists seem to talk about as the patterns change.

So do you do any investigations to look forward, say on a ten (10) or twenty (20) year basis?

MR. DONALD PALMER: We don't specifically employ a cli -- climatologist or do any climatology studies. There have been other organizations that do studies of that nature, very, very high profile in the reinsurance industry.

One (1) of our reinsurers, Swiss Re is really one (1) of the leaders in doing climatology study -- studies, and have done a lot of work in that regard. So we do get some of those documents and publications from them. So we do take a look at -- at it.

We do have as part of our annual reinsurance review -- reviews, our reinsurance broker does supply us with hail models that determine how much reinsurance we need.

The difficulties with the hail models is they're -- especially in Manitoba, they're not particularly reliable. Reason being that Manitoba is very flat and does not have a -- a defined hail track.

That would be different than in Alberta, for instance, where there is a very well-defined hail track, and there has been some risk mitigation efforts with regard to cloud seeding that have been done over the years in -- in Manitoba (sic). It doesn't stop hail but it makes it mushy, so it doesn't cause as much damage. That really is not practical in Manitoba, to have that kind of hail mitigation efforts because hail can essentially go anywhere.

We are -- we are looking at it. We are continuing to monitor it, but at this point in time, there's no specific activities.

THE CHAIRPERSON: Okay. I just always thought with the Riding Mountain and the trough on the south and north that there were some actual hail tracks but maybe not as severe as what would occur in the mountains?

MR. DONALD PALMER: That would be -- that would be true. I mean, we -- we did have a very severe hailstorm in Dauphin in 2007, but that was one (1) specific instance.

THE CHAIRPERSON: Thank you. Oh, sure.

MR. REGIS GOSSELIN: Could you enlighten me about the link between the reserve and the reinsurance approach you take? In other words, I'm trying to understand how you approach reinsurance with respect to limiting your exposure on the -- on -- on losses, so just so I can understa -- have a better understanding of that, please.

MR. DONALD PALMER: Our reinsurance purchasing does influence the -- is taken into consideration when we do our risk analysis. So we -- and, really, if you look at the rate stabilization reserve and the reinsurance they're all part of our risk mitigation activities in order to mitigate the total risk of the Corporation.

With reinsurance there does come a cost.

So our deductible, which the reinsurance industry calls the retention, is $15 million per storm. Now, because we have seen some -- some claim activity over the last number of years we used to have a retention deductible of $5 million, but the cost of that coverage was becoming prohibitive to buy, quite frankly.

Reinsurance would be different than an individual insurance policy where you can think of reinsurance not so much as a complete transfer of risk but more a spreading of risk from -- from year to year, so you pay an average level of hailstorm rather than -- than getting hit with one (1) large and affect your -- your results in one (1) particular year, so it's essentially spread out over time.

So fro -- from that standpoint, both the RSR level and the reinsurance are part of the risk mitigation reinsurance more for individual one (1) time events.

MS. MARILYN MCLAREN: The -- the size and purpose of the rate stabilization reserve have been a significant discussion in these proceedings for well over a decade. And while there is a link, the -- the way the Corporation looks at the issue is -- is, first of all, within the framework of what do we have to work with in -- in terms of a PUB perspective on what the RSR should be.

If, you know, we were in a situation where it was agreed that the Corporation should have retained earnings just like a private sector insurance company would, which would be several hundred million dollars, we may very well buy less reinsurance because we had more room to absorb a huge shock without affecting ratepayers.

But the -- the anchor, so to speak, for the Basic compulsory program really has been the RSR, what's it for, how much is required. The views of the PUB clearly rule in this regard, and then we manage within that framework. Next week, when you see the dynamic capital adequacy test, a significant part of the risks that are actuary models is hail, and it does certainly have an influence.

Like there -- this is a circle of influence. They -- they do affect each other. But all of the different methods of assessing risk that Ms. Grammond mentioned a few minutes ago, take into account the risks like what is the effect of a tumultuous equity market? What is the effect of a large, large hailstorm or -- or some several hailstorms?

So they're embedded in the risk assessment tools that we use, but for these purposes, we have the -- the anchor is really the PUB-determined RSR level.

MR. REGIS GOSSELIN: I keep hearing -- I keep reading about, you know, increased premiums from the reinsurance market. In other words, you know, rates are going up in that -- that market, and I guess I'm seeing relatively stable figures from -- from your documents.

Over time, looking forward, do you expect that -- that will become a major problem for you? Or do you think that -- that rates will -- will remain relatively stable over the next four (4) or five (5) years?

MR. DONALD PALMER: We will likely be seeing some rate increases next year. Our renewal of our reinsurance program is March the 1st. We have just changed that over the last year or so. And that may very well affect our buying decision. So, again, it's a tradeoff of price versus retaining our own risk. So that's part of the management of it.

The Canadian market, although affected by the -- the global market, has been a little bit more stable than the global market. But, there will be some cost pressures this year, for sure.

MS. MARILYN MCLAREN: But part of what we pay for -- and then there's two (2) components to our reinsurance program: the catastrophe which is, for us, big hailstorms. Other places it's earthquake and flood and so on. But for us, it's really about hail. But then it's also the casualty side. And when we insure ourselves against, you know, a very large, multiple catastrophically injured, you know, bus or -- or those kinds of things. With grace, we may never claim against that. We have not. You know, and we have a reasonable retention on any reasonably expected event involving, you know, like a family or something. We -- we do not reinsure against that.

So some of our premiums are stable on the reinsurance side, because we insure at a higher level and it is really an extraordinary event, that as yet, has not happened. And, -- and might not ever. So that helps keep the premiums in line a little bit as well.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. Sticking with some discussion about retained earnings, I'm gonna go to Tab 23 of the book of documents. This is 1-75, posed by the Board.

So, Tab 23, book of documents, 1-70 -- sorry, it's actually 1-75, I misspoke. Tab 23, 1-75. This is a -- a bigger and better version of TI-14 that appears. Page 1, we have dating back retained earnings to 1999/2000 fiscal year. And then moving forward on to page 2 all the way through the outlook period. Are you with me, Mr. Palmer?

MR. DONALD PALMER: Yes, I am.

MS. CANDACE GRAMMOND: Okay. So as we had seen on the other version of -- or, this document, which was TI-14, the -- the forecast for the end of the current year, total Basic retained earnings is about 209 million. Is that right?

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

MS. CANDACE GRAMMOND: Now as we can see from looking at page 1 to page 2, page 2 has some new content in it that we didn't -- we didn't have before. It's -- the information is being presented in a little bit different way.

So, I -- I would like you to explain that. And just so you know where we're -- we're going, I -- I will have questions with respect to the IT optimization project and that kind of thing later on. Right now, I just want to talk about the accounting piece relating to the fund.

So, can -- can you explain the difference in presentation here that we're seeing, over -- or compared with past years?

MR. DONALD PALMER: The major difference that you're referring to, I think, is that extra category of retained earnings. We have this past year changed the reporting of our retained earnings and our rate stabilization a little bit just to reflect some of the realities that we've seen because of the Public Utilities Board process.

We have before the -- the retained earnings and rate stabilization reserve throughout a lot of the history of the Corporation were one (1) and the same for -- for basic Autopac. And then we have separated in different categories for special purpose appropriation of that retained earnings. And, for instance, we had the immobilizer incentive fund a few years ago that still is in the attachment going back to 2007/'08 we still had money in the immobilizer incentive fund and that was exhausted in the 2009/'10 year.

This year we have the -- we've started the IT optimization fund which will be run off as dollars are expense -- expensed for the IT optimization project, that's shown.

We have the rate stabilization reserve as we always had and then that rate stabilization reserve has a maximum target as set by the Public Utilities Board. And over various times in our history we've exceeded that target and the question is: So how can you exceed a maximum? And that ma -- anything above that rate stabilization reserve target essentially would be available for rebates.

Last year as part of our financial reporting exercise we -- we looked at that and said well, if that's really what the intent is, why not express it that way in our financial reporting. So if there are excess funds in excess retur -- tained earnings, in excess of the PUB target that would be available for rebate, let's explicitly report it on that basis. So that's what we've done. And for the outlook period we don't have any of that excess retained earnings until the 2014/'15 year.

MS. CANDACE GRAMMOND: And just so that I know which line you're looking at, is it the line that's called "Balance of Fund" that's under -- in the lower section under the heading "Retained Earnings" that shows 7.2 million in the '14/'15 year?

MR. DONALD PALMER: Yes, that's correct. And just going back to the balance at '09/'10 because we've restated these numbers to show what the excess retained would have been. In '09/'10 that $70 million essentially was what our excess return -- retained earnings was at the end of the '09/'10 fiscal year, and that was essentially the basis of our original application for the rebate last year, was that $70 million.

MS. CANDACE GRAMMOND: That was the twelve point nine (12.9) that you applied for last year?

MR. DONALD PALMER: Almost. The $70 million plus there's also a IFRS adjustment of $21.1 million. So our original application for the twelve point nine (12.9) was a rebate of about $91 million.

MS. CANDACE GRAMMOND: Thank you for -- I -- I do remember that now. Thank you for clarifying that.

Okay. So, in essence, then under the new presentation the total Basic retained earnings number across the bottom of the page is inclusive of the IT optimization fund?

MR. DONALD PALMER: Yes, it is.

MS. CANDACE GRAMMOND: And is it fair to say that if -- but for the -- the IT optimization fund and the -- the plan of the Corporation with respect to that that those funds would be included in the RSR?

MR. DONALD PALMER: Would be included in excess retained. The -- the RSR would still be capped at the maximum level set by the Public Utilities Board.

THE CHAIRPERSON: We're just wondering, Ms. Grammond, whether you could take a break at this point. I'm sort of cognizant of the time and we're kind of halfway through the morning.

I hate to stop this, because actually I had forgotten what time it was, because it was so interesting, what we were talking about. But is it appropriate that we could take a little break now and come back by 11:00? Thanks.

--- Upon recessing at 10:45 a.m.

--- Upon resuming at 11:03 a.m.

THE CHAIRPERSON: Okay. I think we're ready to begin again.

MS. KATHY KALINOWSKY: Yes, if I could just ask that Ms. McLaren be asked to provide the response to the farm trucks' issue and clarify a number in respect of a reference that was provided to an Information Request, please?

MS. CANDACE GRAMMOND: Thank you.

MS. MARILYN MCLAREN: Yes, with respect to the Manitoba collision industry -- Collision Repair Industry Study, the reference that I gave you at CAC-1-253 really refers you to PUB-1-45. So the actual study itself you'll find at PUB-1-45.

And with respect to farm trucks, I can read the entire Highway Traffic Act definition or I can just let you know that it talks about growing crops, or fodder, raving -- raising livestock and so on. Then it says:

"In the opinion of the Registrar, the person, corporation, or a group of persons that's engaged in one (1) or more of those operations to a significant degree."

The term, "significant degree" has been defined by the Registrar to mean someone engaged in those activities for not less than seven hundred and twenty (720) hours a year.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Okay. So, Mr. Palmer, we were speaking about the document at Tab 23, PUB/MPI-1-75A, Attachment 2, page 2, which is the statement of Basic retained earnings.

And we were speaking about the IT optimization fund. You had indicated in your testimony that the fund will be runoff as funds are expended for the project. And I -- I gather that that's reflected near the bottom of the page under the heading, "IT Optimization Fund," where there are line items at implementation and amortization expenses?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And can you tell me about the line item appropriation of Basic insurance, RSR. I see that there are no numbers at that line item, but what -- what would that relate to?

(BRIEF PAUSE)

MR. DONALD PALMER: That would be the -- and I'm -- my belief is that first $65 million should be in the appropriation row. So that's the amount of money that was put into the IT optimization fund in the 2010/'11 fiscal year.

MS. CANDACE GRAMMOND: Okay. Thank you. And so I -- I take it from looking at this that the -- the IT fund in terms of Basic monies, the -- the opening balance is 65 million and that's anticipated to be reduced to 53.4 million by 2014/'15?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And did the Corporation have consideration in terms of this accounting format to IFRS Section 3260, which I gather relates to reserves?

MR. DONALD PALMER: I don't know what 3260's data is.

MS. CANDACE GRAMMOND: That -- that -- I can give you a bit more detail. It's my understanding that under that section, it's provided that regardless of how a reserve is originally created, all reductions in reserves shall be returned to retained earnings or other surplus and no charges shall be made against the reserves that would relieve the income account of charges that shall properly be taken into account in determining net income for the period.

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

MS. CANDACE GRAMMOND: Does that ring a bell?

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

MS. CANDACE GRAMMOND: So the Corporation would have reviewed that before proposing this particular format?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay.

THE CHAIRPERSON: I think we have a question from Mr. Gosselin.

MR. REGIS GOSSELIN: With respect to the

-- the IT optimization fund, I would have -- I'm assuming that you would have been expensing computer expenses all the way along in respect of the -- the continuous upgrades in IT equipment. And I'm just wondering what changed that cause you to say, We need to have a fund to -- to support our IT equipment investment.

MS. MARILYN MCLAREN: It was really because of the scope of the upgrading that was required. Clearly, since the beginning of the Corporation, we've had IT costs of -- of, you know, various scope and nature and have certainly budgeted to replace IT as necessary.

This is really -- as much as upgrading the infrastructure or the footprint, it's really changing it as well. And it's a significant undertaking, a number of projects of -- of significant scope, and for that reason, we thought that this was an appropriate use of retained earnings.

It -- it certainly could have gone the other way. We certainly could have, you know, embedded the costs into ongoing operations over the next several years, and -- and amortized the capital, and so on, but given the nature of this work and the fact that a significant amount is capital it seemed like an appropriate approach. We had the conversation with our auditors, with our IFRS partner. The Board supported --

our -- our Board of Directors supported the approach, and that's really how -- the side we came down on.

THE CHAIRPERSON: Thank you. Go ahead.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. So, in essence, if we understand this correctly, the Corporation is proposing to use the IT optimization fund to offset costs associated with IT optimization program, and that's to be offset against net income for rate-setting purposes, similar to the way the IIF was used to offset costs of immobilizer program?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And over what period of time does the Corporation intend to draw down on the IT optimization fund? I -- I gather well beyond 2014/15, at this point?

MS. MARILYN MCLAREN: For the most part, we expect to have finished the projects and -- and spent the capital by about 2014. But then, yes, the amortization would generally -- the last of it would run out five (5) years after that, so most of these things we would be amortizing over a five (5) year period.

MS. CANDACE GRAMMOND: So the -- the amortization will be beyond the period in which the expenditures are being made under the program?

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

MS. CANDACE GRAMMOND: And does the Corporation agree then that the IT optimization fund should be considered for rate-setting purposes? Because, of course, the Board always took into account the IFF for rate setting.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. And, Ms. McLaren, you mentioned in answer to Board member Gosselin that the auditors had some input with respect to this. What feedback did the Corporation receive from the auditors with respect to these establishment of this fund?

MS. MARILYN MCLAREN: I'm not sure that they received anything. But, of course, our auditors attend every audit committee meeting of the Board of Directors; they signed off on our year-end statements, unqualified opinion, so I guess that is what we received, is -- is signed off unqualified year-end statements.

MS. CANDACE GRAMMOND: Okay. As opposed to specific discussion?

MS. MARILYN MCLAREN: I think there was discussion. I don't think -- clearly there was discussion, there were no concerns. I don't know that we received anything more formal than that.

MS. CANDACE GRAMMOND: Okay. Thank you.

MR. DONALD PALMER: I can confirm that.

MS. CANDACE GRAMMOND: Okay. Thank you. Okay, so moving then into a -- a bit of a different area. The -- the Corporation understands that the Board, in setting rates, has said in the past that it looks at the overall financial wellness of the Corporation?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And the Corporation's position is that, if I understand it correct, the Board need not consider the overall financial well-being of the Corporation in setting Basic rates?

MS. MARILYN MCLAREN: Yes, for some very specific reasons. And I, you know -- clearly, the basic compulsory program is the vast majority of the Corporation's operations, with -- with close to a -- a billion dollars in revenue annually. Over 800 million dollars of that is the Basic compulsory program.

So, it's not too much of a stretch to say that, as Basic goes, so goes the Corporation. But, there are differences between the Basic compulsory program, which this Board reviews and approves rates, and the overall Corporation. We've always taken the view that, if, you know some -- some terrible business re -- results had happened, or were predicted to happen in the competitive lines of business, we would not expect that to affect the Basic compulsory program. Those lines of business need their own retained earnings. They -- they need their own, you know, sufficient operating framework.

So, it -- it -- I understand that in -- in some ways public utility boards have said, Well, you know, the Corporation as a whole is really doing well, and that should influence our thinking about whether Basic needs a rate increase or not.

But when you break it down, you know, to the specifics of -- of what the lines of business are about, what the different legislative authorities are, there's -- I don't think you would find a Manitoban who would say, Well, you know, the basic should really help support struggling competitive lines of business at Manitoba Public Insurance. And that's the basis by which we say the overall financial health of the Corporation ought not to be at play, because the Basic has to stand on its own.

And, I don't want to repeat myself. But the -- that's really the heart of it. You know, the Basic has to stand on its own. No one would ever expect it to help support other struggling lines, if that was the case. And that's why we've taken that position.

The overall financial health of Basic, the Board's views on sufficiency of reserves, on outlook beyond the rating year at issue, absolutely those are considerations for this Board. But Basic really, absolutely, truly has -- has to stand on its own.

MS. CANDACE GRAMMOND: Just for the record, when we talk about the other lines of business, we're talking about the Extension line, the Special Risk Extension, SRE line, and Driver and Vehicle Licensing, DVL?

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

MS. CANDACE GRAMMOND: So, Ms. McLaren, I -- again, just to make sure that -- that the Board and our advisors understand the Corporation's position. Is it your evidence that the other lines, so Extension, SRE and DVL, could operate as -- as independent businesses to Basic? Independent of Basic?

MS. MARILYN MCLAREN: Sure, they could operate independent of Basic. You know, in -- in many ways -- in more ways than Basic, SRE would do that as -- in more ways than Extension. But, certainly.

And -- and, you know -- when -- businesses have to run within the framework that has been established for them, whatever that is, so, clearly, there are any number of ways that Extension lines of business could operate separate from Basic, sure.

MS. CANDACE GRAMMOND: It would be fair to say, though, that in order to do that, some fairly significant investments would be needed to get those lines of business into a place where they would be financially and operationally independent?

MS. MARILYN MCLAREN: Hard to say. Maybe, maybe not. You know, and I think it -- if we're getting sort of part way down the road of talking about sort of the other lines of business, and so on and so forth, I -- I can talk about just one (1) small example that might help enlighten, and it gets into sort of the discussion about cost allocation and how the Corporation delivers its services and so on.

Take the case of MPI sending out renewal forms on regular vehicle registration and insurance. Each renewal document, each stamp, has a component of registration, where that money is just collected and passed right on to government, Basic, and usually some Extension premium as well.

So the cost of the stamp is allocated at MPI on the basis of premium written. So if was, you know, eight hundred dollars ($800) for Basic and one hundred dollars ($100) for Extension, Extension would pay one-ninth (1/9th) of the cost of the stamp and Basic would pay eight-ninths (8/9ths) of the cost of the stamp.

And some of the conversations we've had here over the years speak a little bit to Mr. Williams' opening comments about, you know, maybe there's other ways to do this. And there has been questions asked in these proceedings: Well, why shouldn't it just be shared fifty-fifty (50/50), because they're both getting the service, they both need the stamp? If Basic wasn't there Extension would need the stamp.

Probably not in this one (1) example that I'm talking to you about, because in a broker-based business model, insurers send the renewal notices to the brokers. So we wouldn't be buying seven hundred (700) or eight hundred thousand (800,000) stamps for these little Extension policies, we'd be buying three hundred (300).

So it's complicated. It is based very much on the framework. So no, if we somehow had to operate Extension differently and do it more like other insurers do and just send renewal notices out to brokers, it probably wouldn't be that hard, it probably wouldn't take huge significant investments.

If you needed separate claims handlings processes, that would certainly be more substantive and would cost a lot more. But I can tell you the insurers in Manitoba who do sell Extension products in competition with us, they don't have claims handling processes; they just get their customers to bring them the MPI estimate sheets and then they just cut them a cheque. So that's pretty cheap too, you know.

So, I mean it -- it's not simple and it really -- business are really responsible for figuring out, Okay, here's -- here's the lay of the land, how can I do this effectively and meet my customers' needs and -- and do it as low a cost as possible?

So there's a number of ways to come at these things. And through a number of iterations through this PUB process the allocation methodologies that have been established have been established well through time and for some pretty sound reasons I think.

MS. CANDACE GRAMMOND: Okay. And thank you for the example of the postage stamp. Another, I think, example of a -- one (1) of the shared services between the -- the lines is Autopac Online. Can you first explain to the Board what Autopac Online is, and then we'll talk about that being a shared service.

MS. MARILYN MCLAREN: Sure. Way back in the early '90s, Manitoba Public Insurance built an online real-time transaction processing system that -- that is on brokers' computers in their offices. It is distributed to the three hundred (300) broker locations used by about two thousand (2,000) brokers' employees across the province, as well as our own staff, to do all of the front-end transactions for vehicle registration and insurance, and now also for driver licensing.

So that has been set up because we needed a way to have better, more current information available, whether it was for our own purposes or -- or police, in terms of is that vehicle registered right this moment, or is it not? Brokers needed a way to be more efficient in their own offices. We needed to get away from the days of filling out paper forms and sending them to MPI to be entered into our computer systems. All of that was done back in 1995.

Like everything else, because of the service delivery model most of the transactions are for at least two (2) lines of business. They're all related to either vehicle registration and Basic insurance and often also Extension insurance.

MS. CANDACE GRAMMOND: So Autopac Online is -- is an example of a shared service that is used across all the lines at times?

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

MS. CANDACE GRAMMOND: Is it fair to say

though that in the main, Autopac Online exists for Basic?

MS. MARILYN MCLAREN: Absolutely. And again, you know, it -- I think it is still one (1) of the most robust and highly functioning systems of its kind that any insurer would have put in any of its brokers' offices anywhere in this country. But it's certainly that there's no registrar in this country who's done something like that for its licensing agents. And anyone with a book of business like our Extension line, with a hundred and some odd million dollars would never spend that kind of money, or put that kind of investment in for a -- a small book of business like that. It just wouldn't be required. It's there because of Basic.

MS. CANDACE GRAMMOND: So it's fair to say then it's -- it's there because of Basic, but it supports -- facilitates business in the other lines? And if -- if you want to add a different verb to that, that's fine.

MS. MARILYN MCLAREN: No, the other lines use it, absolutely. You know, in -- in part though, probably mor -- the -- the overriding reason for that is the legislative framework of the other lines. Registration and insurance are inextricably linked; we have to do them together. And Extension is, in legislation, sort of an add-on to the Basic. It is --

that's the framework, that's how those come along; they come together.

THE CHAIRPERSON: I just want to interject at this point, because it just seems to me that you said, and I quote, "and often Extension," and it -- I think I read somewhere that almost 80 percent of the people that are taking Basic are also getting Extension with you.

Is that, roughly, correct?

MS. MARILYN MCLAREN: That's about right.

THE CHAIRPERSON: Yeah. So it just seems to me interesting that when Autopac first started, when MPI first set it up, obviously they wanted to provide for a competitive option, and people could go elsewhere for their Extension. And, of course, they did go elsewhere for their vehicle registration, because they dealt directly with the government on that one. And now we see a situation where you're the one-stop shop, in a sense, in that people are getting their Basic, 80 percent of them are getting the Extension, pretty well everybody's doing -- well, I guess they're all doing the vehicle registrat -- the -- the DVL, I think we call it, right.

And I'm just wondering, I know it's not your decision, but it does seem like this could be a monopoly business. And it's just -- I mention this because when I go to do all this at my one (1) little broker in Minnedosa, no one ever says to me, you can walk down the street and do some of this other stuff, like Extension.

And I -- I guess I just see it as a one-stop shop. I -- I see it as a place to do everything. And I -- I think some people might be under the impression that its all publically controlled, you know, and we -- we know it isn't, of course, because these, you claim, are separate lines of business, they are competitive lines of business.

But I'm just wondering how much the public really understands that, and why the government hasn't perhaps moved in a certain direction. But I know you have said that's a government decision, they decide these things; we just operate under what we -- the reality we have.

Do you want to comment on that?

MS. MARILYN MCLAREN: Well, I -- I think first of all, when you go to your broker in Minnedosa, if they were to say, You know, you could go down the street, that would probably be at another broker, and they're not likely to do that. But the reality is Manitoba Public Insurance has always worked with brokers because we want people to really truly have professional insurance advice.

Autopac agents, independent insurance brokers are required to offer more lines of business than just ours. Way back in the day, you know, there was the occasional Autopac agent and hardware store, Autopac agent and lumberyard. Tho -- those no longer exist. They are all independent agents. So if -- if your broker chose, and believed it was in your best interests, they wouldn't say, Go down the street, they'd say, I can sell you 'X' or 'Y', or I can keep you with MPI. They are the ones that provide those options.

And I guess the other thing I -- I would say that we work very, very hard creating a -- you know, a -- a book of products and -- and -- and a service framework where people will choose us when they don't have to.

So even if it's almost a monopoly, if the others have $10 million and we have 100 million, whatever, certainly we have a vast chunk of the market, but we work very hard at that. We have introduced really innovative products and found unmet needs that we believed were important and -- and put those out into the market, and we've worked hard at that.

So I think there's still a huge difference, whether it's mon -- monopoly or almost a monopoly, that's one (1) issue. And clearly, as you say, it's for the government to consider, but the heart of it, the way we look at it, it's -- it's the difference between compulsory and optional. That's that's the fundamental difference. Do you have to buy this to get your vehicle legally registered for use on the road? You do. You don't have to buy any of that other stuff. That's -- that's the key difference, the difference between compulsory and optional.

And brokers deal with Manitobans as they see fit, you know. And -- and we know that the way brokers register and insure vehicles, they say: Would you like to have a five hundred dollar ($500) deductible? Would you like to have a two hundred dollar ($200) deductible?

So it becomes somewhat fuzzy, as the five hundred (500) is the ma -- you know, you have to have at le -- the five hundred (500), but if you want, you can -- because that's the way they approach it. They're trying to meet customers' needs. They're trying to understand: You know, I -- I really think you should by 2 million if you could afford it, not just 1 million.

So brokers are the places where people buy from others. It -- it's not anywhere else other than the brokers who are primarily selling ours, but they do have other markets. We insist that they have other markets. We don't want them just to be Autopac agents in hardware stores anymore.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. I'm going to ask you then to go to the annual report for the Corporation. So this is in Volume III, Part 1, AI.7. This is the -- the bound, pretty coloured annual report, just to distinguish it from -- from the others that are there. So AI.7, and it -- yeah, it's Volume III, Part 1.

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: Okay.

MS. BYRON WILLIAMS: Ms. Grammond, could I just ask which page?

MS. CANDACE GRAMMOND: Oh, sure. I'm going to page 32.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. So page 32 of the annual report. This is the tail-end of several pages of commentary with respect to Basic, which starts on page 30 -- page 30. But if we look at the very last section that relates to Basic, it's on the left-hand side of the page under the heading in blue, "Retained Earnings."

So this provides that as at February 28th, 2011, so year-end of the 2011 fiscal year, Basic retained earnings totalled a 192.9 million compared to 224.7 the year before.

That's right?

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

MS. CANDACE GRAMMOND: Now, it's my understanding that that number, the one ninety-two point nine (192.9), does not include the IFRS related adjustments that are reflected in the first-quarter report for the current fiscal year.

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. And I -- I will have some questions about that when we come back to the first-quarter report.

MR. DONALD PALMER: And just to elaborate, that this was the financial statement as at February 28th of 2011.

MS. CANDACE GRAMMOND: And the IFRS adjustment was March 1st?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Yeah. Yeah. Now, if we continue on, on pages 32 and 33, we see on page 32 in green, the heading, "Extension". So we're now out of the Basic realm and into the Extension line of business. Page 33, top right-hand corner, we have the heading, "Retained Earnings," and that provides that Extension's total retained earnings are made up of retained earnings from the sale of Extension products and the Extension development fund, or EDF. As at February 28th, 2011, Extension retained earnings totalled $52.8 million, and the EDF totalled $43.2 million.

That's right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And if we continue onto page 34, we get into now another line of business, which is the Special Risk Extension, or SRE line of business. And under the heading of, "Retained Earnings," for that line, on the right-hand side of the page, we see that SRE's retained earnings derived from an -- its annual operations as at February 28th, 2011, were 47.1 million.

That's right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: So, if I've done my math correctly, if we add together the retained earnings and extension, the EDF, and the retained earnings and SRE, we get cumulative retained earnings in those lines of about 143.1 million. And that's reflected, I think -- that number's reflected on one (1) of the financials included within this report.

MR. DONALD PALMER: That is included in the statement of retained earnings at page 50, where there is a -- a total of the competitive lines, which was 143 million --

MS. CANDACE GRAMMOND: Point one (.1).

MR. DONALD PALMER: -- point two (.2), yes.

MS. CANDACE GRAMMOND: Right. And the overall retained earnings for the Corporation, if we stay with you on page 50, is 336 million. That's as of the '10/'11 year end.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And because that IFRS adjustment was done March 1st of this year, that is not included in the three thirty-six (336).

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: We had evidence at last year's hearing that that adjustment was going to be made pursuant to the -- the transition. And so, if that adjustment was included, then this figure of 336 million would increase by about 21 million.

Is that right?

MR. DONALD PALMER: That's close. There -- the 21 million dollars was the amount for Basic. Does not include an increase to the sick -- sick-time or sick-leave liability that we had to set up under IFRS.

And there's also some of that bond gain that would be allocated to the competitive lines of business as well. So, it's not quite twenty-one (21), but that's -- it's close.

MS. CANDACE GRAMMOND: Okay. So, the Corporation has provided to the Board as part of the filing, this annual report, which of course contains historical information as we've been discussing, as of last year end. The February 28th, 2011, year end.

And the Corporation has not given an indication to the Board of forecasts or anticipated future revenues or retained earnings in the competitive lines.

That's right?

MS. MARILYN MCLAREN: That' -- that's right. And that really speaks right to the heart of the Board's stated cases before the Court of Appeal.

MS. CANDACE GRAMMOND: Now, Ms. McLaren, if I understand your earlier evidence that you gave a few minutes ago. You spoke about Basic needing to stand on its own, or words to that effect.

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And that, I -- I believe the Corporation would say is also true for the -- the other lines, in that the Corporation does not support cross-subsidiza -- cross-subsidization from Basic in favour of the other lines of business.

MS. MARILYN MCLAREN: That's definitely true. MS. CANDACE GRAMMOND: In -- in fact, I think the Corporation would agree that any disadvantage to Basic by virtue of the other lines is not something that's acceptable to MPI.

MS. MARILYN MCLAREN: Is -- did you mean that just to be another way to say the same thing? That -- that Basic shouldn't support anything other than Basic. For sure.

MS. CANDACE GRAMMOND: Yeah, I mean what -- I think in -- in your opening evidence yesterday you -- you alluded and -- this isn't your phrase, it's mine. But basically, what I understood you to say was Basic is the -- the raison d'etre, and I know that that's terrible French, of MPI.

I -- I may -- I think, you know, we know -- we all know what that phrase means. And correct me if I'm wrong about that, but assuming that that's the case, that Basic should not be in a position where it is subsidizing or -- or being financially disadvantaged by the other lines.

MS. MARILYN MCLAREN: Absolutely. And the Corporation has always held that view, long before Basic rates were reviewed and approved by the Public Utilities Board. We always had allocation policies. We always had allocation methodologies to share costs between Basic and the other lines of business.

They've certainly become more comprehensive and more rigorous and -- and we certainly now have that audited financial statement for Basic that I talked about at the beginning of AI-7 in my comments yesterday, but we've always believed that we -- and any prudent business needs to have clear understanding of the costs and -- and incomes of different lines of business, for sure.

MS. CANDACE GRAMMOND: Okay. Thank you. I want to speak then about the rebate that -- rebates, I guess, that were issued this year. We know that the Board ordered on March 31st that there be a 45 percent rebate back to motorists and I -- I'll -- before we maybe get too far into that discussion I'll ask you to go to Tab 24 of the book of documents. This is an IR that the Board asked. It's 1-76. So it's again Tab 24 of the book of documents, 1-76, and the -- the Board asked in 'A' for the Corporation to explain the methodology by which previous rebates had been paid out.

And we -- there was reference yesterday, if not in the evidence then in someone's opening comments, to the fact that there have been ra -- rebates issued in -- in earlier years by MPI.

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

MS. CANDACE GRAMMOND: And I believe the -- the years were 2001, 2006, 2007 and 2008.

Do I have that right?

MR. DONALD PALMER: Yes, that's correct. There was a difference with the rebate with 2001. It wasn't actually paid out as rebates, it was based on a discount to the following year's premium. So in sort of the rebate, getting a cheque, that didn't happen for the 2001 rebate, it happened for the other three (3) that you mentioned.

MS. CANDACE GRAMMOND: Right. And that was pursuant the Board's orders that in 2006 the Board ordered a rebate, but ordered specifically that it be done by way of payment of cheque as opposed to what you've described, being done on -- on a person's next renewal?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. So the Board asked, coming back here to one (1) --

THE CHAIRPERSON: Just a -- just a minute --

MS. CANDACE GRAMMOND: Oh --

THE CHAIRPERSON: -- while we're still on that topic Mr. Gosselin would like some clarification or understanding of that last --

MR. REGIS GOSSELIN: Actually, I'd like to go back to the --

THE CHAIRPERSON: Oh, Okay.

MR. REGIS GOSSELIN: -- extension retained earnings. I guess the amount is going to be significant, $100 million, and I -- I'd like to know what your target amount is and how you would set that target amount. In other words, how far will you go with the extension retained earnings?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: In the interests of providing some context that will help you understand MPI as a whole but with the proviso that the Corporation clearly takes the position that is not germane to the Basic rate application, the targets for the retained earnings for the competitive lines are established using the minimum capital test, which is an insurance industry-wide test that most insurers use to determine their minimum retained earnings to stay out of trouble with their regulators.

MR. REGIS GOSSELIN: Could I follow up with another question, please? So -- so assuming that you hit your minimum capital test and -- and then you're in a situation where you have excess retained earnings beyond the minimum, would you -- would your approach be to -- to lighten up on the charges that you assess for extension coverage or do you sort of apply that excess to the overli -- overall lines of business?

MS. MARILYN MCLAREN: Rates for extension are set in regulation by government in the MPIC Act, so it's not management discretion, first of all, in terms of what the rates might be. Historically, I can tell you that there -- there was a time when the Corporation was working to build a rate stabilization reserve for Basic that -- that it believed was sufficient, and it made a policy decision to transfer some excess retained earnings from the competitive lines to the Basic program on a policy basis for that purpose.

The extension development fund was use -- was created from excess retained earnings from competitive lines. That purpose was to achieve the government directive for the merger with DVL to really maximize the opportunities to improve service to Manitobans. So those are some things that have been done historically.

I -- not much I can say about what might happen in the future.

THE CHAIRPERSON: Go ahead.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Okay. So if we stay at Tab 24, 1-76, the Board had asked that at (a) that the Corporation explain the methodology by which rebates were paid out in previous years, and the Corporation has provided its review and vary application to provide that explanation on page 3.

But perhaps for some greater context here, Mr. Palmer, you could explain, or Ms. McLaren, whoever, can explain that process.

MR. DONALD PALMER: The process by which we calculated the rebates?

MS. CANDACE GRAMMOND: In the years prior to 2011.

MS. MARILYN MCLAREN: It's really the response to 'C' that you're looking for?

MS. CANDACE GRAMMOND: I -- I just want -- basically what I'm asking for is that the panel explain for the Board, in the earlier years, and pursuant to what the Corporation determined, how to calculate the rebates.

MS. MARILYN MCLAREN: Okay. Well, we -- we calculated the rebates specifically according to the Board order that was issued in '05. And clearly the Corporation offered some advice to -- to the Board before they made that order.

So I'm not suggesting that, you know, that something the Board did independent of the Corporation, but I -- I would refer you to the answer in -- in 'C', because everything about Basic Autopac rates and rate setting, and in our mind, rebates, is always anchored in rating year.

Fiscal year is not the same thing as rating year. And when it comes to what do you charge someone for a particular Basic compulsory insurance policy at a particular point in time, it's always anchored in rating year, the customer's rating anniversary date.

All of that has to come into play, so that was really our mindset. That was the order of the Board, is that rebates would be paid on the premiums that someone paid during their particular rating year. So if the rebate was paid in '07, it would have been what that person paid in premium during the '06/'07 rating year, which for them may not have started until February of '07.

So it -- it is -- you always have this rolling window, because we have 365 different renewal dates every year to -- to spread the work across the year. So it was not based on just what someone paid in a fiscal period, it was based on their rating year.

MS. CANDACE GRAMMOND: Thank you.

MR. DONALD PALMER: Jus -- just to add to that, on page 3 of the application to review and vary is the exact words of the Board in their Board Order 162/05, where it says:

> "'05 -- '04/'05 premiums paid be defined to be all compulsory premiums written using 2004/'05 rates, net of cancellation fees and -- and fleet rebate, or surcharge."

So really, that's the insurance policy year that Ms. McLaren was referring to.

MS. CANDACE GRAMMOND: Thank you. So in

the spring of this year then, after the Board made its order on March the 31st, the Corporation proceeded with the readying of -- of the cheques, and cheques were sent out on May the 10th, or something like that, of 2011.

Is that about fair?

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

MS. CANDACE GRAMMOND: And then I -- I gather that thereafter there were a series of complaints, inquiries, whatever you want to call them, received by the Corporation and -- and other parties as well, in -- including the Board, with respect to the rebate.

Now is that fair to say?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And what was the nature in the main of those issues that were being raised by people that I -- had either received cheques or not received cheques?

MR. DONALD PALMER: By and large, the majority of the complaints were with regard to people who had cancelled a policy and then taken out a new policy. When there's a new policy that is issued it's issued on the basis of rates that are in effect on the day they took out that new policy.

So, specifically, if someone took out a policy after the '09/'10 rates had expired, so March of

2010, for instance, when the -- the '10/'11 rates would be in effect, a rebate wouldn't be issued on the basis of that policy. So someone ca -- cancels a '09/'10 policy, takes out a new policy at '10/'11 rates, and that second new policy wouldn't have a rebate applied to it.

MS. CANDACE GRAMMOND: And a person in that situation may have cancelled and purchased a new policy because they got a new vehicle, for example?

MR. DONALD PALMER: That's -- that's correct, although it wouldn't have been necessary for them to get a new policy at that time. There is provision that the policy can be transferred to the new vehicle. So in the case of transfer, it's transferred and then anchored in the previous year -- insurance year, and then a rebate would have applied.

MS. CANDACE GRAMMOND: Okay. So after these issues surfaced and there was obviously discussion between the Board and the Corporation and -- and so on and so forth, the Corporation filed a review and vary with respect to the -- the rebate order, and that ultimately was granted by the Board.

And pursuant to the -- the review and vary application as well as the order that follows it was more of a twofold consideration that was in place, and that is in the material at page 7 of the review and vary, I believe. Oh, pardon me. I've misspoken.

What I'd like to -- to have you do is describe for the Board the twofold approach that was ultimately utilized, and that flowed through from the review and vary order. Sorry, it's on page 2 of the review and vary. I -- I misspoke when I said page 7. If you could explain that, it would be appreciated.

MR. DONALD PALMER: The -- the approach that we took was to have the greater of the amount that was based on the vehicle premium using the '09/'10 rates -- or sorry, the amount that was earned during the '09/'10 which could have been earned in -- using '09/'10 policies or 2008/'09 policies.

So the amount that -- less than the rebate that they actually received using the '09/'10 or the -- the '09/'10 insurance year. So if they had a continuous policy earned premium during 2009/'10, then that too would become eligible for a premium rebate.

MS. CANDACE GRAMMOND: So the keyword then being the premium earned in the fiscal year?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Or the rating year perhaps?

MR. DONALD PALMER: The fiscal year.

MS. CANDACE GRAMMOND: Okay. Okay.

Ultimately, the Board granted the review and vary. That was under Order 86/11. And pursuant to that, an additional $16 million was to be paid out by the Corporation to a hundred and fifty-eight thousand (158,000) motorists, some of whom would have already received a rebate and were now getting a supplementary amount, and some of whom would have had no rebate and now we're getting an -- a rebate amount.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And that 16 million, at least as of yesterday, I understand, had not been paid out because of the provincial election that took place yesterday.

Is that right?

MR. DONALD PALMER: I haven't called back to the office, but I think I can safely say today: the cheques are in the mail.

MS. CANDACE GRAMMOND: Okay. Great, that was gonna be my next question.

So, going forward then, I -- I think the Corporation has said, in answer to 'D', 1-76(d), that, to the extent that rebates are applied for in the future, at least at this point, MPI considers the approach that was taken under eight-six eleven (8611) to be the optimal one.

Is that fair to say?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And I see that the Corporation has explained in its answer at 'D' that communication of this approach re -- requires appropriate consideration and discussion, and the Corporation states that if the rebate was, for example, 10 percent, the total financial impact on Basic would be somewhat greater, more like 12 percent.

Can you -- can you explain that a little bit further, how that would occur.

MR. DONALD PALMER: Essentially, in the calculation of the rebate, what comes first is the amount to be rebated, in total, in aggregate. The -- for instance, the amount in excess of the rate stabilization reserve.

So if we have an excess of, use an arbitrary figure of 50 million dollars, that's the number that we have to arrive to. So, depending on the basis of your calculation, your percentage will be different if you're talking specifically 10 percent of insurance year premium; that -- that insurance year premium would be different than the greater of earned premium in one (1) -- one (1) fiscal period and the insurance year premium.

So it's just -- the basis of calculation is different, so the percent rebate would be different.

MS. MARILYN MCLAREN: But the reality is, is by providing the greater-of, with an option outside of the rating year, more people are into the rebate tent, so to speak. There is about four thousand (4,000) people who will start receiving cheques today that did not get a cheque at all in the first go-around, so that's why you end up with more than the overall percentage.

MS. CANDACE GRAMMOND: Okay. Thank you.

Madam Chair, those are the questions that I have with respect to these issues, so I don't know if the panel has any further questions, but for my part I'd be moving into a completely different area next. So perhaps it's now best to take lunch.

THE CHAIRPERSON: I think we will begin our lunch break, and we, I think, collectively, have decided that an hour is great. So maybe we'll just start back at 1:00? Thank you.

--- Upon recessing at 11:55 a.m.

--- Upon resuming at 1:04 p.m.

THE CHAIRPERSON: Okay. I think we're ready to get back at it. Thank you.

MS. CANDACE GRAMMOND: Yes, thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. I'm going to move to some questions with respect to investments. And we've already discussed the importance of investment income to the operating results of the Corporation and hence to rate setting.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: I'll ask you to go to -- actually, you don't necessarily need to go there, Mr. Palmer, you'll probably be able to answer these questions without looking at it. But, for the record, there's -- this is the topic that's reflected in SM-3.4, and you alluded to this in your testimony yesterday.

At the end of the past fiscal year, the 2010/'11 fiscal year, Basic's investment portfolio was 2.09 billion, does that sound right?

MR. DONALD PALMER: That sounds right, yes.

MS. CANDACE GRAMMOND: And since then, in May of this year, about 320 million was paid out to motorists pursuant to the most recent rebate?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And I believe you

also testified that the source of funds that the Corporation has available for investment are primarily unearned premiums and unpaid claims.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And the majority of the funds that are available for investment are -- are those of Basic?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. And we know that investment income is allocated among the lines of business based on the weighted net equity balances of each line of business?

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

MS. CANDACE GRAMMOND: Okay. So getting into a bit more specific, let's go to Tab 15 of the book of documents. This is a fairly long question and answer, it's 1-13, posed by the Board; as I had said, Tab 15 of the book of documents.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And if we look at the attachment there are a number of attachments to this IR, it's a multi-part IR here at Tab 15, if we go to Tab -- or pardon me, Attachment B, so after the narrative form of the answer we then have the Part A attachment, we'll go to the Part B Attachment, this deals with investment allocation as between the Corporation as a whole and Basic. And if we look at the bottom box, there are three (3) boxes on this page 1, Attachment B, we see numbers for the year of the application, the 2012/'13 fiscal year?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So the Corporation is projecting corporate total investment income of just under 91 million, and 78 million of that to be Basic's share?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And that -- percentage-wise, that's just under 86 percent?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So that means the remaining 14 or 15 percent is allocated among the other lines of business?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. And if we look at the earlier years reflected on the same page for the 2010/'11 year and the 2011/'12 year, we see percentages in a fairly similar range. Obviously it was a bit higher in 2010/'11, at 87 percent, and then decreased down to the 85, 86 percent range.

And that would flow from the large rebates that were paid out this year?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And if we turn over the page into the future time-frame, so we're now in the outlook period beyond the year of the application, we see the percentage is projected to be in the -- in and around the same range as the year of the application, that 85, 86 percent level?

MR. DONALD PALMER: That is correct.

MS. CANDACE GRAMMOND: Okay. So if we're -- get into then a discussion about the composition of the -- the portfolio, I'd ask you to go to Tab 16 of the book. This is Question 1-15 posed by the Board. We have as the attachment in answer to 'A', so it's the fourth page in at that tab, this is a chart that provides the historical, current, and prospective composition of the investment portfolio for the Corporation.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: So we see if we look on the total portfolio line, from left to right, so from the '05/'06 time-frame all the way through the outlook period, we see fluctuations in the overall value of the portfolio. And, in particular, we see a dip from the '07/'08 year to the '08/'09 year. That's the -- the two point eight one seven (2.817) to the two point zero two one (2.021).

Are you with me?

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

MS. CANDACE GRAMMOND: And that would relate, of course, to the health of the equity market in 2008, there was significant drop at that time?

MR. DONALD PALMER: Primarily that's the reason. If you go up that column to the equity line you'll see the book value of the equities was 417 million at '07/'08 and two seventy-one (271) in '08/'09.

MS. CANDACE GRAMMOND: Thank you. And if we continue on, again looking a the total portfolio line, there was this dip, as we just discussed, from '07/'08 to '08/'09. Going forward in time, the -- the second dip, we see is from the '10/'11 fiscal year, where it was two point four (2.4), down to the '11/'12 year of two point one (2.1), and, again, that's because of the rebate that was paid out this year?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Going forward from current year, the '11/'12 year, we see the Corporation is projecting increases in the overall value of the portfolio through the outlook period, and in each case it's over a million dollars per year?

MR. DONALD PALMER: I would say over a hundred million dollars per year.

MS. CANDACE GRAMMOND: Did I say a million? I -- I misspoke. I apologize. I meant to say over a hundred million dollars per year.

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Thank you for clarifying that.

And these forecasts and projections for future years assume no further rebates being paid?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Now we know that over the last number of years the weightings within the Corporation's investment portfolio have changed. That was pursuant to an independent study that was done in '08 and discussed at the 2009 GRA, and we'll -- we'll come to that in a minute, that mix.

But if we look at some of the dollar amounts within the various components of the portfolio, if we -- we'll -- we'll start maybe with the bonds. So the -- the first section contained within the chart relates to bonds. There's the line item called, "Total Bonds," which totals each type of bond year over year.

So we see a decrease in the bond portfolio from '10/'11 to '11/'12 from one point seven (1.7) to one point three (1.3). And, again, that's due to the -- the payment of the rebates? That's how that was funded in the main?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: So the Corporation is forecasting that its bond portfolio will increase back to the one point six (1.6)?

MR. DONALD PALMER: Sorry, could you repeat the question?

MS. CANDACE GRAMMOND: Sorry, I -- I got half of it out before I realized you weren't at the mic.

The Corporation is projecting that by 2014/'15, the bond portfolio is gonna be back up to the 1.6 million dollar range?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Now, in terms of -- those are obviously the dollar amounts, if we turn over the page to the next page of that attachment, we have weightings in percentage terms with respect to the components of the portfolio. And again, if we look at the total bond line, that just presents the information a different way, that in the '09/'10 year, the bonds were at 77 percent of the portfolio, decreased thereafter and are expected to remain in the low sixties through the outlook period?

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

MS. CANDACE GRAMMOND: And that reduction in percentage of the -- the portfolio that is in bonds, we see primarily as attributed to the government of Canada line, which is the top line; we see a -- a reduction there over the years, is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: As well as the province of Manitoba bonds, we see a decrease of a few percent; and the school bonds line are the main sources of the -- the decrease, would that be fair to say?

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

MS. CANDACE GRAMMOND: And, just for the record, the school bonds, that's part of what we normally refer to as MUSH?

MR. DONALD PALMER: Yes, MUSH, the acronym being Municipal School and Hospital Bonds.

MS. CANDACE GRAMMOND: So, just to tie that in with the line items on this chart, "Municipal" is the sixth line item, that's obviously municipal, "School" is school, and "Hospital" would be health institutions?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. So another line item that I'd like to draw your attention to is the real estate line item, which appears just above the bolded heading "Total Long Term Investments." We see that, historically, real estate is not something that the Corporation was invested in, but that that became a part of the portfolio in the 09/10 fiscal year.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And I'm actually just going to ask you to turn back a page, back from the percentage relativities, back to the dollar amounts for a moment.

So, again, the real estate line appears at the same place on the document, and that percentage amount that we just spoke about for real estate, that appeared in the '09/'10 year in dollar amount is a 15.2 million dollar investment in that year.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And that represents the -- the parking lots in Citiplace, is that right?

MR. DONALD PALMER: The parking lots associated with the Citiplace purchase, yes.

MS. CANDACE GRAMMOND: And, just for the record, how many parking lots are those?

MR. DONALD PALMER: There are four (4) parking lots in -- inclu -- actually five (5) parking lots. There are two (2) parking lots that are contained within the Citiplace building, and there are three (3) others: two (2) surface lots, and the parkade right behind us here.

MS. CANDACE GRAMMOND: Probably the one that my car's parked in right now. Okay. Thank you.

So, if we look at what is developing in the real estate investment component over the years, we see that that investment increased significantly from '09/'10 to '10/'11, up from 15.2 million to over a hundred, and then is projected to continue to progress through the remaining years, all the way up to 250 million by the end of the outlook period.

MR. DONALD PALMER: That's the projection, yes.

MS. CANDACE GRAMMOND: Can you tell us a little bit about the additional investments that the Corporation has made in...

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: I'm discombobulated. Okay. So we spoke about in the '09/'10 year of the acquisition of the parking lots and the 15.2 million. So since then, obviously last year and perhaps in the current year there have been additional acquisitions.

Can you tell us a little bit about what those are.

MR. DONALD PALMER: Yes. We -- there are two (2) major differences. The first one is actually a relocation from I -- made necessary because of IFRS. We do own the Citiplace building. Prior to IFRS it was all designated or classified as property, plant, and equipment. Under IFRS the amount of -- or the floor space that is not occupied by Manitoba Public Insurance offices is now classified as an investment. There are areas of the Citiplace building both in the mall area and in the office tower that are not occupied by Manitoba Public Insurance and those are now designed as real estate investments.

MS. CANDACE GRAMMOND: Okay. So are there any additional acquisitions that are represented in the -- the numbers for '10/'11 and '11/'12?

MR. DONALD PALMER: Yes. In addition to that we've also entered into a real estate pooled funds. The commitment to that is $135 million of which currently we've invested about $110 million of $135 million commitment, and we would expect to have the rest of that commitment fulfilled within the next few months.

MS. CANDACE GRAMMOND: Can you explain for the record what the -- the nature of a real estate pooled fund is?

MR. DONALD PALMER: Sure. Much like an equity fund. There are a number of investors that pool their money together and buy real estate properties. So within -- go to a fund manager, we have a fund manager that manages the real estate pool, and make commitments. And as they purchase real estate then your commitment -- they have a call on your funds, you -- you give them the money and they use that to purchase the real estate.

MS. CANDACE GRAMMOND: And the properties, or the pooled investments that the Corporation is involved in, are they across the country?

MR. DONALD PALMER: Yes, they are. It's exclusively Canadian real estate.

MS. CANDACE GRAMMOND: Okay. And the projections that the Corporation has to increase its real estate investments over time, is it anticipated that that will be in the same nature of the pooled investments that you've described?

MR. DONALD PALMER: At this point we're still investigating further possibilities. We, in addition to the Citiplace that I mentioned and the $135 million pooled fund, we are also -- have a -- or will have an expression of interest out to develop the surface parking lots that has been outlined in, I think this particular Information Request. That expression of interest has not been released as yet, but will be shortly.

MS. CANDACE GRAMMOND: That was going to be next question, so thank you.

MS. MARILYN MCLAREN: If I could, just a little bit of clarification for the record. You've been speaking about the Corporation invests and the Corporation -- what will the Corporation decide in the future, we're responding "we", "we invest," and "we are looking into," but -- but clearly the Corporation is not always as careful with its language around investments as -- as it should be. We do tend to use the "we" but I can explain the reason for that in just a second.

But clearly the -- the Minister of Finance is responsible under the Act for MPI investments, so when the Corporation's money ends up in a real estate pooled fund it's because that's what the Minister of Finance decided to do with it. In practice, the investments are managed by an Assistant Deputy Minister of the Department of Finance. He and Mr. Palmer chair what is known as the

Investment Committee Working Group, which is staff from the Corporation and staff from the Department of Finance who are the knowledgeable resources, do the research, make recommendations to the Minister on the administration of the fund.

In practice, the Minister has also expected that our board -- our board of directors have an investment committee and be briefed on and asked for its perspective on different investment decisions. I can tell you that -- that in my years of experience it is a very positive and collaborative relationship, but the clear legislated responsibility in the law and in practice rests with the Minister.

So although we say "we", it is largely because of our participation in this Investment Committee Working Group that the Minister has asked to be established, but it is -- is not the Corporation's decision, but -- but has been -- the Corporation has been please to be part of this collaborative process, giving advice to the Minister.

MS. CANDACE GRAMMOND: Thank you for -- for adding that, Ms. McLaren. And I think what we've established in prior years, and so it's good to -- to say it again, is -- is, to sum it up, really the MPI has input into the investments based on the working group, but at the end of the day, the -- your evidence has always been that it's the decision of the Department of Finance?

MS. MARILYN MCLAREN: Yeah, exactly.

(BRIEF PAUSE)

MR. REGIS GOSSELIN: In relation to the -- to -- to MPI and other Crown corporations within the province, is -- is the relationship the same from an investment perspective? I mean, I -- I guess what I'm asking is that are you subject to rules that are different than say would apply to Workers' Comp or any other corporate entity within the government that has investment funds of a significant amount?

MR. DONALD PALMER: The investment of the funds is subject to the provisions of the Financial Administrations Act.

MR. REGIS GOSSELIN: No, I -- specifically what I'm -- what I'm probing here is about equity, the equity percentage. It seems to be pretty well fixed at 20 percent over time. Is that an amount that -- that you can -- you can vary within the scope of -- of the Investment Committee?

MR. DONALD PALMER: Again --

MS. MARILYN MCLAREN: The -- the allocation of the assets available for investment is really established by the investment policy statement, which is a jurisdiction of the Minister, and that's sor -- you know, within -- there is a target amount for equities, but there's a -- you know, within a range. And -- and the Assistant Deputy Minister would have the discretion within the range, but the investment policy statement is something that the Minister approves.

And I believe the investments for Workers' Comp are handled somewhat differently than MPI. I don't have a lot of information about that.

But in terms of other Crown corporations there -- there's not a lot that has this kind of money to invest.

MR. REGIS GOSSELIN: Now, the return that you're projecting on equity is, you know, stable over time, 6.2 percent, in your projections.

Now, that amount is based on?

MR. DONALD PALMER: That is based on our projection of a long -- long-term bond with an equity risk premium of 1.5 percent.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. So, Mr.

Palmer, we've had some discussion about the real estate component, and, as Board member Gosselin just pointed out, if we now look at the equities line we see -- and this is again on the second page of the attachment -- that that, historically, since 2005 and projected through to 2015, really that the equities component of the portfolio has hovered in and around the 20 percent mark.

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

MS. CANDACE GRAMMOND: As with the rest of these numbers that changed in 2008, when there was trouble in the market, and it changed again this year after the payment out of the significant rebate amount?

MR. DONALD PALMER: As a percentage of total, yes.

MS. CANDACE GRAMMOND: Okay.

MR. DONALD PALMER: Within the past year, the US equities were all -- were a little under the target and that was changed with an investment last year, to bring up to the 5 percent equity target for US equities.

MS. CANDACE GRAMMOND: Okay. Thank you. Now, if we go back to the earlier page that reflects the dollar amounts, by piece of the portfolio, we see, not unlike the real estate line, the infrastructure line, which is of course closer to the bottom of the table, but the -- the line item entitled "Infrastructure" shows no investments through a number of years, actually until the current year and then we see in the 2011/'12 year, an investment of 26.2 million, or just over 1 percent of the portfolio.

That's right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And that's projected to increase fairly significantly, up to 127 million by the end of the outlook period, which would be more like 5 percent of the portfolio?

MR. DONALD PALMER: The target weight in the investment policy statement that Ms. McLaren referred to, is 5 percent.

MS. CANDACE GRAMMOND: Can you explain to us what types of investments the infrastructure category represents?

MR. DONALD PALMER: Infrastructure largely refers to things like highways, toll -- toll highways, airports, could be hospitals, other utilities, would be all categorized in the infrastructure space.

MS. CANDACE GRAMMOND: Now, I'm just gonna ask you to -- to turn back to Tab 15 of the book of documents. This is 1-13. And we had asked the question -- so Tab 15, Question 1-13. We had asked at (h) that the Corporation provide the most current investment activity and performance report, and the Corporation provided that, which was basically like a -- a PowerPoint slide show that's contained within the answer. And if you go to page 2 of that, slide 4, so I'm at 13(h) attachment, which is -- consists of slides -- I'm on slide 4, page 2. It's called "Proposed Portfolio Changes."

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. We see reference there under the "Total Real Estate Unfunded Commitment" heading, anticipated infrastructure investment of 30 million. And I appreciate this is as of May 31st, so if we tie that back with the numbers that we see at the 1-15A that we were looking at, is that -- the twenty-six point two (26.2) that has been invested in current year, is that the same fund? The same funds?

MR. DONALD PALMER: Yes. And the infrastructure investments held within the MPI portfolio, there is currently one (1) investment, there -- it's a co-investment with a -- a number of other investors in the Highway 407, in Ontario. We have an 11 million dollar -- or the MPI investment portfolio has an 11 million dollar investment in the Highway 407, and that was completed earlier this year.

In addition to that, as of last Friday, the MPI investment portfolio has entered into a partnership with three (3) other public inv -- investment funds. We -- there is a commitment of 30 million dollars for -- in a infrastructure coalition; that total commitment of all par -- participants is 105 million dollars, of which the MPI portfolio has a commitment of 30 million dollars. That has not yet been invested. There aren't any projects that there has been an investment in, but there is a commitment of that 30 million dollars.

MS. CANDACE GRAMMOND: Okay. So just to make sure that I understand you correctly. When we're looking at 1-15A, which shows -- this is as of August 8th, 26.2 million -- and -- did you say that it -- MPI's portion of the Ontario Highway 407 was 11 million? So what -- what's the other fifteen (15)?

MR. DONALD PALMER: Again, this was a projection of anticipated at the -- so right now there is not a -- an actual infrastructure investments. There is a commitment for $30 million --

MS. CANDACE GRAMMOND: Thank you --

MR. DONALD PALMER: -- on top of the --

MS. CANDACE GRAMMOND: -- that -- that makes sense.

MR. DONALD PALMER: -- Highway 407.

MS. CANDACE GRAMMOND: Okay. Okay. Thank you.

Okay. So we spoke a minute ago about the study that was done and the recommendations made to the Corporation a few years ago with respect to what its portfolio should consist of, and in what relativities. That's the Aon Report, A-O-N Report.

I'd ask you to go back to Tab 15, so 1-13, which we've looked at a couple of times, but this time let's look at 1-13A. So this appears as the third page in at Tab 15 of the book of documents. And I -- I do want to get into the content of this attachment, but before we do that, if you can just give the Board a bit of an overview in terms of the -- what led up to the Aon Report. And -- and if -- if my memory is right, the Corporation at the time worked collaboratively with Aon through the Investment Committee Working Group, in order to work towards a set of recommendations.

Is that -- do I have that right?

MR. DONALD PALMER: That's correct. Understanding not only the nature of the assets but the liability structure. It's an ALM study, asset liability management study. So given certain risk profiles and risk appetite of -- of the Investment Committee Working

Group, there was an investment asset mix that was chosen that was thought to be optimal at that time.

MS. CANDACE GRAMMOND: And that process led to a series of specific recommendations on the part of Aon, which are listed -- now looking at Attachment 1-13A, listed on the far left-hand column, which is entitled "Recommendations Made by Aon"?

Do I have that right?

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

MS. CANDACE GRAMMOND: So let's look at the first one (1) and -- and we'll -- we'll work from left to right across the page. So the recommendation was, and I'll -- I'm paraphrasing -- but basically to phase out universe bonds otherwise known as real return bonds.

Is that right?

MR. DONALD PALMER: No, that's not correct.

MS. CANDACE GRAMMOND: Okay. The --

MR. DONALD PALMER: The real return bonds would be bonds that are indexed to inflation rate.

MS. CANDACE GRAMMOND: Yes, that would act as a hedge?

MR. DONALD PALMER: Not a hedge, per se. The rate of return is a rate plus inflation at the time.

So it -- it provides a real rate of return rather than a nominal rate of return, so a rate of return above inflation.

So if you had a 2 percent real return bond and inflation was at three (3), that bon -- bond would yield five (5).

MS. CANDACE GRAMMOND: Okay. So maybe the better way to phrase it would be "inflation protection"?

MR. DONALD PALMER: Yes, a real retai -- return bond would provide inflation protection. Yes.

MS. CANDACE GRAMMOND: Okay. But coming back to the first recommendation by Aon dealing with bonds, the recommendation as listed here was to either change the allocation from universe bonds to long term bonds, or change the fixed income using defined transition schedule?

That was the recommendation at the time?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And the Corporation elected to adopt a 10 percent allocation to long-term bonds?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So going forward then from left to right, we see that as of last year, the

2010/'11 year, that allocation was up to 6.1 percent; current year, '11/'12, it was at -- up to 8 percent as of May 31st; and the Corporation intends for the year of the application to continue to pursue that target of 10 percent?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And does the Corporation have an expectation of when the 10 percent target will be reached? Do we think it will be within the year of the application?

MR. DONALD PALMER: It's hard to say. And certainly under -- that's solely the judgment of the investment manager, which, in this case, for -- for bonds, is the province of Manitoba.

MS. CANDACE GRAMMOND: Okay. So the Corporation doesn't have a sense of that at this time?

MR. DONALD PALMER: Not precisely.

MS. CANDACE GRAMMOND: Okay. If we go then to the next row, the second recommendation from Aon, and I'll try to paraphrase that and hopefully get it right this time, that the -- the inflation protection that was in place before was to be essentially replaced with real estate and infrastructure investments.

Is that right?

MR. DONALD PALMER: Yes, both real estate and infrastructure do provide inflation protection. So, from a diversification standpoint, that would provide replacement to having real return bond portfo -- portfolio.

MS. CANDACE GRAMMOND: Okay. And we see, looking at the -- the fourth column, the -- the current progress in the -- in the current fiscal year, and we just finished talking about the infrastructure investment that has already been made, and then the Corporation has stated here in the second last column, they expect to have following allocations to alternative asset classes by the end of the current year: real estate, eight point seven (8.7); infrastructure, one point nine (1.9); and private equity, 0.3 percent.

MR. DONALD PALMER: And again, with the definition and that within the context in this table, "corporation" means the Corporation's investment portfolio.

MS. CANDACE GRAMMOND: Right. Understood.

THE CHAIRPERSON: Ms. -- Ms. Grammond, I think it -- you said one point nine (1.9), when it should be two point nine (2.9) in the table at the end there.

MS. CANDACE GRAMMOND: Oh. What I was --

THE CHAIRPERSON: Or am I -- I reading

the wrong -- oh, one point nine (1.9) on the ta --

MS. CANDACE GRAMMOND: I -- yeah, I was reading --

THE CHAIRPERSON: Oh, yeah, number 4, that's right..

MS. CANDACE GRAMMOND: I was reading from the fourth column.

THE CHAIRPERSON: Right.

MS. CANDACE GRAMMOND: But you're -- you're absolutely right, Madam Chair, and I was just going to come to that, that in that last column is where the --

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: -- the Corporation expects to be in the year of the application, and we see, other than private equity, we see increases in both of the classes.

THE CHAIRPERSON: Yes. Okay. Good. Thanks.

MS. CANDACE GRAMMOND: Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Mr. Palmer, is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And then there are reflected here three (3) other recommendations. I won't deal with the last two (2) because those have already been implemented. The third one related to currency hedging, and again, as we've been discussing, use of real estate and infrastructure investments.

Can you tell us a little bit about the statement again in the fourth column for current year, that the Corporation will investigate the accounting and economic implications of hedging currency exposures related to infrastructure investments?

MR. DONALD PALMER: Within the asset class known as infrastructure, would in -- likely include infrastructure in -- investments outside of Canada. So, particularly with the infrastructure coalition that I mentioned, the focus will be Canadian investments where possible, but there could be a possibility to have investments of that coalition outside of Canada. And then the decision will be made by the Minister of Finance, whether those investments should be hedged or not hedged.

It's -- from an accounting perspective and the effect on the Corporation's financial statements, with equities, equities are held as available for sale, which means that any changes in the value of the -- those assets go through accumula -- accumulated other comprehensive income, not through the statement of operations.

When you have a hedging strategy the gains and losses on the hedge go right through your statement of operations. So what has happened in the past with the investments in equities was as the -- or investments in US equities, as the value of the US dollar went up and down, your value of the US equities would also go up and down. And that was within other accumulated comprehensive income.

With the hedge you'd get an offsetting change on the hedge, but that -- that change went through your operating statement, so you'd get a mismatch between the operating statement and other comprehensive income, which could -- could introduce some volatility within your statement of operations.

That was one (1) of the reasons in discussions with the Minister of Finance that the decision was made by -- by the Department of Finance that the hedge would be taken off.

With infrastructure those investments will be classified as held for trading. Actually now called fair -- fair value through profit and loss. So the decision is somewhat different with regard to hedging, because you do have the offset both on your statement of operations.

By not hedging you are having a -- a diversification of your portfolio with training in different currencies. So there is a diversification advantage, but then there is also -- you may not want to have that much fluctuation in your statement of operations.

So that -- the investment committee working group is currently investigating whether infrastructure investments outside of Canada should be hedged or not.

MS. CANDACE GRAMMOND: Okay. Thank you for that explanation. So those are the questions that I have about the composition of the investment portfolio.

I want to talk now about investment income, so related, but a little bit different. I'm going to ask you to turn, still within Tab 15, but to turn three (3) pages in onto page 3. This is the 13 -- 1-13(c) attachment. And it's listed as page 3.

MR. DONALD PALMER: Yes, I have it.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. So this is

a table that reflects corporate investment income, so all lines of business, and we see Basic share across the bottom. And this is filed as of this GRA. So this is a -- a current or fairly current document.

We know that the -- the majority of the portfolio is bonds, and hence the majority of investment income is earned on bonds.

Is that fair to say?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So if we look at corporate-wide investment income over the years, again, I'm looking near the bottom of the table, the line item "Corporate Total."

We see here the numbers from '06/'07 through the outlook period, 2014/'15. And, again, as we've been discussing, over time there are a couple of aberrations in the numbers, the first one (1) being in the '08/'09 year when obviously, again, coming back to the 2008 market conditions.

Is that right?

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

MS. CANDACE GRAMMOND: And then in current year, 2011/'12, and this will carry over for future, there's a -- a decrease in the investment income by virtue of the fact that a significant rebate was paid out?

MR. DONALD PALMER: That's the primary reason, yes.

MS. CANDACE GRAMMOND: And from the year of the application, 2012/'13, where investment income's projected at just under 91 million, the projections are that that number will increase in subsequent years up to '96/'97 and then over 102 million in 2014/'15?

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

MS. CANDACE GRAMMOND: Okay. Let's talk a little bit about the -- the line item that appears just before the corporate total, and that's the pension fund transfer line?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: This is reflected in each year as -- as a deduction or coming off the top, prior to the corporate investment income total being shown. Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And can you explain for the Board what that represents?

MR. DONALD PALMER: Sure. One (1) of the liabilities of the Corporation is the empl -- employer portion of the employee -- employees' pension fund. So, all employees of the Corporation are members of the civil service pension fund. And the employee 'E' contributions are submitted to the CSSB, for investment. And then when employees retire, then CSSB essentially bills the Corporation for the employer's por -- portion of the pension fund.

The Corporation does fully fund that amount and shows as a liability and gets it valued as a -- as a pension fund. Part of that valuation is an assumption of investment income.

So the actuary -- the pension actuary, has assumed that there will be pension income in the future, that's part of the valuation. So this is just taking pre-credit for that investment income, 'cause it's already been assumed in the pension valuation.

Again, this is not a -- a segregated fund of this pension fund. It is commingled with all of the assets of the Corporation. But it is -- the liabilities is calculated separately.

MS. CANDACE GRAMMOND: Okay. Thank you.

MR. REGIS GOSSELIN: I'm trying to understand what overall return is, given your portfolio mix on the -- all the funds that you have available in reserves and so on. So, am -- am I wrong to -- to estimate that it's about 4 percent that you're getting on your total portfolio?

MR. DONALD PALMER: The exact number is contained in the presentation. We'll -- we'll find it right away for you.

MR. REGIS GOSSELIN: Okay.

(BRIEF PAUSE)

MR. DONALD PALMER: That assumption going forward would -- would be pretty close. In terms of historical rates of return, the presentation that's included is the attachment to 1-13(h). The return for the last year was about 8.9 percent for the year ending May 31. So it was a little higher than that. But, right now, 4 percent would be kind of an average return.

Over the last four (4) years, the rate of return has been 4.8 percent.

(BRIEF PAUSE)

MR. DONALD PALMER: And, just if you want a reference to that 4.8 percent, it's on page 11 of the attachment to 1-13(h), slide 21.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Mr. Palmer, just before we turn away from the investment income schedule that we've been looking at, 1-13©), page 1, we were speaking about the pension fund transfer and we see that over the years that number is in and around 10, 11, 12 million, except for one (1) year, which is last year, the 2010/'11 year where that number is actually about double, it's twenty point three (20.3). And I -- I -- my understanding is that that is as a result of the change in actuarial assumptions and increase in pension fund liabilities.

Is that --

MR. DONALD PALMER: That --

MS. CANDACE GRAMMOND: -- right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And for the purpose of the record, that answer is at PUB/MPI-2-7©), which is also part of Tab 15. If -- it's fairly straightforward so we probably don't need to go there but it is 2-7©) which forms part of Tab 15.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So at the end of

the day for the year of the application 2012/'13 the anticipated investment income is less than last year, we know that that's due to the -- the rebate having been paid out and, correspondingly, Basic's share is less than it has been in the last couple of years as well?

MR. DONALD PALMER: Yes, that's -- and again, primarily the reason. There's also -- we're in a very low-interest environment so new money invested in the portfolio also attracts a lower interest rate, so that would be accounted for in this lower investment income as well.

MS. CANDACE GRAMMOND: Thank you. And I know that Board member Gosselin had a couple of questions about yield rates and I just want to explore that a little bit.

If we go back to Tab 16 of the book of documents, which is PUB/MPI-1-15, and we look at 1-15(a) attachment page 3. So Tab 16, 1-15(a) attachment page 3, we have a document entitled "Corporate Investment Income," and the -- the investment income numbers and Basic share are reflected. And then at the bottom of the -- the chart there's a section entitled "Yield Percentage," which breaks down the investment income or the -- the yields -- the yield percentages per category within the portfolio.

Is that right?

MR. DONALD PALMER: The yield percentage historically and then the projected for the outlook per -- period, yes.

MS. CANDACE GRAMMOND: Yes. Thank you. So for the current year the anticipated yields for short and long-term bonds are one point three four (1.34) and three point seven nine (3.79), respectively?

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

MS. CANDACE GRAMMOND: And those numbers are expected to increase for the year of the application to two point seven three (2.73) and four point three one (4.31) respectively?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And equities, as has been stated, the anticipated yield is 6.1 percent, and that carries through the outlook period?

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

MS. CANDACE GRAMMOND: And I'll -- I'll get into in a minute how that's calculated. And then as well, for the EAFE eq -- equities, which is Europe, Asia and the Far East.

Is that right?

MR. DONALD PALMER: Yes. Again, that's a projection of returns for EAFE. There currently are no

EAF - EAFE equity investments in the portfolio.

MS. CANDACE GRAMMOND: Right. So for -- for EAFE equities the projection is 5.5 percent going forward, 6 percent for real estate, and 7 percent for infrastructure?

MR. DONALD PALMER: That's correct. And the real estate and infrastructure expectations come from the investment policy statement being for real estate CPI plus 4 percent, and infrastructure being CPI plus 5 percent.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. And we're going to be having some discussion about the classification of bonds in due course. But the question that I wanted to ask with -- with respect to this was, if we -- we look up the -- the table, so we -- we leave the yield percentage section and go back to the top section of table, we see line items for realized gain or loss on held for trading bonds, unrealized gain or loss on held for trading bonds, and we see numbers in those line items for '08/'09 through last year, the '10/'11 year. And then there are no entries through the current year and through the outlook period.

Can you comment on that?

MR. DONALD PALMER: With realized gain on held for tra -- or gains on bonds in general, bonds that are held generally, rule of thumb, and there are some other factors, but generally as interest rates increase the value of bonds decreases and vice versa as interest rates decrease the value of a bond increases.

Now -- so as we would expect interest rates to fluctuate over time, maybe you could expect related gains to be in this table, or -- or losses for that matter, and that's pretty hard to -- to project. But within our portfolio we also have liabilities that also are interest sensitive, meaning as -- and that's the unpaid claims reserves on the PIPP liabilities primarily. And again, with -- because they're interest-sensitive, as interest rates increase the value of the liabilities decreases and vice versa.

So rather than having changes in this, we have made the assumption that there won't be those gains and losses on the asset side knowing that there's essentially an offsetting entry that would happen on the liability side.

MS. CANDACE GRAMMOND: Thank you. Okay, so we've talked about in terms of yield percentages here what they are going forward, and I just want to talk a little bit about the calculation. And again, I know you've given evidence about the -- the equity-risk premium.

But it -- it's fair to say that the Corporation uses a methodology to forecast equity returns.

Is that right?

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

MS. CANDACE GRAMMOND: And last year the Board had asked the Corporation to consider using five (5) year averaging to reduce the risks that come with the volatility within the market. And the Corporation has stated in the filing that its methodology was already consistent with that direction?

MR. DONALD PALMER: Yes, again, realizing that this hearing is essentially because of a rate setting exercise. The investment income is an important -- or the forecast of investment income is an important component of the rate, and we are projecting a investment return going forward.

So rather than trying to predict a year-by-year, it's a forecast over time that you expect some stable investment income over a long period of time. That's the project with equities linked to what the expectation is for the rate of return on bonds plus the equity risk premium. So that's over -- averaged over the next five (5) year time frame.

MS. CANDACE GRAMMOND: And for the purposes of the record, there's some further detail on that at an IR that was posed by CAC in the First Round. It's CAC/MPI-1-169. It's not in the Board's book of documents, but that IR describes the -- the process that you've -- you've just spoken about?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And just for clarity, the calculation that the Corporation does is categorized into Canadian equity, US equity, and EAFE, and then the one point five (1.5) equity risk premium is applied across the board?

MR. DONALD PALMER: Yes, should I refer to the IR?

MS. CANDACE GRAMMOND: You certainly can if you want to. I'm not trying to test your memory, but I -- I don't think you need to, because I'm not going to ask a lot more detailed questions about that other than to confirm that the calculation process that is described there is what is ultimately used in the application?

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

MS. CANDACE GRAMMOND: And then with respect to the bonds, and I know you -- you've commented on that, but the -- the rate is forecasted, again, using averaging over a five (5) year period, but without any risk premium?

MR. DONALD PALMER: The -- there are forecasts of bond returns that the Corporation gets from external sources and those are used to project the future income from bonds.

MS. CANDACE GRAMMOND: Thank you. So -- so they're not averaged over a five (5) year period?

MR. DONALD PALMER: No, they're not.

MS. CANDACE GRAMMOND: Okay. Still with investment income, but again, shifting the focus a little bit, I'm going to get into some questions about the forecasting that's been done in the past and how the forecasts have related to the actual results year over year.

So I'm going to ask you to go, still within Tab 16, but to PUB/MPI-1-15, Attachment C. So we're still in Tab 16, we're at PUB/MPI-1-15, C Attachment, and that's numbered as page 7.

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: So this is a -- a

two (2) page attachment. On the first page we have the numbers for '08/'09 on the right, to 2010/'11 on the left. And then on the second page we have the three (3) earlier years, so '05/'06 through '07/'08?

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: And within each year we have three (3) numbers. So we have -- if we start -- we'll use the -- the 2010/'11 year. At the far left within that box are the actual numbers that are being presented at this year's GRA, that year is in the can, so to speak, finished. The middle column would be the revised projection that was used at last year's GRA, and then on the far right would be the number that was used in the rate application for that year, so two (2) years ago.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So the idea being if we work from right to left within each box, we have first projection, second projection or forecast, and then actual?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And the far right column within each box, which is the original projected number, would be the number on which the Board would be basing its rates for that year?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. So if we -- we'll go to the second page for a moment. That gives us the earlier period of three (3) years, the '05/'06 to '07/'08 time frame.

We see in each of those three (3) years the Corporation's original projection as presented at the GRA for each year was considerably less than the actual investment income that came in at the end of the day.

Would that be fair to say?

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

MS. CANDACE GRAMMOND: And -- and just so that we're clear, I'm comparing in the case of '05/'06, the original projection was 82/83 million, came in at one sixty-six (166) -- 166 million. Then the next year was 86 million as an original projection. It came in at one twenty (120) -- 120 million in actuality. And then in the third year, '07/'08, not as much of an increase, but the original projection of 95/96 million turned out to be 125 million.

Is that right?

MR. DONALD PALMER: Yes, and most of the reason for that would be in the equity gain/loss row that's included in the row above.

So specifically, for 2005/'06, the projection included a five (5) -- approximately a 5 million dollar gain and there was actual gains taken of 70 million dollars.

MS. CANDACE GRAMMOND: Yeah, you're looking at the fourth line item, called "Equity Gain/Loss." And in this case, obviously they're all equity gains.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Yeah. Okay. So if we go back to page 7, so this is now the -- the subsequent three (3) years, '08/'09 through '10/'11, we see that the -- the relationship between the forecasting and the actual is a bit different.

In '08/'09, as we talked about, it was a -- a bad year in the equity market and the original projection of 114 million ended up being only four point six (4.6). And then in the next year, the original projection of 106 million was reduced, although not by nearly as much, 96 million.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And then for the year that's just ended, the 2010/'11 fiscal year, the original projection of 101 million is just only slightly less at a hundred. And that of course is after the pension fund transfer that we spoke about that was significantly more in that year.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So would it be fair to say you -- we spoke about the equity gain or loss line for the earlier three (3) years, would it be fair to say that the variability that we are seeing here is in the main due to that still? The -- the equity gain or loss line?

MR. DONALD PALMER: For the 2010/'11 year, there's also about 11 million dollars in the gain and loss on bonds. So that's 11 million dollars as opposed to a difference in the equity gain/loss of about 7 million dollars.

So, in that particular year, the fluctuation would be more on the gain and loss on bonds rather than on equities. The year before, the projection was a equity gain of eleven three (11.3). There was a loss of five three (5.3). So that's about a 15 million dollar difference as opposed to gains on bonds of about 16 million dollars. So they would be about the same.

MS. CANDACE GRAMMOND: Okay. I have a couple more sections related to investments, so we talked about the composition of the portfolio. We've talked about the income. We've talked about the -- the yield rates. We -- we've talked about forecasts of dollars -- from forecast to actual. We -- we talked a little bit but not a lot about the investment benchmarks that the Corporation has. First of all, maybe you can explain why the Corporation has established investment benchmarks.

MR. DONALD PALMER: And again those would be benchmarks that have been established by investment committee working group.

Again, it's a measuring stick to see how your investments are doing, compared to others with the same sort of assets. So, we do have investment, or the Corporation's investment portfolio has, investment manager -- equity investment managers that -- it's always good to see how those investment managers are doing compared to other investment managers or compared to the -- specifically for benchmarks, how the market is performing as a whole.

So, if there's an investment manager that's getting a rate of return of 20 percent, that's pretty good. If the rest of the market as a whole is getting 30 percent, 20 percent is not so good. So from that standpoint, it's a measurement of how a benchmark is -- how a particular investment fund or manager is doing, comparing -- compared to the market as a whole.

MS. CANDACE GRAMMOND: Okay.

MR. DONALD PALMER: And specifically, with the benchmarks that are contained within the investment policy statement. There's also an expectation where there is an investment manager that there's money being paid for that investment and advice that they should, in fact, do a little better than the market as a whole. So -- so the benchmark in the investment policy statement for the equities is the overall market, TSX, plus 150 basis points. So again, it's the expectation that the manager will do a little better and, in fact, the benchmark being a hundred and fif -- beat the market by 150 basis points.

MS. CANDACE GRAMMOND: Okay. And you've described for us that the benchmarks are set out in the investment policy statement which is ultimately put in place by the minister with input from the investment committee working group. So who monitors, as time is unfolding, the actual results relative to benchmarks?

MR. DONALD PALMER: The Corporation does have an investment department managed by Mr. Bunston, seated behind me. And that depart -- department is primarily responsible for the monitoring of the investment funds.

MS. CANDACE GRAMMOND: Are there are any

implications, and if so what are they, where benchmarks are not achieved?

MR. DONALD PALMER: Yes, there -- there are, certainly within the equity portfolios. Each investment manager has a contract with invense – investment performance expectations that contract be -- between the Minister of Finance and the investment manager. There is a -- the investment committee working group has established a discipline policy of monitoring those, putting a manager on a watch list, and to let the manager know that their performance is being -- being watched.

And ultimately it would be the dec – if there is performance which continues to be worse than the benchmarks then the Minister of Finance could terminate that contract and the manager could be fired.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And do you know if any of the managers are on that watch list at this point?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Is it one (1) or more than one (1)?

MR. DONALD PALMER: Yes, it's more than one (1).

MS. CANDACE GRAMMOND: Okay. How many managers are there, in rough numbers?

(BRIEF PAUSE)

MR. DONALD PALMER: In total, five (5) managers.

MS. CANDACE GRAMMOND: So how many are on the watch list right now of the five (5)?

MR. DONALD PALMER: Two (2).

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Can you tell us of the two (2) that are on the watch list at present what funds they are responsible for? What they're managing?

MR. DONALD PALMER: No.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Sorry. Mr.

Palmer, when I ask you if you can tell us who they are and you say "no" is that that you're -- you're not -- you know who they are but you don't want to tell us for some reason of confidentiality or you just don't know who they are offhand?

MR. DONALD PALMER: No, we know who -- who they are, but for purposes of confidentiality the individual managers, I guess even who those managers are, and has never been disclosed specifically to -- to this Board. Specifically, I -- I can tell you that there are two (2) Canadian equity managers, if that would help.

MS. CANDACE GRAMMOND: Thank you. Okay. We do have -- oh, sorry.

THE CHAIRPERSON: We have Mr. Gosselin --

MS. CANDACE GRAMMOND: Yes.

THE CHAIRPERSON: -- breaking in here with -- yeah.

(BRIEF PAUSE)

MR. REGIS GOSSELIN: I'm trying to understand what happened. I'm looking at Attachment 1-15(c). I'm looking at the -- the re -- investment results or the equity gains losses in '08/'09, 80 million, and then looking at a further table, 1-15(e), which -- which speaks to the gains and losses at various months during that period.

I -- I guess what I'm trying to understand is, did you actually vacate your positions? In other words, did you -- were the equity positions that you had in the face of the market, were they sold? Were they actually sold, or were they -- could -- could you...

MR. DONALD PALMER: With -- each manager has the discretion when to buy or sell its equities. So in some cases, yes, as the market was going down the investment manager would sell a position knowing that there was continued decreases and thought, in his discretion for that portfolio, that that was the time to get out.

In other cases, there would also be investments that were marked as impaired at the year end, so that would also be a write-down and show up as the -- as a loss, as a realized loss.

(BRIEF PAUSE)

MR. DONALD PALMER: For the impairment that -- the Corporation does have a policy that I think is on the record somewhere on impairment of investments and how we determine whether a particular equity investment is impaired or not. And that -- so the marking of those is as realized losses after an equity is -- is marked as impaired is based on policy. And there was some of those in the '08/'09 fiscal year. I think there was a impairment of about thirteen (13).

(BRIEF PAUSE)

MR. DONALD PALMER: The -- the breakdown of that $80 million has been filed somewhere. We'll -- we'll find it and we'll direct the Board's attention to that.

MR. REGIS GOSSELIN: Now looking at the horizon right now, I mean, I -- I'm looking at my own very modest investment portfolio, I'm -- I'm under water right now compared to what I was six (6) months ago, but I'm not going to sell.

And I guess the question I'm asking is that, you know, your portfolio's probably in the same position, so your approach would be -- I -- I'm assuming your approach would be to hold steady on the -- on the equity positions and wait for the market to go back to, you know, a more normal situation?

MR. DONALD PALMER: Again, that's the decision and -- of the investment manager. That's the advice that the Department of Finance pays for. The professional judgment of when to sell and when to buy is certainly one (1) of the most telling of a -- of a investment manager.

So, in terms of different managers have different philosophies, have different styles of when to buy and when to sell, so that -- that discretion does not lie with the Department of Finance or with the Investment Committee Working Group, it's with the manager.

MR. REGIS GOSSELIN: So in res -- in respect of -- of the years going forward, I'm look -- you know, we're facing a very volatile market, both on the bond side and the equity side, although bonds will probably -- you know, interest rate environment is -- is, I guess, pretty good right now in -- in the sense that interest rates won't be varying very much.

So I guess what I'm gon -- what I'm asking is how sensitive that -- is your global portfolio to -- to interest weight swings, particularly when the bulk of your portfolio is in bonds, and -- and I guess what I -- you know, looking at how I'd behave with that portfolio is I would -- I would be inclined to hold on to the -- to the -- the bonds that where I'm suffering losses and wait for them to mature rather than to suffer the lo -- I mean, I -- I'm just -- I'd like you to explain that to me, please.

MR. DONALD PALMER: Sure, and you're correct that the majority of our investments are in bonds. As -- as you've identified, the price of the bond is -- is interest sent -- sensitive. And again, within our portfolio the purpose of that investment income, or having investments is to ensure that we're able to pay our claims.

Most of that investment is unpaid claims reserves. Those unpaid claims reserves as determined by the actuary and the actuarial evaluation are also interest sensitive.

So from that standpoint, having a bond portfolio to back those liabilities, you're immunized against changes in interest rates, so you're protected. As interest rates go up and your bond values fall, your liabilities also fall. And there is a -- a matching strategy that actually is contained within the investment pol -- policy statement that the duration of the fixed insome -- income securities has to be within two (2) of the duration of the liabilities. Right now over the last little while, our -- we're about 80 percent immunized. So we are protected from those change in values of the bonds.

On the equity side, yes, there is some

volatility. That's really one (1) of the reasons that we have historically -- or that the asset/liability study essentially comes up with low equity weights, because of the asset/liability matching strategy that has been employed.

And the fluctuations on the equities also, unless they're -- they're actually sold and realized, don't go through the income statement, as well. So there is some protection from the -- that, as well.

MS. MARILYN MCLAREN: And if I can provide a little bit more of the historical context. Since 1971 the Minister of Finance has always taken the perspective of, job 1 is always protect the liabilities. And then if you can get some additional return that's a good thing. But -- but in terms of are you going after a return, are you trying to sort of protect the liabilities, it's always been the former.

Until 1998, the Corporation's investment portfolio was 100 percent bonds, all of it, from '71 until '98, 100 percent bonds. And as -- as part of the consideration of what is in the best interests of keeping rates low and stable in this no fault world, there was a decision to start to diversify.

But always, always the belief was that -- that this particular portfolio, unlike Workers Comp and others, needs to be primarily bonds for the stability that they provide, given the nature of our liabilities.

We do have a -- a pretty strict policy with respect to recognizing impairments of assets. And -- and -- we'll -- we'll find the reference, but a good part of that $80 million in 2008 were equities that the managers didn't necessarily sell, but we recognized that it was now impaired and not expected to return to its book value. So that's why that actually hits the income statement that way.

You need to look back, the previous page of the -- you know, just bef -- the -- the next page, to look at all of those equity gains, to understand a little bit more of the context of the size of that recognized impairment in '08.

The leadership of the Corporation of -- of the day, back in the mid-2000s, was in a position where, you know, we had -- we were in equities, watching them appreciate as, you know, the entire market moved upwards and believing that these -- these -- the -- the -- the growth, the enhanced value was solid, it was going to last. And if it continued to sit there, in other comprehensive income, it really didn't do much for helping to keep rates stable and keep the RSR funded.

So there was a few times, not since 2007, but there was a few times where the direction was given to managers to sell some assets so that the gains on the original investment could be booked.

Almost always, they rebought the same investments, but then they were sort of benchmarked now again, at -- at -- at the higher price.

So if that had not happened in 2003, '04, or '07, when it did -- a very small number of times, there would have been more room to move and much less impairment to recognize in '08.

THE CHAIRPERSON: Go ahead.

I think Mr. Evans is suggesting, and this would be a great time to take a break, 'cause we've been at this for an hour and a half and...

--- Upon recessing at 2:29 p.m.

--- Upon resuming at 2:46 p.m.

THE CHAIRPERSON: Okay, so we have a plan -- a plan now that because Board counsel and the Chair are never looking at the panel, or not normally, we're looking at you, either one (1) of these two (2) gentlemen could hit their mics and interject.

And I understand that this is important because, when we have a thought, sometimes the topic is at hand and we want to get right to it and so we will welcome that, stop at any point to address those, either clarifications or questions. I welcome that.

All right. So we're back at it again, and you're proceeding with your line of questioning.

MS. CANDACE GRAMMOND: Yes, I will, but I understand Mr. Palmer has some information first.

THE CHAIRPERSON: Oh, okay.

MR. DONALD PALMER: Yes, Mr. Gosselin had a question regarding the investment income and the sources of the losses in the 2008 year. That has been filed as attachment to CA -- CAC-MPI-2-40, which shows we had actual gains and losses on equities of about $31 million.

We had a loss on foreign exchange, that's when there was a hedge on the foreign -- foreign currencies. That was a loss of about $17.4 million.

The write-down of investments, that's the impaired investments that I referred to, was about $21 million. There was also a unrealized gains on bonds of about $4.8 million.

During that time, the yields on corporate bonds, specifically, skyrocketed, so there was a loss on those bonds, as well. So that -- that's essentially the breakdown of the losses on investment income in that

2008/'09 period.

MR. REGIS GOSSELIN: Can I just follow up on that? I just -- we -- we've been talking about investment managers but the -- you used investment managers to manage the port -- the bond portfolio, as well, or is it just the equity portfolio?

MR. DONALD PALMER: The Province of Manitoba are the bond managers for the MPI portfolio.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Mr. Palmer, just a followup to that, the numbers that you just provided, and I don't have the IR in front of me, but are those corporate-wide or Basic numbers?

MR. DONALD PALMER: Those are Basic.

MS. CANDACE GRAMMOND: Thank you. Okay. So --

MR. DONALD PALMER: That -- just a reference from the reference comes from page 23 of the Universal Compulsory Automobile Insurance Annual Financial Report for Fiscal Year Ending February 28, 2009.

MS. CANDACE GRAMMOND: Thank you. Okay. So I had asked some questions of you, Mr. Palmer, with respect to benchmarks and we do have a -- a document that's been filed; it's not in the Board's book of documents but it is on the record. It was a question posed in the First Round of IRs so I -- I'd ask you to go there, Mr. Palmer.

And for the members of the Panel it's the First Round Question Number 19. It -- it'll be in your binder of first round questions. It's not in the book, my little book, unfortunately.

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: Thank you. So 1-19 is a two (2) part question and it includes an actual copy of the investment policy statement that we've been speaking about. So I'm just stating that for the record. But the -- the document I want to go to is page 4. So we have -- the question is on page 1 and then we have pages 2 and 3 with some narrative and then we have a chart on page 4 and that's what I want to go to.

MR. REGIS GOSSELIN: I'm sorry, you said Round 1, section 19?

MS. CANDACE GRAMMOND: Yeah. Round 1, Question 19 on -- asked by the Board. So PUB/MPI-1-19, page 4.

(BRIEF PAUSE)

THE CHAIRPERSON: Is there an issue regarding our noon hour or --

MS. CANDACE GRAMMOND: No, no, we were just speaking, Madam Chair, about the fact that Ms. Kalinowsky has now had a chance to speak to the witness from Gartner about a date and so we were talking about a couple of options of when he might be available. And so I think we'll consult with the Intervenors and then --

THE CHAIRPERSON: Yeah.

MR. DONALD PALMER: -- get back to the Board about when we think that would make the most sense.

THE CHAIRPERSON: Well, yes, because our hour that we took today that doesn't have to be every day. I mean we can be very flexible. We're trying to work with -- with whoever is coming.

MS. KATHY KALINOWSKY: Thank you very much. He's a very busy individual with quite a travel schedule.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. So thank you all for digging out this document, and I apologize that it's not in the -- the little book.

So if we now have page 4 of PUB/MPI-1-19, this is a comparison for the overall portfolio as well as category by category in terms of comparing actual results to benchmark, correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And so for the year that just ended in February of 2011 we see that the -- the MPI annual return was 8.4 percent, about a third of a percentage under the benchmark of 8.7?

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

MS. CANDACE GRAMMOND: And the year before the year ending in February of 2010 the overall return -- or the annual return was thirteen point seven (13.7), so a better return then in 2011 but considerably farther from the benchmark of that year?

MR. DONALD PALMER: Yes, and -- and that would be a situation, as I described earlier, that the return looks pretty good, but compared to the ben -- benchmark it's not so good.

MS. CANDACE GRAMMOND: Right. Understood. So if we move down the chart we see the breakdown for fixed income investments, Canadian equities, US equities, international and alternative.

And we see that some of the benchmarks

under the equities, the particular Canadian and the US large capitalization equities are in bolded font, and those are -- that is to signify that those include an additional hundred and fifty (150) basis points, is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And you -- you spoke about that, that it's -- the benchmark isn't just for an average return, it's for average plus a hundred and fifty (150) basis points?

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

MS. CANDACE GRAMMOND: And is that something that is built into the contracts with the managers?

MR. DONALD PALMER: Yes, it is. And just one (1) slight change to that in terms of the equity managers. Last year the Department of Finance actually changed one (1) of the strategies with regard to the US equities where it was changed from an active managed strategy to a passive strategy.

Rather than having individually managed funds, there are indexed funds that were purchased for the portfolio, and that benchmark becomes the index rather than the be -- or the market return plus the hundred and fifty (150) basis points because it's --

you're buying an index fund, you just expect to get the index, and that's why the -- and that's noted in the foot -- footnote below. That's what that refers to.

MS. CANDACE GRAMMOND: Yeah. And that was going to be my next question, so thank you. So just so that we're clear, the -- the bolded figures include the -- the extra hundred and fifty (150) basis points. How does that play into the overall benchmark? Does that include the -- the extra hundred and fifty (150), or no?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. And one (1) of the questions that I was going to ask, and that's specifically related to the Canadian equity section and the small to mid capitalization equities. There is quite a disparity there with respect to the achieved result in 2011 of 23.4 percent and the benchmark of forty point seven (40.7).

So I take it that that would relate to the managers that are on the watch list that we spoke about earlier, or am I -- do I have that wrong?

MR. DONALD PALMER: That particular manager is not on the watch list as yet because there are longer returns. If you go back to the '08/'09 year, and again, this is a perfect example of absolute returns versus comparative returns, showed a return of the small to mid fcap of 36.3 percent. But the benchmark was a loss of almost 50 percent, so there was really some downside projection afforded by that manager for that particular year.

You'll notice the same thing the year before where the bor -- benchmark had a -- was almo -- minus five (5), close enough, and there was a positive return afforded by that particular manager.

MS. CANDACE GRAMMOND: We haven't talked about the 2010 year end and there -- there is not a particularly favourable result for that year in terms of that small to mid -- mid capitalization equity line, the fifty-two (52) compared to the one o three (103)?

MR. DONALD PALMER: That's correct, and that's essentially recovery from the year -- year before. Again, the math, if it's a loss of 50 percent in one (1) year, you need 100 percent return the next year to get back to where you were. So that's essentially what happened in this particular return.

MS. CANDACE GRAMMOND: Okay. Thank you.

MR. DONALD PALMER: Just before we leave that, there is also a -- a reference related to this that the Board will probably find helpful and that's the response to CAC/MPI-1-171, where the question was:

"Describe the rationale for -- behind

setting the -- the targets for the benchmarks."

So that's -- again, in this context is very useful.

MS. CANDACE GRAMMOND: Thank you. Okay. So I'm going to shift away then from questions on investments and I'm going to ask some questions, Mr. Palmer, with respect to IFRS, or the International Financial Reporting Standards.

We know that conversion to IFRS is a requirement that's been imposed on the Corporation for fiscal years beginning on or after January 1st of 2011. So the current year will be the first fiscal year reported under IFRS, except that the Corporation has been required to prepare for comparative purposes last year's results under IFRS, as well?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Now I'm going to ask you to go to the first quarter report of the Corporation that was filed as Exhibit 10 in this proceeding. So this is the little booklet that was entered as an exhibit yesterday. Yeah, okay, good. I see the panel has -- yeah, that's it. I have a couple of copies between them.

Mr. Palmer, do you have your copy handy?

MR. DONALD PALMER: That has been filed and is included, at least in the electronic version as AI-8.

MS. CANDACE GRAMMOND: Thank you. Thank you for clarifying that. If we go to page 19 of this first quarter report, we have note 9 that the Corporation has provided with respect to the first time adoption of IFRS.

And the Corporation has explained the setup that I described, that it's being implemented for the fisc -- the current fiscal year, but there are comparative results for the first quarter of last year provided, as well?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And at past hearings, in particular last year I believe, the Corporation had presented to the Board position papers with respect to IFRS that was upcoming that had been prepared, I believe by Deloitte, with some input from the external auditors, KPMG?

MR. DONALD PALMER: Deloitte was our IFRS implementation partner, yes.

MS. CANDACE GRAMMOND: Okay. And we're now at a point where the Board of Directors of the Corporation has approved the accounting changes and transitional adjustments that the Corporation will be experiencing on this transition?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And so I'm going to go through these, the -- the notes, but if we turn over the page for a moment to page 21, we see financial statements relating to different points in time, and these are a reconciliation of the old to new, so the GAAP to IFRS, and the statements continue for a few pages contained within the report?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: So if we stay with note 9, which starts on page 19 and then goes over to page 20, we see on -- on page 20 under the heading, "IFRS 1 First Time Adoption of IFRS Exemption," there's discussion of several elections that the Corporation made on the transition. So, these were things in which the corporation had some choice and made specific elections.

Is that fair to say?

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

MS. CANDACE GRAMMOND: So the first one, and -- and we've touched on this a little bit already in these proceedings, relates to the designation of financial instruments and the Corporation's election to avail itself of this exemption to change the classification of its available for sale bonds to fair value through profit or loss characterization.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And just for the purposes of the record, because fair value through profit or loss is kind of a mouthful, did we agree last year we were gonna call it FVTPL, or is that -- is that a figment of my imagination?

MR. DONALD PALMER: I have referred to it as FVTPL in the past.

MS. CANDACE GRAMMOND: So -- so we can call it that for the purposes of this proceeding? And Madam Clerk, that -- you'll reflect that in the transcript as FVTPL?

Okay, so just to -- to back up a step. Previously, it's -- it's my understanding that any change in the fair value of available for sale bonds when characterized as that, was recorded on the statement of comprehensive income as opposed to the income statement.

Is that right?

MR. DONALD PALMER: That's correct. And, if I can kind of step back a -- a few years in -- in terms of -- and that was a -- a change in the sta -- in standards of the CICA handbook. I think it was Standard

8255.

And what that did was it actually set up the accounting for accumulated and other comprehensive income, and the Corporation had to make an election at that time of whether bonds would be available for sale or held for trading. The difference between held for trading is that the value -- the market value would -- would fluctuate up and down on the profit -- profit and loss on the statement of operations.

When the time that the election was made, it was elected that those bonds would be put into available for sale. And, unfortunately, what the Corporation didn't realize at the time was that there was some volatility that was introduced into the statement of operations because there was an offsetting requirement that the liabilities would be valued at the market rates that were used to value the -- the assets.

So what happened was, there was volatility on the liability side, but it wasn't immunized. And that was discovered after the formal election was made and the CICA handbook said once an election had been made by the Board of Directors it was irrevocable.

So that -- that was not fully understood by the Corporation at the time of the election and I will say that Manitoba Public Insurance wasn't the only insurer that -- that made that classification when probably another classification, specifically to held for trading would have been preferable.

What the standard did allow, though, was that as you purchased new bonds, that classification was bond by bond. So as new bonds were purchased, they were put into held for trading and then we expected that bond portfolio to be turned over in about two and a half (2 1/2) to three (3) years. And then we'd be back on track with the fully immunized assets and liabilities.

What this first-time adoption exemption did for all insurers, was essentially gave insurance companies a one (1) time do-over in terms of being able to classify all bonds into the held for trading, which changed name to FVTPL, and at that time that -- because, quite frankly, that was probably the election that should have been made at the time of the implementation of 8255, the Corporation took advantage of that one (1) time do-over and took advantage of this exemption.

MS. CANDACE GRAMMOND: Okay. Thank you for that, Mr. Palmer.

So flowing from the redesignation, the fair value is recorded on the income statement as opposed to the statement of comprehensive income and as opposed to the accumulated balance being recorded on the statement of accumulated other comprehensive income, or AOCI.

Is that right?

MR. DONALD PALMER: Almost. The one (1) correction that I would make would be the change in fair value goes through the operating statement, not the fair value itself.

MS. CANDACE GRAMMOND: Thank you for clarifying that. And so if we come back to the -- the first quarter statement and how the financial statements have been affected by this, if we flip for a moment and I -- I will come back to page 20, but if we flip to page 28, Note B is there that deals with these conversions. And under Note B in the first paragraph it's reflected that as a result of the election that the Corporation made the fair value of the FVTPL bonds of 24.1 million was transferred from AOCI, or accumulated other comprehensive income, to retained earnings on March 1st, 2011.

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And -- and I -- I think we've already said this but just so that I'm clear, from that point --

MR. DONALD PALMER: Sorry, Ms. Everard --

MS. CANDACE GRAMMOND: Go ahead.

MR. DONALD PALMER: -- that opening balance would be as at March 1st, 2010.

MS. CANDACE GRAMMOND: Did I misspeak?

(BRIEF PAUSE)

MR. DONALD PALMER: The restatement is actually for the previous year, so -- so the opening balance is as at March 1st of 2010.

MS. CANDACE GRAMMOND: Okay. And that's for comparative purposes as required under IFRS?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Thank you. And so that adjustment having been made, subsequent changes in the value of those bonds would continue to be reported on the statement of operations as opposed to AOCI?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. Now you've spoken, Mr. Palmer, a few minutes ago about the -- the -- after these changes there not being an immunization strategy and then you spoke about the -- the do-over leading to an imm -- immunization being in place.

That's right?

MR. DONALD PALMER: Yes. There was partial immunization as -- as new bonds were purchased, but this gets us to the, essentially, full immunization.

MS. CANDACE GRAMMOND: And when we talk about full immunization, if I understand this correctly, it's -- it's not necessarily 100 percent immunization because the Corporation still has the MUSH bonds that are held to maturity, and so because of that really what the Corporation is shooting for when it's talking about full immunization is roughly an 80 percent immunization.

Is that fair to say?

MR. DONALD PALMER: That's part of it. The duration matching strategy as outlined in the investment policy statement is not 100 percent. There's a -- an allowance for a two (2) year difference, so it -- it's not a full matching but it's a -- I would say a duration management strategy rather than a duration matching strategy. So on that basis we have approximately 80 percent. That's been the historical amount.

MS. CANDACE GRAMMOND: Can you explain the -- the difference that gives rise to the mis -- mismatch in terms of liabilities versus bonds?

MR. DONALD PALMER: The -- the bond manager makes decisions of how long a duration the bonds will have.

(BRIEF PAUSE)

MR. DONALD PALMER: And the duration of the liabilities is as calculated by the actuary. So the tolerance between the duration of the liabilities and the asset is -- is two (2).

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So when you say the difference is two (2), can you just explain what the -- like what the tail is on the liabilities versus the bonds? Is it six (6) years compared to eight (8) years or some other accommodation?

MR. DONALD PALMER: The -- the duration is often referred to in -- in years. In fact, that's not completely accurate. The duration is in fact a measure of the sensitivity to change in interest rates. So the longer the -- in -- generally, the longer the payment tail of liabilities the longer the duration, although it's not necessarily fully measured in -- in years because it's dependent on the interest rate itself.

And the same with the duration of the bonds, is a measure of the cashflow inherent in the bond, again, discounted at various interest rates. So depending on whether they're long-term liabilities or long-term bonds, they would be more interest sensitive than shorter-term liabilities or short-term bonds, and then hence the higher duration, the higher measurement of sensitivity to a change in ra -- interest rates.

MS. CANDACE GRAMMOND: Thank you. Okay. So I'm going to ask you then to go back to page 20 of the first quarter report. We've spoken about the first election that's listed there dealing with the -- the rese -- designation of the bonds.

The -- the second election that's referenced relates to claims development. And it would appear that the -- the Corporation has made an election to disclose five (5) years of information on claims development on transition.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And I gather that IFRS requires ten (10) years of disclosure. So what's going to happen is as the next five (5) years unfold there will be another year added to what's being disclosed until there's ten (10) years there?

MR. DONALD PALMER: That's correct. And I do recall a question on -- on this in last year's hearing about disclosure. And this -- the implementation of IFRS and first -- and especially that first year of -- of statements will take a tremendous amount of time and effort.

And just as an example of that, the quarterly statement that we're now looking at, some thirty (30) pages, our quarterly statements in the past have been about eight (8) pages or -- so there is significantly more disclosure. So this was an attempt by the -- the Standards Board to lighten the load a little bit. And certainly we're taking advantage of that, and hence the election to the five (5) years.

MS. CANDACE GRAMMOND: So to do the ten (10) years of disclosure now would be a very significant additional effort even beyond what's been done already?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And this particular issue is a -- is a disclosure issue but does not carry with it a financial impact on transition?

MR. DONALD PALMER: It does not.

MS. CANDACE GRAMMOND: Okay. And then the third election under the heading of, "Defined benefit plans," I gather is again a disclosure piece. The Corporation has made the election to disclose two (2) years of information relating to the present value of defined benefit obligation and the experience adjustment arising on plan benefits upon transition.

And again, that will ramp up to a five (5) year disclosure as the next three (3) years unfold?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And was the reason for this election the same as what we discussed on the other, that it's just simply a lot of effort that would be required?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And again, this isn't a financial impact election, this is a disclosure issue?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. Just coming to a couple of the other things that flow from the IFRS transition, I'm going to ask you to go back to page 28. Now that we've spoken about three (3) of the four (4) elections, and I don't think we need to speak about the fourth one.

So we'll go back to page 28. And these -- we -- we talked a little bit about Note B relative to the -- to bond issue. These are the notes that correspond with numbers and the financial statements that are reflected on the -- the previous pages, up to page 28.

Is that right?

MR. DONALD PALMER: These in fact are the notes to the notes, yes.

MS. CANDACE GRAMMOND: That must be an accounting term. Okay. So if we make our way through the -- the issues that are described on page 28, first of all, we'll deal with Note A. So this -- and -- and there's been a -- a bit of evidence about this, that under IFRS the Corporation is required to establish a provision for sick-leave benefits, which can be carried forward to future years.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And that has been -- a provision for that has been established at 3.1 million, which is a -- a reduction to retained earnings.

Is that right?

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

MS. CANDACE GRAMMOND: And of that 3.1 million, two point four (2.4) of it relates to Basic?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And as reflected here, that provision of 3.1 million has not changed materially since the -- the March 1st, 2010, transition date?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: Okay. We talked a little bit, as I had said, about Note B and the redesignation of the bonds. We talked about the -- the two point (2.) -- or the 24.1 million and that was, of course, a corporate number. Of that there was twenty one point one (21.1) that related to Basic.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And so if we look at Notes A and B, or the -- the two (2) issues represented in Notes A and B together, we see that Basic retained earnings decreased by about 2.4 million on the sick-leave benefit issue, increased by 21 million on the reclassification of the bonds. So the net increase to Basic retained earnings was about 18.6 million as a result of the transition?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. Note C, and we -- we touched on this a little bit, I think it was yesterday when we were going through some of the statements of operations, that the Corporation is now required to charge debit and credit card fees to operating expenses rather than to service fees?

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

MS. CANDACE GRAMMOND: So these fees are

now netted against revenue? Sorry, they were netted against revenue?

MR. DONALD PALMER: That's correct. And now they're shown as an expense.

MS. CANDACE GRAMMOND: But dollar-wise it doesn't change the financial result?

MR. DONALD PALMER: It does not change the net income, no.

MS. CANDACE GRAMMOND: Okay. And if we look at Note D, the last note on page 28, and we've again touched on this a -- a little bit already, that under IFRS the Corporation was required to report the portion of the Citiplace property that's not occupied by the Corporation as investment property rather than property and equipment as was done before?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And we had looked at, on the Corporation's investment details, that in the year that Citiplace was acquired, the amount attributable to the parking lots was just over 15 million? We look -- looked at that earlier today?

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

MS. CANDACE GRAMMOND: And that was a portion of the overall purchase price for Citiplace as a whole, which was 84 1/2 million, all in?

MR. DONALD PALMER: Yes, that sounds right, subject to check.

MS. CANDACE GRAMMOND: And my understanding dealing with this reclassification as required under IFRS, and this is shown on page 21 of the financial statements, gave rise to a reclassification to the extent of 23.3 million?

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: In addition, it's the case that rental income that MPI receives from the other occupants at Citiplace is now recorded as investment income rather than service fees or other revenue?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And as well, any depreciation expenses relating to the investment property part of Citiplace is now reported as an offset to investment income rather than as an operating expense.

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

MS. CANDACE GRAMMOND: Okay. Still speaking about IFRS-related issues, I have some questions with respect to -- and I'm probably going to flub the word, componentization? Haven't probably had to say that word in a year, since the last hearing.

So IFRS -- and -- and I know we talked about this last year, but IFRS if I understand corr -- requires componentization of property, plant, and equipment assets.

That's right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And that is based on componentization based on groups of assets with similar useful lives?

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

MS. CANDACE GRAMMOND: Now, at last year's GRA, the Corporation had indicated that it was gonna be developing a policy on componentization of -- of fixed assets?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: And has that now been done?

(BRIEF PAUSE)

MR. DONALD PALMER: To the extent that that componentization is material, so far it has not, and those policies have not been developed.

(BRIEF PAUSE)

MR. DONALD PALMER: If I -- if I can add to that. The componentization of Citiplace made a difference of a hundred and thirty-three thousand dollars ($133,000), which is not material for financial reporting purposes.

MS. CANDACE GRAMMOND: There was evidence last year that the Corporation had done a high level -- sorry, there was evidence last year that the Corporation had done a high-level analysis that indicated that it was an impact of about seven hundred and seventy-five (775) or seven hundred and seventy-four thousand (774,000). And that, you know, perhaps that would not be considered material enough for an adjustment to be made?

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

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: The hundred and forty-four (144) that you referred to, Mr. Palmer, is that a change going forward or is that attributable to previous years?

(BRIEF PAUSE)

MR. DONALD PALMER: That hundred and thirty-three thousand dollars ($133,000) is in fact at the end of August, so that would have been depreciated from that -- it depreciates fairly quickly.

MS. CANDACE GRAMMOND: Just -- just coming back to the question of a policy, I -- I gather from the discussion and the fact that there are some numbers fixed to some of these things that obviously the Corporation is -- is looking at it. But if there's no policy in place, then is the Corporation just deciding on the basis of the dollar amount whether it's material, or -- or how -- like how will it deal with this issue in the absence of a policy?

MR. DONALD PALMER: There is a policy on the depreciation of assets. And so, on that basis, is the depreciation to the hundred and thirty-three thousand (133,000). And that policy -- those policies -- financial policies have been filed with this board.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, just so that we're clear. So why is it that the -- the Corporation is not adopting the IRFS provision on this? It's -- is it simply because of the dollar amount? I mean, like...

(BRIEF PAUSE)

MR. DONALD PALMER: There was some componentization that was allowed under GAAP. So that's the componentization that we had adopted under IFRS, so there was no further componentization that was required under IFRS.

MS. CANDACE GRAMMOND: But there was no transitional adjustment booked?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And that's because of the materiality of the amount of the entry relative to the whole of the Corporation?

MR. DONALD PALMER: Well, there -- there was, in fact, no change because there was componentization under GAAP that was rolled forward under IFRS.

MS. CANDACE GRAMMOND: Okay. Thank you. Okay. Those are the questions that I have with respect to the IFRS transition as implemented, but I do want to ask some questions about IFRS 4. That is still at the exposure draft stage, that's my understanding.

Is that right?

MR. DONALD PALMER: Specifically, IRFS 4, Phase 2. There is an IRFS 4 for financial reporting of in -- insurance companies but it's unchanged from what the requirements were under GAAP.

MS. CANDACE GRAMMOND: So for IFRS 4 Phase 2 it's at the exposure draft stage at this time?

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

MS. CANDACE GRAMMOND: And so that means, if I understand that correctly, that whether it will be implemented, and if so on what basis, is not yet known?

MR. DONALD PALMER: There has been considerable discussion of IFRS 4 Phase 2. The expectation was that there would be a final draft summer of this year. The draft was released last year about this time and it is subject to significant debate, especially amongst life insurers.

The information that we have now is that the final standard probably will not be released until the second quarter of 2012. Likely not for implementation -- likely not before 2014.

The original draft said that the standard would not be effective before January 1st of 2013, with the extra year that has tra -- transpired from the time they expected to have the final standard out to now the Q2 of 2012. It will likely be at least 2014.

MS. CANDACE GRAMMOND: And I understand in terms of the content of the -- the proposal, that the most significant proposed change for the Corporation would be a change in the discount rate that is used to value liabilities. That's what's under discussion?

MR. DONALD PALMER: The discount rate and the margins, the risk margins, those in -- in combination would have the most effect.

We are -- at this point in time our discount rates are very low. We're pretty close to discounting at a risk-free rate anyway with -- because our investment portfolio is significantly pri -- comprised of government bonds, and our discount rate on our liabilities has to be based on the yield from those government bonds.

So, it's pretty close to a risk-free rate, in any event. The provision for adverse deviation that we have, which would become the risk margin, are on the high side of what is contained in the Canadian institute of actuary standards of practice.

So although there could be some effect, at this point in time the effect on Manitoba Public Insurance wouldn't be as great as other insurance companies.

MS. CANDACE GRAMMOND: Coming back to the -- the point that you had made earlier about returns in the investment market, when you say that it might not be significant -- as significant for the Corporation as other insurance companies, does that mean that it would be insignificant to the Corporation or would it -- would it -- does it not still have the potential to be significant for MPI?

MR. DONALD PALMER: There's some potential. But at -- at this point in time, and -- and it is an unknown, but I would say that the -- the risk to the Corporation is probably not as significant as to other co -- mainly because of our conservative investment portfolio.

MS. CANDACE GRAMMOND: And is that something that the Corporation has analyzed in the context of the IFRS 4 Phase 2 exposure draft?

MR. DONALD PALMER: Since we don't know what the IFRS Phase 4 -- 4 Phase 2 is going to look like, then we have done some rudimentary analysis. We know that a hundred basis point change in investment in discount rate is about $130 million, so we know that there is some exposure there.

But when the exposure draft came out last year and the -- talked about discounting at a risk-free rate plus a liquidity margin but gave no guidance at all what the liquidity margin was or what it meant, so from that standpoint it really is unknown at this stage what exactly the impact on the Corporation will be.

MS. CANDACE GRAMMOND: Okay. Now, I do have a specific question about one (1) of the documents that the Corporation filed, and this is also not in the book of documents. It is one (1) of the First Round questions that the Board posed. It's question number 5. So it's in PUB/MPI First Round, question 5. It's a fairly lengthy answer because there are a lot of attachments.

So, yeah, you'll -- you'll see at this IR response there are a series of minutes provided. This is where we had asked for the audit committee minutes. And so the -- the pages aren't consecutively numbered, but if you can find the minutes for the January 27th, 2011, meeting. It'll be close in the -- in the centimetre or so of paper there. It's close to the top. So either audit --

MR. DONALD PALMER: January 27th, 2011?

MS. CANDACE GRAMMOND: Yeah.

MR. DONALD PALMER: I have it.

MS. CANDACE GRAMMOND: Okay. Yeah. Does the Board have it? Okay, perfect. So the January 27th, 2011, minutes are five (5) pages, and I'm on page 2 of 5, which is at the top of the page. So the page 2 of 5, Jan. 27, 2011.

THE CHAIRPERSON: Our pages are cut off.

MS. CANDACE GRAMMOND: Oh. If you'd look actually in the content of the minutes under the date. Like there's the heading and then the date. And then it says, "Page 2 of 5."

THE CHAIRPERSON: Two (2) of five (5).

MS. CANDACE GRAMMOND: Yeah. Okay.

THE CHAIRPERSON: I got it.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So that page, the second-last paragraph is entitled, "Special reserve provisions, information technology, optimization reserve, provision for IFRS 4 Phase 2." Mr. Palmer, you have that too?

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: Okay. So this is a reflection that at this particular meeting you, Mr. Palmer, presented this agenda item relating to the -- the IT optimization fund as well as IFRS 4 Phase 2. And I'm looking about halfway through the paragraph, fifth line from the bottom. The sentence reads:

> "The provision for IFRS 4 is an earmarked amount of $100 million recognizing the uncertainty of the

amount due to no firm IFR -- IFRS
guidelines yet set. The external
auditors were questioned and provided
comments. Following discussion members
received the report as information."

So I -- I want to ask some -- some questions about that and you were obviously in -- involved at that meeting, and I'm sure can elaborate on what's in the minutes. But my first question is that it's -- it's my understanding that there was no such million dollar -- or $100 million provision booked in the 2010/'11 financial year.

Is that right?

MR. DONALD PALMER: That's correct. At this particular meeting we were exploring different options, the things that we -- the Board may -- the MPI board of directors may consider with regards to financial provisions. This was one (1) consideration that, upon further review at later meetings, the decision was made not to have that earmark provision.

MS. CANDACE GRAMMOND: Who was it that had prepared the information that was presented to the committee? Was it -- was it your department or was it the external auditor?

MR. DONALD PALMER: It would have been

prepared by my department, yes.

MS. CANDACE GRAMMOND: And can you tell us a little bit about the analysis that gave rise to discussion of that $100 million provision?

MR. DONALD PALMER: Only in the -- the context that there is uncertainty, and we're aware of that uncertainty. So from that standpoint we wanted to make sure that the Board was aware that there was that -- that risk inherent in the adoption of IFRS 4 Phase 2 whenever it will happen.

MS. MARILYN MCLAREN: A little bit further on that, I mean it was early thinking about year-end. It was understanding that, excuse me, the exposure draft, you know, certainly had some uncertainty in it. And it was a conversation material that was provided to the Board for information, as Mr. Palmer said, but it really -- the next steps were for management to delve deeper into the likely impact on MPI of that exposure draft. And at the end of the day, we -- we didn't believe that the provision would be necessary or appropriate.

MS. CANDACE GRAMMOND: And so that gave rise to the decision not to do it?

MS. MARILYN MCLAREN: That's right. And this was both an early notice to the board of directors, but also early notice before we had done our complete analysis of the potential impact as it was -- as it's currently known.

MS. CANDACE GRAMMOND: And did the external auditor express a specific view about this issue to the Corporation?

MR. DONALD PALMER: There was discussions about the provision and the calculation, but no opinion whether or not it should be included.

MS. CANDACE GRAMMOND: Mr. Palmer, the analysis that your department conducted, was it fairly detailed in scope or was it a high-level analysis?

MR. DONALD PALMER: It was a high-level analysis. Again, included mainly the -- the fact that one hundred (100) basis point change in interest rate would mean $130 million. That -- and some evaluation of what the exposure draft standard said, what -- what our current discount rate was.

And I -- I know that we have outlined this discussion in one (1) of the Information Requests as well.

MS. MARILYN MCLAREN: The summary of the high-level analysis of this was provided to the Board in response to an IR about what do you think the impact of IFRS 4 Phase 2 might be. So we'll find the reference, but it is in re -- response to a question of the Board, I believe.

MS. CANDACE GRAMMOND: No, I -- I actually have that reference. It's PUB/MPI-1-70.

MS. MARILYN MCLAREN: Yeah, thank you. I appreciate it.

MS. CANDACE GRAMMOND: I had it in my notes. I just -- I didn't take you there because I didn't think we needed to go, but.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: In connection with this consideration and analysis, did the Corporation do a position paper or have any other third party do a position paper, like Deloitte or somebody like that?

MR. DONALD PALMER: We did not. And again, too preliminary. We don't know what the effect is going to be so it -- it -- it is too early to do a position paper. When the standard is finally released and we evaluate the impact of that standard at that point in time, we will do a position paper.

MS. CANDACE GRAMMOND: Okay. Thank you. So just to -- to close off the questions on IFRS, was the Corporation's external auditor consulted on any of the accounting adjustments?

MR. DONALD PALMER: Yes, the auditor has audited the -- the opening balance. The first quarter statements were reviewed by the auditor as well.

MS. CANDACE GRAMMOND: And did the external auditor propose any changes to what had bene done?

MR. DONALD PALMER: No.

MS. CANDACE GRAMMOND: Okay. Madam Chair, I'd move into another area, then. Unless the panel has any questions? Okay.

So I'd like to -- to sort of shift gears into a completely different topic. And that is -- it won't take very, very long to get through. But that's the -- the topic of anti-theft. So we're sort of completely shifting to something different.

And so just to -- to provide some background first of all. Theft -- auto theft was, as of several years ago, a pretty huge problem within Winnipeg and -- and for the Corporation.

Is that fair to say?

MS. MARILYN MCLAREN: Yes, that's fair to say.

MS. CANDACE GRAMMOND: And the Corporation undertook a number of initiatives to deal with that problem. And we -- we have an IR that reflects a list of those initiatives as well as some of the costs. And that's PUB/MPI-1-82, which is -- it's gonna be in your binder, it's not gonna be in the book. So PUB/MPI-1-82.

So what I'm gonna ask that we do is look at the attachment to 1-82. It's -- it's a chart that reflects details with respect to the immobilizers. And sorry -- actually I -- we'll come back to that when I actually want you to go to 1-84, my apologies. You know what, I can tell it's late in the afternoon because I'm -- my mouth is not saying what it should.

Where I actually want you to go, is 2-33, same topic, but Second Round -- I -- I apologize for those that are muddling around in their binders. 2-33 is where I would -- where I would like to go. Yes. I -- I completely misspoke so I apologize. It's the same topic, it's one (1) of the follow-up questions that we asked to 1-84. So, yeah, I'm -- I'm sorry. 2-33, that's -- that's my final answer.

I'm not sure how the Board's binders are organized, it might be in a different binder.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. So, does everybody have 2-33? And yeah, sorry for the -- the -- the time-wasting there.

So, the attachment to 2-33, if we go to the last page of 2-33, this is a nice summary of the Corporation's anti-theft efforts. We have listed along the left-hand side of the page the initiatives, the various initiatives that the Corporation undertook: immobilizer project; WATSS, which we'll talk about in some detail; Winnipeg the -- Winnipeg Police auto theft/auto crime strategies; HTA anti-theft and auto theft countermeasures.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE GRAMMOND: Okay. So if we -- we'll break those down and we'll deal with one (1) at a time and speak about it a little bit and the -- the costs that we see reflected here.

So the first one being the immobilizer project, which was obviously, as we can tell from the numbers the biggest initiative in the anti-theft program.

MR. DONALD PALMER: Yes, that's correct. And that was installing immobilizers on all of the most at-risk vehicles.

MS. CANDACE GRAMMOND: And you had

testified, I think, yesterday, Mr. Palmer, that as of 2008 factory vehicles are required to have a factory immobilizer in them, across the board, no exceptions?

MR. DONALD PALMER: All vehicles, private passenger vehicles, manufactured for sale in Canada after September the 7th, 2007 are required to have a factory-installed immobilizer.

For modelling purposes we have taken that to mean the 2008 model year. So it's not absolutely precise but it's very close. So 2008 model year and beyond are required in Canada to have a factory-installed immobilizer.

MS. CANDACE GRAMMOND: So the -- the point being that for model years 2007 and earlier some vehicles would have a factory installed immobilizer and some would have none?

MR. DONALD PALMER: And some –

MS. MARILYN MCLAREN: And some would have some really bad ones.

MR. DONALD PALMER: Yes. There -- there was a factory standard indu -- Canada standard that had to be followed. There were other immobilizers that were installed prior to 2007 that didn't meet that standard.

MS. CANDACE GRAMMOND: So for the vehicles that are in the fleet in Manitoba that are model year 2007 or earlier in a lot of cases there were no immobilizers, or immobilizers that were inadequate as have been described, and the Corporation took steps to have immobilizers installed on -- on several different bases as it were.

Is that right?

MR. DONALD PALMER: There was a group of vehicles -- actually two (2) groups of vehicles called "most-at-risk" vehicles that was -- originally a most-at-risk vehicle was published and then expanded the year after, and these were vehicles that our experience showed were the most stolen vehicles in Manitoba. So that was where the effort was -- was focused on to immobilize those particular vehicles.

The other vehicles that -- not on the most-at-risk vehicles, some had factory-installed immobilizers. Some, in fact, did not have approved factory-installed mo -- immobilizers, but with very low theft frequencies would not have been on that most-at-risk list.

MS. CANDACE GRAMMOND: So through, in some cases, on a voluntary basis of the -- the motorist, and in other cases as legislated, the -- there were immobile -- after market immobilizers installed in a whole wealth of vehicles. And the cost to the

Corporation to do that is reflected here in the first row -- first line item at 2-33?

MR. DONALD PALMER: Yes. And that -- those expenditures were, in fact, pre-funded with the immobilizer incentive fund.

MS. CANDACE GRAMMOND: Yeah, that we spoke of earlier today?

MR. DONALD PALMER: Yes.

MS. MARILYN MCLAREN: But the vast majority of immobilizers that were funded by the Corporation were put into most-at-risk vehicles after the government made it a registration requirement.

MS. CANDACE GRAMMOND: Yeah, the voluntary aspect wasn't as well received I guess as one may have hoped, and so ultimately that had -- that element of choice had to be taken away?

MR. DONALD PALMER: Absolutely. I think generally people thought it was a great idea, but the people with the at-risk vehicles weren't coming forward to voluntarily get immobilizers.

MS. CANDACE GRAMMOND: Okay. So -- and -- and we can tell by looking at the expenditures here over the period of years reflected in 2-33 that the -- the expenditures really peaked in -- between '06/'07 and say '09/'10. And even as of last year, '10/'11, the costs were down to 6 million and the forecast for current year is less, and the projections into the future are even less than that?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And that's as a result of the fact that there just aren't that many vehicles out there at this point that are no longer -- or that are not immobilized?

MR. DONALD PALMER: Yes, these would be vehicles that are coming into the province from -- from elsewhere.

MS. CANDACE GRAMMOND: Okay. So that's sort of an overview of the immobilizer initiative. Now, WATSS, the second initiative that's on this list, that stands for Winnipeg Auto Theft Suppression Strategy.

That's right?

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

MS. CANDACE GRAMMOND: And we see that -- well, first of all, before we get into the numbers, can you just give us the Readers Digest version of what WATSS is?

MS. MARILYN MCLAREN: Sure. The Winnipeg Auto Theft Suppression Strategy is an initiative of the Winnipeg Police Service, the Manitoba Department of Justice, and Manitoba Public Insurance.

The -- the key funding on the part of Manitoba Public Insurance goes towards additional probation officers working in the Department of Justice who are tasked with highly, highly monitoring, which was, at the beginning, the pardo -- predominantly kids who had either been convicted of auto theft, were charged, they were -- or either received conditional sentences, they were in the community or they were on probation, because there was a clear understanding that there was a relatively small group of kids committing the vast majority of auto thefts.

So the program was to keep tabs on the kids. Sometimes the probation officers would be contacting them in their homes as many as five (5) to eight (8) times a day making sure they were adhering to their curfew, making sure they were in school, really working with them to try to get them to change their behaviour while they were not incarcerated.

MS. CANDACE GRAMMOND: Thank you. And so we see the cost of the WATSS program, similar to the cost of the immobilizer piece, increased from about '06/'07 through to even the current year at just under a million.

And then we see for the year of the application and the ensuing years the costs for that are significantly less, under two hundred thousand dollars

($200,000). Is -- is it the case that the -- that the Corporation is just no longer funding the whole of that program, or what -- what has changed?

MS. MARILYN MCLAREN: No. In all honesty, right now, I can't tell you exactly where those projected numbers would have come from out into '13/'14 and '14/'15, but our agreed contractual funding commitment does end early in 2012.

I -- I can tell you, you know, there may be some form of extension of some sort -- form of partial funding though, I mean, because you can't sort of just cut something like that off hard and fast. I think we will enter into some sort of a transitional easing out funding agreement with them, but that has yet to -- those conversations haven't taken place yet.

MS. CANDACE GRAMMOND: Okay. The third initiative that's on the list is the wha -- what's referenced as "Winnipeg Police auto theft." And those -- that, I take it, is funding for additional police officers?

MS. MARILYN MCLAREN: That's right. And that probably started well before 2003/'04. The Corporation was funding additional police officers to target auto theft in the city of Winnipeg. As the numbers increased there back in, you know, through

'07/'08, '08/'09, '09/'10, that was because the police service -- Winnipeg Police Service added additional resources. They put on a second shift.

We had assisted with some of that funding as well. But again, this -- this budget is simply running out the existing into the future. And I -- I suspect that will be coming down as well. But again, we have not started those conversations with the Police Service at this point.

MS. CANDACE GRAMMOND: And then we'll move down to the -- the last initiative on the list, which is, "Auto theft countermeasures." And I see the note under the table that includes a special -- specialized auto theft prosecution team. So that's Crown attorneys?

MS. MARILYN MCLAREN: Yes, that's right. For -- for quite a while now the Corporation has been paying half the annual salary costs of two (2) prosecutors dedicated to prosecuting auto theft.

MS. CANDACE GRAMMOND: So, basically, would it be fair to say that these various initiatives, and I appreciate we didn't talk about each and every one, but as a whole any -- the expenditures that have been made by the Corporation have achieved the desired result of significantly reducing auto theft?

MS. MARILYN MCLAREN: Absolutely. And, may be we can turn back to the annual report again. On page 37 there's a fairly descriptive graph there to show how total theft in Winnipeg has decreased; and, as well, how attempted theft in Winnipeg has decreased since 2005, when was really the first year we started to have a really aggressive specific tr -- strategy to deal with auto theft.

Page 37 of the annual -- the coloured, multi-coloured annual report.

(BRIEF PAUSE)

THE CHAIRPERSON: Well, we're -- we see the trend has definitely down, but Mr. Evans was asking if it's Winnipeg? Are we talking only Winnipeg? Are we --

MS. MARILYN MCLAREN: Over 80 percent of the auto theft problem in Manitoba was here in Winnipeg.

THE CHAIRPERSON: So, that's why --

MS. MARILYN MCLAREN: It's down -- it's down everywhere --

THE CHAIRPERSON: Yeah.

MS. MARILYN MCLAREN: -- but Winnipeg really was the huge, huge majority of the problem. Yeah.

(BRIEF PAUSE)

DR. LEN EVANS: I'll speak for myself. I think I know what the answer is. But that there are no initiatives outside of this of the City of Winnipeg?

MS. MARILYN MCLAREN: There are in specific communities. And we work very closely with -- with the police in certain communities and what we've learned through the years is when auto-theft spikes in a smaller community that -- that the police know their communities, they understand what's going on it, and it ends fairly quickly. So there has never been the kinds of auto-theft rates outside of Winnipeg, and the rates that we have had though have also historically decreased following along with Winnipeg. Yeah.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: I just have one additional question with respect to -- to anti-theft and that is: It's apparent from the filing that the -- the -- to the extent that immobilizers are still being installed and -- and funded, and we've looked at the anticipated spending for that through the schedule we've been spending time on, but it looks like the per-immobilizer installation costs has gone up pretty considerably. And it -- it started out in years past that -- that two hundred and ninety (290) or, and three hundred and fifty (350), and it looks like it's gone up to about six hundred dollars ($600).

Do I have that right?

MS. MARILYN MCLAREN: Sure, approximately. I mean -- and that -- I think it was maybe a bit lower, initially. But an entire industry sprung up, particularly in Winnipeg, but across the province to handle these installations. New businesses started, you know, specifically to do this, and -- and some them have diversified and continued on, and some of them have closed and moved onto other endeavours.

But when you had every single available slot booked and you knew that there was another four thousand (4,000) vehicles coming each month that had to be immobilized before they could renew, you could do it in a very cost effective rate per-vehicle. And as the large numbers have now moved through the system, it is really just people moving from rural Manitoba into Winnipeg, or -- or these used vehicles that are on the most-at-risk list moving into the province, so you just don't have the economies of scale. And just to ensure that there are still people willing to do this in Manitoba, we have to make sure that given the volumes they have, they can still do so at a reasonable profit level, reasonable income.

MS. CANDACE GRAMMOND: Thank you. Okay Madam Chair, I'm at the end of that section. I can move into another section, or not, I'm completely in the Board's hands. I know it's only five (5) after, so.

THE CHAIRPERSON: All right. Do you have another section prepared? Okay. Let's go into that.

MS. CANDACE GRAMMOND: Okay.

THE CHAIRPERSON: See how far we get.

MS. CANDACE GRAMMOND: Good.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: What I'm -- what we're gonna turn to is, in Volume I of the filing, the Corporation has provided under SM, under the SM section, in particular under SM-5.12, a listing of the recommendations that the Board made in its last order.

And I -- I'm not gonna go through each and every one of them, but there are some of the recommendations that we should hear some evidence on in terms of the Corporation's response. So if we can go to SM-5.12, that's page 8, of the SM section. Is everybody there?

And -- and what I'm gonna do for Ms. McLaren or Mr. Palmer, whoever is going to answer, I'll indicate what the recommendation was and then for those that -- that I want to -- to turn to, if you can sort of explain and paraphrase what the Corporation's position is, that would be helpful.

So we'll start with the first one (1), which relates to the Manitoba Health Cost Payment Agreement, and that was where the Board had recommended -- this is last year, that MPI file evidence to support increases to its hospital-related PIPP costs and seek to negotiate binding contracts with the government, with the province, not only with respect to health costs, but also with respect to -- to DVA.

And we -- we don't need to talk about DVA at the moment, 'cause I'll have some -- some other questions on that next week. But, let's talk about the Manitoba Health piece. So if we can hear the -- the Corporation's response to that?

MS. MARILYN MCLAREN: Sure. From 1971 until 1994, when the pure no-fault program was introduced, between '71 and '94 Manitoba Health had a right of recovery for hospital and other medical costs that they incurred because an insured driver caused the injuries to another party.

So we always had a process to figure out how much MPI would pay to Manitoba Health as part of that recovery. It was even done on a -- on a file-by-file basis, you know, at some points in time.

The government dictated that the move to a no-fault auto insurance system should not hurt the financial position of Manitoba Health. So a -- an agreement was struck at the beginning of the no-fault program that basically set the bar as to what the cost -- the -- the financial transfer was for these MPI claimants as of 1993, and then carried it forward based on the health care inflationary index, the number of vehicles, CPI in general.

So there was a formula that was established so that Manitoba Health would not have been disadvantaged by the move to the pure no-fault system. And, you know, periodically, the baseline changed. And it was done with some consultation with Manitoba Public Insurance. But, you know, for the most part this is -- is largely a decision of government. And there is an agreement so that we both know the basis of it and how it rolls out in the future.

We -- as part of the con -- part of the process that -- where the costs were increased -- a couple of years ago we did this for this cross-Canada scan, and that is what was filed in response to CAC/MSOS-2-26B in the 2011 rate application. It was basically just a scan of what other auto insurers pay for these kinds of health costs in their jurisdictions across the country.

On -- on that basis, the Corporation doesn't see the Manitoba situation as -- as out of line or unreasonable. And that's pretty much where we sit with it.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you. The next recommendation that I'd like to ask about is found on page 12. It's Recommendation 9, SM-5.12.9, which relates to Basic coverage improvements. And on this issue, the recommendation of the Board last year was that MPI list and consider potential improvements to Basic coverage, with comparisons to coverage in other jurisdictions, and develop analyses providing the premium and cost implications of options and the potential impact on extension and SRE for discussion at this GRA. So --

and -- and the Corporation has responded by stating that Basic coverages within the purview of the -- the legislature but that the comparison of coverage in other jurisdictions is provided.

And -- and I -- what I'd ask maybe, Ms. McLaren, if you could explain for the record and -- and to the Board in -- within this context, and appreciating that the coverage changes are within the purview of the legislature, what the Corporation's position is with respect to at least a consideration or discussion of potential changes to coverage in this forum?

MS. MARILYN MCLAREN: I -- I think I addressed that at least in part in my opening comments. Clearly, you know, coverage is the exclusive purview. I think it is absolutely essential for this Public Utilities Board to understand the underlying costs, like what is the revenue requirement. And the revenue requirement determines, you know, the overall revenue we have to obtain through rates and -- and it -- it -- it's an absolute basis of it. But -- but discussing potential changes to coverage we don't believe is appropriate within the governance structure that's been created for Manitoba Public Insurance.

We don't think it's an appropriate use of everyone's time for that reason. That -- that's not how the governance has been structured in legislation. And, you know, I mean there's any number of things that these proceedings could discuss, but when it comes down to it what is the program that's in law, what does the Corporation think that program is going to cost, test the heck out of our estimate of what the program will cost, but speculating on what different programs might be and what different programs might cost, just don't see it as -- as an appropriate use of everyone's time and resources.

THE CHAIRPERSON: So I guess I'm summing it up that the second one that we're discussing or looking at, Basic coverage improvements, would be sort of along the lines of the first one. In other words, you're saying the government makes these decisions and this is not the forum for the public -- or for us to make changes.

My only question would be I guess if we're going to get a handle on this or you're going to get a handle on it or the government, I guess, is going to get a handle on it, they need some kind of forum for these issues. And I'm not sure what it is. I mean obviously the public is not at this hearing so this is not the forum, but where would there be an opportunity to actually open up discussion and have public input?

Because if it is the government that makes this decision and I -- I'm not privy to who it is, whether it's your board, the board that controls you, whether it's the Minister, I don't -- whoever it is, needs to know, needs to take the public's pulse on these issues and kind of get some kind of idea of what people are thinking because, I mean, in the end this is the -- this is a corporation that's supposed to be serving the people. And so I'd just be curious on that front.

What are your thoughts, Ms. McLaren, on how you could sort of hear from the public regarding these issues?

MS. MARILYN MCLAREN: Sure. First I would say that Manitoba is a jurisdiction where legislative changes, changes to Acts, have to go before a public meeting. Like there are -- are committee meetings of the legislature, public committee meetings, before any bill can receive third and final reading. And there -- there were people that came and spoke --

THE CHAIRPERSON: Okay.

MS. MARILYN MCLAREN: -- to the Members of the legislature when the enhancements were introduced -- the changes to the Act were introduced two (2) years ago.

Also, you know, there are a number of

organizations in this province who specifically work with and represent people who have disabilities or injuries sustained no matter how. And -- and in my experience the government has -- has always been willing to sit down and talk to representatives from the Society for Manitobans with Disabilities, Manitoba Head Injury Association, groups like that.

When it comes to Manitoba Public Insurance and the personal injury protection plan they also have -- you know there's this independent review body that claimants can take their case to if they don't like the decision that we've made, the Automobile Injury Compensation Appeal Commission. The Chief Commissioner again is appointed by government and has ready access to the ministers and -- and shares his perspective with how he thinks this program can change. I -- I can tell you, I think, it was part of the, the public communication about the mediation pilot program that the government has started for -- for PIPP injury claimants, largely came forward because of the chief commissioner from AICIC bringing that forward as, as an opportunity.

By law, we are required to hold three (3) public meetings every year and -- and talk to Manitobans, consult with Manitobans. Ministers of the Crown certainly do that as well. So, there's number of formal and less formal opportunities for them to understand what they need to do to make sure their program continues to -- to be well received and supported by Manitobans.

THE CHAIRPERSON: So, I hear you saying there are many, many, many, many channels to get this accomplished.

MS. MARILYN MCLAREN: Yes, I believe there are.

THE CHAIRPERSON: Okay.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: The next recommendation that I wanted to speak about today is on page 13. It's recommendation: SM-5.12.12, which relates to the investment portfolio.

And, obviously, we spent time today talking about the composition of the portfolio and the allocation to equities. This is a recommendation from the Board last year, that the Corporation research and provide an opinion on increasing the equities component of its portfolio to a 40 percent allocation, including a cost benefit analysis of its current approach to investing policy holder derived funds. And the Corporation has replied as -- has been said in evidence, that it's the Minister of

Finance that has jurisdiction over the Corporation's investments, and, as well, that the current mix is based on the 2008 Aon study that we discussed.

Can you give the Board any indication of -- within that framework, whether the Corporation has a view on whether there should be a change, or whether it foresees any further analysis of the portfolio mix being done within the foreseeable future.

MS. MARILYN MCLAREN: I -- I think I can appropriately talk about the what has occurred as opposed to what might occur. I -- I -- it wouldn't be appropriate for me to speculate on the extend to which the Minister might want to make different decisions, or might ask us for different advice. Us, being the investment committee working group.

But, you know, I think the Aon study was the second or third asset liability study that we've done. And I think, you know, it's fair to say, if you look at the investment policy statement, it's been in place for a while now, there are some things that have not moved forward. You know, I think we'll have to have some discussions about that.

But I think the -- the -- everything I know would indicate to me that, that the primary objective of the MPI investment portfolio to protect the liabilities will always remain primary. I think if there are -- if you look at the changes that, that have been made to the investment policy statement really focussing on some of the alternative classes that provide the inflation and the protection that the Corporation's liabilities need without the volatility of equities, you know, so I think -- if I had to speculate that -- that things would continue, the Minister would make decisions based on his or her view of protecting the liabilities and -- and protecting the assets going forward.

MS. CANDACE GRAMMOND: Okay. Thank you. The next recommendation that I want to speak about now is SMI-5.12.15. So that's on page 15.

This was the recommendation that the Board made last year, and this was directed at the province, the government, that it consider whether control over MPI's investments should in the interest of MPI's policy-holders be provided to MPI's Board in order to eliminate what appears to be an inherent conflict of interest; and that the Corporation has indicated here that it doesn't have response, as the recommendation was directed to government.

Can you tell the Board whether the Corporation has a view of this issue that it is prepared to share in this forum?

MS. MARILYN MCLAREN: No, no, the Corporation doesn't take public positions on matters of law or government policy. In terms of the entire list of recommendations and orders flowing out the Board's last order, every -- every year the Board publishes an order. The Minister and I discuss it and review it, so I can certainly confirm that things like this would have been brought to his or -- or her attention, but beyond that, there's really nothing I can really say.

MS. CANDACE GRAMMOND: The next recommendation on the same page, number 16, relates to what are called claim buybacks. And before we get into the -- the recommendation maybe you could just, in a summary way, explain what -- what is referred to with that term?

MS. MARILYN MCLAREN: The Corporation has had a very, very long-standing process where -- since the beginning of time, based on my memory, where is if someone files a claim, and without fully appreciating the impact on them of the accident surcharges or the other flow-on impacts, that they can go ba -- come back to us, pay everything that we paid out on that claim, and it would be taken off their record.

Just by the same token, we don't force people to make a claim. If someone does make a claim, and then wishes they didn't, they have the opportunity to undo that. We think that's important. It -- it ties back as well to the fact that this a compulsory program that we're administering. And it's very important to make sure that people do have choice when they appropriately should have choice.

So this is something that's been a long-standing part of the program. I -- from a pure underwriting perspective it's probably not something that would resonate with a -- you know, a real traditional pure insurance underwriter.

You know that this risk happened. How can you ignore it? But it is really about this compulsory program that we are administering and the fact that if you can't make people claim in the first place why wouldn't you let someone undo something that they really had second thoughts about.

MS. CANDACE GRAMMOND: Thank you, Ms. McLaren, for that description. The -- the recommendation that the Board made with respect to that policy, even if it's an informal one, was that -- that buybacks not be permitted in particular circumstances.

And the Board recommended that -- that those circumstances be any accident after the date of implementation of DSR except for where the accident resulted and no injuries or fatalities and for which the total claims cost did not exceed a thousand.

So the -- the Board recommended that where there was an injury or a fatality or claims cost exceeded a thousand, that no buyback be permitted. And they also recommended an exception with respect to commercial fleets.

And the Corporation has indicated in the filing that it did not anticipate making any changes to the buyback program. Can you advise the Board of the -- the reasons in -- and perhaps in addition to or -- or just refer back to the reasons that you've given, as the case may be, of why the Corporation takes that view?

MS. MARILYN MCLAREN: I think, for the most part, I'd be repeating what I said just a couple of minutes ago. We really think it's appropriate for people to be able to reconsider their decision to file a claim.

And I can also tell you that I can't imagine that we ever would have had someone buying back se -- you know, anything remotely serious in terms of injury claims, certainly no fatalities. It would be completely cost prohibitive.

So we are looking at smaller physical damage claims, the vast, vast majority. But I can certainly tell you that people do buy back claims for more than a thousand dollars, you know. Often people who are moving to another province, they find out they can't get insurance if they don't take that six (6) or seven thousand dollar ($7,000) claim off of their record.

So, you know, we -- I mean --

THE CHAIRPERSON: I'm -- I'm just --

MS. MARILYN MCLAREN: -- you never like to see Manitobans leave but, you know, we think it's reasonable to -- to help them out if that's something that they're facing when they move somewhere else.

THE CHAIRPERSON: I'm thinking nowadays a thousand dollars is nothing in terms of -- I mean, you could -- you could do very little damage and still incur a thousand dollars worth of --

MS. MARILYN MCLAREN: Yeah, there -- there are --

THE CHAIRPERSON: It -- it just seems like a very --

MS. MARILYN MCLAREN: -- head -- headlight assemblies that are worth more than a thousand dollars, right. It's --

THE CHAIRPERSON: Right. And, I mean, why would you not be able to buy back your vehicle and just fix that little whatever it is that's less than a thousand dollars? It's really not a big -- it seems a strange threshold to just basically write it off at.

MS. MARILYN MCLAREN: Well, we --

THE CHAIRPERSON: But...

MS. MARILYN MCLAREN: We didn't like the recommendation at all. But -- but certainly the threshold --

THE CHAIRPERSON: Okay.

MS. MARILYN MCLAREN: -- is questionable as well.

THE CHAIRPERSON: We hear you.

MR. REGIS GOSSELIN: Does it impact the -- when you buy back your -- the claim did -- did you -- does it impact the DSRR rating?

MS. MARILYN MCLAREN: Yes, absolutely. If there's convictions associated with the claim, which sometimes there are, that's certainly not something that can be removed, the courts have to deal with that.

But if you have a claim -- historically, before DSR it would have been, you know, you're faced with a surcharge you didn't understand was coming, but now if you move the five (5) points on the DSR Scale, if you pay back the total cost to the Corporation, your five (5) points are restored.

MR. REGIS GOSSELIN: So that's true -- that's true even if -- I'm looking at, you know, previous testimony to the fact that even one (1) incident demonstrates -- demonstrates that you are a high-risk driver. So -- so you wipe the slate clean and there's no record of that at all in your system?

MS. MARILYN MCLAREN: That -- yes, and now I can feel Mr. Palmer looking at me from that pure underwriting perspective, I had mentioned earlier as well, that -- that's true. You know, so we are ignoring a piece of evidence that we had.

But the way Manitobans look at that is if my mistake didn't cost you anything, how can you hold it against me. So that's the balance that we sometimes find that we're faced with, is absolutely from a pure underwriting or actuarial perspective, you know you now have a risk. It's -- it's -- you have that evidence. But Manitobans, you know, like if -- if they had had the foresight to not file the claim at all we wouldn't know about it. So we wouldn't know that they were at greater risk.

So by the same token, if they decide later that, you know, it -- it's a bit of a -- a dichotomy, I think, you know, but it does speak to the -- the complex environment in which we have to work, and it is not just a pure narrow insurance perspective. This is a compulsory program that -- that people do need to believe in and -- and they need to support how we administer it. And with the exception of the conversations that we've previously had in this forum, the public overall really supports the opportunity to have, you know, the buyback process when they need it.

MR. REGIS GOSSELIN: Do you have some sense of the undisclosed accidents that occur? I mean, I'm just looking at my friends and family, a lot of people don't claim for the -- for the relatively minor accidents. And I guess I'm wondering, is that, you know, on the increase, is that given the -- the DSR system that we -- that you put in place?

MS. MARILYN MCLAREN: No, I -- I think that's okay. I don't -- I don't have any concerns about people not claiming. And if you think about it from a homeowner's insurance perspective, right, that's a really legitimate decision for policyholders to make, because there's always consequences of using your insurance, like whether it's -- you know, you have a no-claim discount or you have an at-fault accident surchar -- you know, however the system works, whether it's homeowners or -- or anything.

There are consequences to claiming, so it's -- and that's not a dissimilar conversation around how -- how large do I -- do I want my deductible to be.

Those are reasonable decisions for policyholders to make in terms of when to claim, when not -- when not to claim. We're okay with that.

MR. DONALD PALMER: And I can just add to that that -- and to get a sense of -- of how many are -- are unreported, and we don't know what -- what we don't know, but we do know that the vast majority of business that goes through the auto body shops is MPI business. That has been reported to us as well. So most of the auto body activity relates to Manitoba Public Insurance claims.

THE CHAIRPERSON: You know, this is -- we're getting into a fascinating area, but I'm watching the clock and I'm seeing that we're moving towards 4:30. So do you have anymore questions? No? So maybe tomorrow we'll carry on with the rest of the -- no, not tomorrow, next week. Tuesday morning at 9:30 we'll carry on with the rest of these recommendations and just --

MS. CANDACE GRAMMOND: Yeah, I think --

THE CHAIRPERSON: Or are we just about done the recommendations?

MS. CANDACE GRAMMOND: Well, the only other ones that I was going to ask about in this line of questioning are the two (2) that relate to environmental issues, but I can do that at some point next week. And -

- and the other recommendations that I haven't touched on either don't need to be dealt with, or will be dealt with in the context of other issues like road safety and that kind of thing, so --

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: -- from our part, Mr. Pelly will be here next week, and so probably the main focus for Tuesday and probably into Wednesday will be actuarial issues when Brian is here. And we'll go from there.

THE CHAIRPERSON: Okay. Well, I think then we'll do as you have suggested and move right into that next Tuesday morning. We're --

MR. BYRON WILLIAMS: Happy Thanksgiving.

THE CHAIRPERSON: Yes, Happy Thanksgiving. Have a good weekend. Thank you.

(PANEL RETIRES)

--- Upon adjourning at 4:20 p.m.

Certified Correct

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Cheryl Lavigne, Ms.