MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION

2014/15

Before Board Panel:

Karen Botting - Chair

Regis Gosselin - Board Chair

The Hon. Anita Neville - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

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APPEARANCES

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Kathy Kalinowsky)MPI

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

THE CHAIRPERSON: Good morning, everyone, and welcome back to our public hearings in regard to MPI. And I'd like to call upon Ms. Grammond to carry on with her cross-exam.

MS. CANDACE GRAMMOND: Thank you, madam chair.

MPI PANEL:

MARILYN MCLAREN, Resumed

HEATHER REICHERT, Resumed

LUKE JOHNSTON, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So I'm going to have a few questions about the RSR and the DCAT. So first of all, I would ask that the Corporation confirm that the stated purpose of the RSR has remained unchanged from previous years, and that is that the RSR relates to Basic universal compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

MR. LUKE JOHNSTON: Confirmed.

MS. CANDACE GRAMMOND: And for the last year, the 2012/'13 year, the Public Utilities Board had established a range for the RSR of between seventy-seven (77) and a hundred and -- sorry, seventy-seven point nine (77.9) and 155.7 million.

Is that right? And that's -- you can find that easily at Tab 8 of the book of documents, if you want to check it.

MR. LUKE JOHNSTON: Confirmed.

MS. CANDACE GRAMMOND: And the actual retained earnings with Basic for the same year, the 2012/'13 year, was just over 141 million. So definitely within the range set by the Board.

MR. LUKE JOHNSTON: Correct.

MS. CANDACE GRAMMOND: For the current year, the Board's range is a little different. It's 82.6 million to 164.9 million; and the Corporation as per the filing was forecasting a retained earning balance of 146.9 million.

MR. LUKE JOHNSTON: That's correct, and the -- the projected PUB RSR range is simply using the -- the current methodology and just running that forward based on our -- our forecasted premiums.

MR. REGIS GOSSELIN: Sorry, could you give us a citation, or the --

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Of course. It's Tab 8 of the book of documents. It's PF-3, which is the Pro Forma 3 that was filed by the Corporation. So I was looking at the columns entitled "2013-A" and "2014-P," which were for the last fiscal year and the current fiscal year that we're in.

And so, Mr. Johnston, when we look at the current year number, so when we -- we say that the -- the Corporation was forecasting 146.9 million by the end of the current fiscal year, that is before consideration of the approximately 39 million of benefit to Basic retained earnings from the upward shift in interest rates so far this fiscal year that we talked about yesterday, which of course may change by the end of the year.

MR. LUKE JOHNSTON: The -- to make sure I'm understanding what you said correctly, it -- it does not consider the -- any changes that have occurred in this fiscal year in the first two (2) quarters, correct.

MS. CANDACE GRAMMOND: Right. And yesterday we talked about the number of 39 million. That was when we did those sort of on-the-fly revisions to Table 1.1 in the investment section.

MR. LUKE JOHNSTON: Yes. My understanding, the 39 million was some calculations we did trying to approximate what interest rate impacts would be worth to the Corporation.

MS. CANDACE GRAMMOND: Thank you. Ms. Reichert, you look like you want to say something.

MS. HEATHER REICHERT: If I could just clarify, and maybe I'm just mishearing what -- what Mr. Johnston is saying.

The 146.9 million that is forecasted for retained earnings at 2012/'13 does incorporate whatever we were forecasting to be increasing interest rates throughout -- or, sorry -- sorry, for 2013 -- sorry, for 2013/'14, the one forty-six point nine (146.9), it does include everything that we've put forward in our investment section on what we're assuming to be interest rates throughout '13/'14 and then going forward for '14/'15, et cetera.

So, yes, I agree it doesn't include if those interest rates come in higher than what we forecasted, but they definitely do consider the impacts of increasing interest rates on both our investments and our claims.

MS. CANDACE GRAMMOND: These numbers

though were prepared on the basis of the analysis that the Corporation did at the time the GRA was prepared in anticipation of the June filing.

MS. HEATHER REICHERT: That's right. They're based on the April GRA interest rate forecast.

MS. CANDACE GRAMMOND: So it doesn't include anything that's gone on in the current fiscal year.

MS. HEATHER REICHERT: No. It just includes what we anticipated would happen in the current fiscal -- sorry --

MS. CANDACE GRAMMOND: We're saying the same thing.

MS. HEATHER REICHERT: Okay.

MS. CANDACE GRAMMOND: Yeah.

MS. HEATHER REICHERT: Good.

MS. CANDACE GRAMMOND: Okay. So a couple of questions then with respect to the DCAT, or dynamic capital adequacy testing. The Corporation has indicated -- and I can provide the reference if you need it but you -- you may or may not -- that it will provide a balance sheet forecast in future GRAs likely commencing with the next GRA, the 2015 GRA.

Is that right?

MR. LUKE JOHNSTON: Yes, that is the -

- the plan at this time.

MS. CANDACE GRAMMOND: And you would agree that the DCAT technical conference that started earlier this year was paused or adjourned, pending further development of the Corporation's DCAT modelling tools, including the modelling of the balance sheet?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Do you have a reference for that, Ms. Grammond? Clearly, we had a lot of discussion over the two (2) days, and we committed to do certain things including a balance sheet. I don't remember the specific language of 'pausing' the technical conference.

MS. CANDACE GRAMMOND: I -- I don't have the reference. I can certain look it up in the transcripts but that was -- our understanding, was that we had initially talked about a split in the technical conference. We were going to do two (2) days, and then we were going to do two (2) days a couple of weeks later.

And once we got into the discussion of the balance sheet, it was our understanding that there

-- it would likely reconvene at a future time once the Corporation had included the balance sheet.

MS. MARILYN MCLAREN: Okay. The -- in the context, that -- that's fair. It just seemed a little more formal the way you were talking about, in terms of pausing it, and -- but I expect when we have a balance sheet we'll probably want to renew the conversation.

MS. CANDACE GRAMMOND: Yeah, I think -- I think again we're -- we're saying the same thing.

MR. LUKE JOHNSTON: Yeah, I -- I can add to that. So we were -- we were discussing some of the new DCAT methodology that we wanted to use. We also notified at the time that we were working on a completely new financial model. One (1) of those pieces would eventually be the balance sheet.

But I think the bigger issue was that, yes, there is this brand new financial model coming. No one had seen it yet. We couldn't provide it at the time of the conference. And that's understandably -- was a little bit of an issue with moving forward at -- at that time.

MS. CANDACE GRAMMOND: And, Mr. Johnston, do you have an update on when the modelling of the balance sheet will be included in the DCAT?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So, yeah, we are definitely currently working on that piece of the model, and the expectation again is that it will be included in -- in next year's DCAT, and in time for -- to be included in next years GRA.

MS. CANDACE GRAMMOND: So when you say, In time for next year's GRA, that would be the spring, the June 2014 time frame.

Is there any expectation that we'd be able to look at resuming the -- the DCAT conversation in advance of that?

MS. MARILYN MCLAREN: I think it's fair to say we understand that that would be advantageous, but we're not in a position to make that commitment right now. We would really need to understand -- I mean, to maybe broaden the conversation a little bit, you know, there's been a lot of discussion around the DCAT and -- and different models that could be run.

Mr. Pelly, through you, was asking about this other way of, you know, creating a whole rate-making methodology. We're going to have to make some decisions, and it would be helpful for the

Corporation if the Board could maybe provide some guidance in its order, because with the possible extra pieces of work that are in some -- I think it's fair to say that the potential extra pieces of work for Mr. Johnston in his area that are on the table at this point, we would definitely have to add resources.

Is that something -- and I'm -- it's not clear to me whether the Board believes some of these things that have been asked about would be nice to have if they have time, if it's things that the Board feels very strongly about and would like to see us add an actuary or two (2). So that would be helpful.

It's really a matter of trying to manage a very heavy workload and provide the support that the Corporation needs from that area, and really trying to figure out what -- what we should do in the future with respect to resourcing.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you. So with respect to the DCAT that was provided with this GRA that the Board has before it, can you tell us whether Mr. Cheng, the Corporation's external appointed actuary, will be undertaking an independent peer review?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes. The -- Mr. Cheng has -- has completed his peer review on the DCAT, the version that still has to go to the board for approval. So that's on October 4th. In my -- in my direct, I -- I talked about the -- how I met with the board in -- in June of this year, went through all the results of the DCAT.

None of those results have changed since -- since that meeting, but there was a lot of extra information that was requested in the DCAT, and at that time the report wasn't prepared. So Mr. Cheng got the report without the board signature. He's peer reviewed that report. Both the report and Mr. Cheng's peer review are going into the October 4th board meeting.

MS. CANDACE GRAMMOND: So did Mr. Cheng have any involvement in the preparation of the DCAT?

MR. LUKE JOHNSTON: Well, in -- in terms of back and forth commu -- communication about, definitely, some of the things that he's listed, or had listed, in -- in the -- in his peer review, for sure we've discussed those. Also, some of the -- the changes to some of the scenarios that -- that were put forward in this year's DCAT we discussed.

In terms of the actual preparation of the report, no. He -- he -- he's not working together preparing it with me, but -- and of course there's the discussion after, once he -- once he gets the report and he's actually reviewing it.

MS. CANDACE GRAMMOND: And I assume that a copy of the peer review will be filed with the Board once it's gone through the MPI board of directors on October 4th?

MR. LUKE JOHNSTON: Yes.

MS. CANDACE GRAMMOND: Thank you. Now, the DCAT report that's been provided recommends a single value for the RSR of 172 million, and that's rather than a range, for the Basic RSR.

Can you summarize for us how the Corporation would propose to use a single-value target when making decisions for the future in terms of proposing either an RSR rebate or an RSR rebuilding strategy?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So there -- there were definitely a few Information Requests on this -- on this question. The -- what the -- what the new DCAT does fairly well is there -- there is multiple scenarios, multiple risk tolerance levels for each scenario, and it gives the Board a chance to look at results at some of these different thresholds.

As you know, in the -- in -- in the report I used a one (1) in forty (40) year threshold to select the scenarios. And based on that threshold the result was a -- a recommendation of a minimum $172 million rate stabilization reserve. So it's important to note that that -- that is a minimum. So even if the Board isn't in agreement with the one (1) in forty (40) tolerance, let's -- let's for now say that -- that you are, just for example.

One (1) in forty (40) years, $172 million, is the minimum amount you need in RSR to protect you from one (1) in forty (40) year events. Not -- if you pick out an amount lower, you no longer have that level of protection that -- that you -- you selected the tolerance for.

So the -- so I don't see it as being a

lot different -- like right now we have a range with a maximum. If we were significantly over the -- the one hundred and seventy-two (172), the Board may wish to issue a rebate. And, similarly, if we were significantly less, the -- the Board may wish to order a -- a surcharge.

In -- in the report, I had to select a -- a tolerance level where I thought -- you know, where I had to assume the Board would issue a surcharge. That was an a -- an assumption. But -- but, in a similar manner, where -- when that, you know, on that threshold is passed, whether it's 125 million or something else, we would expect that the Board would want to rebuild to their target risk tolerance level.

MS. MARILYN MCLAREN: As well, what we discussed last year is it really is situation specific. And there's a lot of context that we and the Board would need to consider. It -- specifically, the -- the trends that -- that would be indicated in our outlook years. You know, if we are below the target even, you know, a hundred and twenty-five (125), if the target was a hundred and seventy-five (175), depending on what the forecast and the outlook years are saying.

If it -- also, if this event that caused the loss that drew the RSR down that much also had a significant effect on ongoing costs, we've already had a rate increase, you would likely need to move more quickly. You would likely need to have a surcharge in a way that you may not. If you have deteriorating results going forward and you have excess money in the RSR, you're -- you might not want to be -- we would not want to be applying for a rebate.

So that's why -- there -- there's something --in my way of thinking, there's something that -- that adds some measure of rigidity by having a range that you don't have when you have a number. You know, because we're -- it -- it's almost like regardless of circumstance, if you're in or outside a range, there's an expectation that you act. I don't think that that is appropriate in any way, shape, or form in many, many circumstances. It really depends on where are the trends going in the future.

MS. CANDACE GRAMMOND: So if -- if I can paraphrase that a little bit just to make sure that -- that we understand, what you're saying, Ms. McLaren, is that going forward the Corporation isn't in a position now to say at what threshold it may ask for a surcharge, for example?

MS. MARILYN MCLAREN: Right. In the DCAT scenario, you know, there's an expectation that management regulatory action is considered. That's what Mr. Johnston did in the DCAT. But, again, that was a scenario where it was significantly compromised and was not going to naturally return to higher levels.

So it -- it's that kind of context that it's important. It's not important that it was just below a hundred and twenty-five (125). It's also important that what, you know, what directionally where are we going into the next few years, according to our best estimate at the day.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: I just want to -- just further to this point, I just want to be clear about what the Corporation is asking for. So I'd ask you to go to Tab 1 of the Board's book of documents. This is the revised Application. So Tab 1 of the Board's book of documents. The part that I'm going to be asking about isn't the revised part. The revisions were just dealing with the collector use but --

MR. LUKE JOHNSTON: Yes.

MS. CANDACE GRAMMOND: -- so we -- we see here at the third bullet of the Application:

"The Corporation is asking that the Board approve the use of the DCAT methodology to determine the Basic AutoPac RSR target based on the chief actuary's final DCAT report, which will be submitted in June."

That's, of course, the 172 -- 172 million?

MR. LUKE JOHNSTON: Yes.

MS. CANDACE GRAMMOND: And then the next bullet is:

"The Corporation is asking for a range around the recommended RSR target, if a range is deemed necessary, based on the actuarial guidelines of a one (1) in twenty (20) to a one (1) in one hundred (100) probable event."

And I just want to confirm, is -- is -- and -- and this maybe is from my background as a lawyer, but would it be fair to say what's being asked for at the fourth bullet is like an alternative request? So you want the third bullet, which is the target point, but if -- and in the alternative, if the Board wants to set a range, then it should do so? I -- I just want to be clear on how we're reading those bullets together.

MS. MARILYN MCLAREN: Well, my understanding is that the -- the fourth bullet is still dependent on the use of the DCAT and the number that is driven by Mr. Johnston's work. And if the Board deems necessary, here's how we might suggest that you think about a range.

We would still take the position that a range is not optimal. We would still take the position that we would prefer a number driven by the DCAT.

MS. CANDACE GRAMMOND: So the Corporation's best-case scenario would be that the Board grant the third bullet and not do anything with respect to what's at the fourth bullet, but if the Board is inclined to grant a range, then those would be the parameters that the Corporation would seek.

MS. MARILYN MCLAREN: Exactly.

MS. CANDACE GRAMMOND: Okay. Thank you. Now, with respect to these requests and in -- in light of the technical conference that we had and --

and the understanding, on our part anyways, that we -- we hope to reconvene the technical conference at a future time once the balance sheet is available, can you talk a little bit about why the Corporation is asking for this level of specificity when the -- the technical conference hasn't really run its course?

MS. MARILYN MCLAREN: There's an RSR to this effect in terms of, Why are you are suggested -- an IR to this effect, Why are you suggesting a target in the absence of a balance sheet? And someone can find that reference.

But we really believe that there was support -- if not strong formal consensus there was certainly support during those proceedings for a DCAT-based target. We do not believe that the balance sheet leaves so much lacking that we cannot move in that direction.

You know, structuring formal action or something like that, I -- I understand, will evolve through time. But in terms of taking that step, which would really, you know, confirm the appropriateness of the next couple of days that we would spend once we have a balance sheet because if the Board is really not prepared to do that, I think we need to know sooner rather than later what else are we doing to do.

So I -- I think it's a reasonable request. I think it is certainly defendable based on the discussion and support or consensus, however you want to phrase it, at -- those two (2) days. And if the Board isn't prepared to, we would really need to understand why, and then what are they prepared.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I can refer everyone to pages 156 and 157 of the transcript, this year's transcript, where Ms. Kalinowsky asked Mr. Johnston about this issue specifically:

"Even without the balance sheet, can the PUB, in your opinion, still use the DCAT to determine the RSR target?"

And there's some -- a number of very specific reasons as to why our position is 'yes'.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Once the members have that reference, maybe we'll ask Mr. Johnston to revisit it. Best he do it in his own words, rather than me.

MR. REGIS GOSSELIN: Was that 156?

MS. MARILYN MCLAREN: Yes.

MR. REGIS GOSSELIN: Okay.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Okay. So on page 156, I started this discussion by stating that I agree that there are definitely some -- some reasons why you would want a balance sheet. And the first one was that it -- it would provide more transparency for the -- for the DCAT.

Second, it would -- it would allow projection of some other comparative ratios like the minimum capital tests which are used by other public insurers like SGI and private insurers as well.

And the third reason being that it is common that all -- all other actuaries would use a balance sheet in their DCAT. We've talked about that in previous hearings, that our purpose here is a little bit different. It's not actually required by the regulator to do an MCT test, for example.

The -- in terms of the reasons why the -- the DCAT is -- that -- that we believe the DCAT is still -- the Board can use it to set the RSR at this time is -- the first reason was that the Corporation does actually project claims incurred balances at the end of each year, inclusive of interest rate impacts. And that's in the claims incurred section. A lot of what we're talking about right -- right now is that exact point: You know, what is the impact to claims liabilities at the end of a given year?

Similarly, the second point I made on -- this is on 1 -- page 157, a similar process happens on the assets side. We're again projecting the year-end market values of the assets. The investment models have been significantly enhanced to do this, so we're well on our way to -- to creating the balance sheet. We just need to complete the -- the last piece.

Third was that the -- the DCAT report, in collaboration with -- with the PUB and the CAC, does provide, in my opinion, very detailed descriptions of the scenarios, and as far as I can tell, I don't -- I don't see how the bal -- the inclusion of the balance sheet would specifically or significantly change the assumptions made in these scenarios and the -- the impact from those scenarios.

So the -- and finally, the -- the last

reason was that it -- it would -- although it would be nice to have the MCT scores for comparative purposes, that again this isn't something that the Board uses to determine the RSR target. So my opinion there was that it's not -- it's not vital for the Board to have this to assess the DCAT results.

MS. CANDACE GRAMMOND: Thank you. I have a couple of questions on a -- a different area, and that relates to the DSR scale. So it's reflected in the filing, and I have the reference if you need it, that by 2015, the Corporation will have five (5) years of DSR experience available for analysis.

Does that sound right?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes. Sorry, I had to count my fingers there to make sure I had the -- obviously the policy, the -- the earning of the -- of the driver premiums, right, with staggered renewals and all that. But, yes, by the end of 2015 -- '14/'15 you'll have -- sorry, pardon me, '15/'16 you'll have five (5) years of data.

MS. CANDACE GRAMMOND: So at that time, and I appreciate that's a couple years down the road, would the Corporation expect to file some kind of an analysis of the DSR experience based on the five (5) years?

MR. LUKE JOHNSTON: Yeah. So we're -- we -- we do file DSR information now. And -- and I admit it's -- it's essentially for for -- forecasting purposes based on the scale that we have in place today. So we're -- we're collecting information on DSR. We're fairly pleased with the results of DSR, so the -- the risk per -- you know, the -- the predictability of -- of risk on each level on the scale is performing very close to our original expectations.

Where we struggled a little bit is movement of drivers. We -- we knew that behaviour might change a little bit with DSR. We knew that it was going to take a few years for the model to stabilize to get to kind of the steady state DSR distribution. A good example would be, I think we only had maybe 2 percent or a little more of drivers in demerits when DSR started.

It's expected a -- a more steady state would be around the 8 percent range, but we've already seen some change in behaviour at the bottom of the scale, different -- different from what we've expected. So the -- we'll definitely include a more detailed DSR analysis as we collect more data. We have the data already.

The caution that we were giving is -- is that for any kind of rate-making we're using five (5) to ten (10) years of data. So we want to make sure we have a sufficient amount of data. We're also dealing with some experience that's possibly not predictive of the future right now. We still need to get to the steady state and understand what it looks like once it's got to that -- to that point.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you, Mr. Johnston. So once the Corporation has the five (5) years of data and -- and does the analysis that we've been talking about, do you think the Corporation would -- would go forward with testing, in terms of comparing the existing DSR premiums, or driver premiums, with the experience-driven indicated values, like a fairness in rating analysis?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Well, there's -- yeah, there's no doubt that the -- this -- the analysis can be done. There's a -- even in the -- the DSR research that we did, what we did at -- in that -- in that research was we basically put in a -- a DSR program -- pretended to put in a DSR program in 2001 and then ran that experience out, assuming that that system had been in place.

And at the DSR -- our initial DSR research showed what we might expect for indicated costs and premiums collected by DSR level. So we have -- we -- we have provided some -- some expectations on that. In the future when we have enough -- when we think there's a credible amount of data to do so, we can definitely provide that information.

I think Ms. McLaren can talk about whether the rates -- how we'd want to move the rates to -- to -- you know, to actuarial principles, or relative to what we have right now.

MS. MARILYN MCLAREN: Yeah, we really need to -- to continue to strike an appropriate balance, because it's a public policy decision every bit as much as it's a rating decision. With a program like this, where people have acc -- guaranteed access -- that's a principle, guaranteed access to auto insurance -- you don't want to be pricing people out of the market at the lower level.

One (1) of the things we did with some, you know, surveying sensitivity testing in terms of what do you think the maximum premium should be. So we always need to be really cognizant of that. And we need to find ways to make sure that this is highly consistent with actuarial principles. But when it comes to this factor, there is some policy discussion and -- and decision that needs to be made.

And that's true at the top end as well. You know, you can have extremely low rates for somebody who hasn't caused a crash in twenty (20) years. But when you know what those people believe is that once they cause a crash, after many years of not causing a crash, they don't want it to affect their premium. What they care about more than anything is -- is rate stability.

We know they're prepared to give up a little bit of annual discounts to have a little bit more of a cushion when, in fact, they do mess up. Because we know that's where the vast, vast majority of crashes are caused, by good drivers who make a mistake once every ten (10) or twenty (20) years.

So that rate stability principle has to

be considered at the top, and access and some -- some consideration of -- I know it's very subjective, but affordability, needs to be considered at the bottom.

MS. CANDACE GRAMMOND: Thank you. I'm going to move then to a few questions about one (1) of the Corporation's goals, and I'll ask --

MR. REGIS GOSSELIN: I just -- I wonder, Ms. Grammond, if I could ask a -- a question, just a general question.

In terms of the research that you have done or proposed to do, do -- do you have some sense that the DSR approach has changed behaviours? Any data that you could point to that would indicate that be -- beyond the psychological impact, has it actually changed behaviours?

MS. MARILYN MCLAREN: We -- we actually referenced that in the management discussion analysis in our annual report. And maybe someone can help me find that reference. But it was, you know, through our forecasting process, revisiting what's happened, we see that overall claims frequency has not gone down. In fact, it's returning to, you know, more stable, higher levels as opposed to the last couple of years.

But that's not true of the drivers at

the worst, lowest end of the scale. We're not getting as much money from them as we thought we would. And that's nothing but good news, if it means they're just driving better.

So it's on page 37 of the annual report, the one with the blurry cars on the front. And what it says is, talking about the outlook -- this is the outlook section, "Basic AutoPac Net Income." And we said that:

> "Early indications suggest a continuation of the trends that led to the loss in '12/'13. After two (2) of the last four (4) years showed improved collision frequency, the rate that Manitobans are causing vehicle crashes seems to be returning to higher, longer term trends. At the same time higher-risk drivers, those with negative driver safety ratings, seem to be improving their driving. While this results in lower premium revenue, it may suggest a very positive change in behaviour."

And then it -- we go on to talk about

economic recovery and interest and investment income and so on. But that is absolutely where some of our missed budget for revenue came from, was from the people at -- at the -- the lower end, because they are -- they're not -- they're moving up more than they -- and they're not continuing to move down. So we're not getting as much money from them, but the rest of us are still crashing into each other at higher rates.

MR. REGIS GOSSELIN: And a follow-up question would be: Have you got any ev -- any do -- any data that shows that, to use your expression, 'driving people out of the market', at the low -- at -- at the high-risk driver --

MS. MARILYN MCLAREN: Sorry, can you repeat that?

MR. REGIS GOSSELIN: I guess I'm wondering if, you know, given that you're -- if you're a really poor driver paying twenty-five hundred dollars ($2,500) a year, have -- have you seen any -- any evidence people are just dropping their licences and continuing to drive?

MS. MARILYN MCLAREN: The numbers are holding, so if we were seeing significant less revenue because the numbers had fallen off, that -- that would be less encouraging. That's -- that's not what we've seen.

MR. LUKE JOHNSTON: If -- if you're looking for the statistics on -- on what Ms. McLaren just talked about, in -- in the revenue section, page 20, Volume II, there -- I'll let you get there.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Are you there? Yeah? So on the -- on the bottom of page 20, there's a table called "Probability of Upward Movement on the DSR Scale." And all that means is what's -- what per -- basically, what percentage of those drivers had a clean year and moved up the scale.

And on the left side, it shows the DSR levels: what they did this year; what they did the year before. And you'll see the drivers at the top: 95 percent moved up this year and 95 percent moved up last year.

At the very bottom of the scale, 62 percent moved up this year; only 57 percent moved up the year before. And that trend is -- happens for -- for the one (1) to ten (10) demerit level as well.

The -- the caution we put here on the bottom, though, is that that's great and -- and we definitely hope that that is related to the DSR program, but we also are moving to a new kind of steady-state DSR distribution, so we don't want to overstate, you know, this apparent improvement, right? It could be from other factors as well.

MS. MARILYN MCLAREN: Yeah. We want to be cautious and try and understand what it means. We don't want to make the same mistake we did in terms of reading too much into two (2) years of reduced collision frequency 'cause that didn't hold.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. So I have a couple of questions about one (1) of the corporate goals. It's found in Volume III in the annual report; so the same coloured document that Ms. McLaren just referred you to. So Volume III; it's AI-6, and it's page 25.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So page 25 of the annual report, we see there at the top, "Goal 2," which is that the Basic plan will return at least 85 percent of premium revenue to Manitobans in the form of claims benefits. Yes?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: Now, we asked a couple of IRs about that goal and I want to have a bit of a discussion about what the Corporation considers to be included under the phrase 'claims benefits' when we're talking about that being returned to Manitobans.

And we learned, for example, that -- and this is at Tab 28 of the Board's book of documents, if you wish to go there, that, under the Corporation's calculation, road safety expenses are included in claims benefits as that term is used in Goal 2.

MS. MARILYN MCLAREN: Sure, to the extent that they're included as a subset of claims expenses.

MS. CANDACE GRAMMOND: So I think what you're saying is, for accounting purposes, road safety expenses are included under the broad heading of claims expenses and, hence, translate into the heading of claims benefits for the purposes of this goal?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: Is there

anything more that the Corporation points to to suggest that road safety expenses are claims benefits?

MS. MARILYN MCLAREN: I mean, theoretically, you're spending money on road safety to reduce your exposure. We can have the discussion that we've had before about the difference between road safety and loss prevention. If you look at that budget line over the last -- getting close to ten (10) years but certainly since 2006, the -- the -- by far the biggest piece of that road safety budget has been the theft loss prevention.

So I -- I would argue that that's very appropriate to have those theft loss prevention costs in there when it has such a significant, measurable impact on the reduction of your actual claims costs.

So whether you want to say, Well, okay, but maybe you should put loss prevention in there but put road safety out, I mean, since 1971 this has been a goal for the Basic insurance plan. And it's a standard kind of loss ratio calculation that insurers use. It's your claims payments out the door plus your cost of administering those claims.

In our case, many years ago, now, we did move road safety costs from operating expenses into the claims expense side of the business for the reasons that -- that I've talked about. There was no real push back here and, so -- I mean, it was just something else that we included in that calculation. It's no more complicated than that.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: You know, I mean, further to that discussion, I guess, our response to P -- the IRs that you were talking about, the response to PUB-2-19; last part of that first page there, you know. I mean it's -- it's not going to make the difference of making the goal or not making the goal whether we include road safety or don't include road safety, right. It's a very tiny percentage of our overall costs.

MS. CANDACE GRAMMOND: I was also going to ask you about claims expenses, and I know you -- you mentioned that on the accounting side, that claims expenses are -- are included there and -- and translate over to the goal.

But I -- I guess where we're coming from with this is that this is a goal that's reported in the annual report. It is worded as Basic plan returning at least 85 percent of premium revenue to

Manitobans in the form of claims benefits.

And, so when -- when that is read it seems to imply one thing, but when we get into the details we see that road safety expenses are included, claims expenses are included, even deferred policy acquisition costs are included. So is it maybe just a matter of the semantics and could this goal be worded maybe a little bit better, given the context?

MS. MARILYN MCLAREN: I -- I think this is part of -- it's just an indication of one of those things that sometimes happens in organizations. That particular goal has been wordsmithed by the communications people through time and that's what we have.

Years ago we did talk about it more specifically in terms of, you know, the money that Manitobans pay. How much of that -- for every premium dollar, how much of that is returned in direct claims payments and to cover our costs of making those claims payments?

So that's the way we talked about it, which, you know, I mean, I can argue DCAT one way or the other, but it could be refined to be more technically accurate as a loss ratio calculation that's comparable across the country. That's what's important to us because you can go to any listing that -- that any reporting agency or anybody does of all the insurers doing auto insurance in the country. You can -- you can go, you can look at their premiums. You can find their claims in claims expense. You can calculate their loss ratio.

The report itself probably does that and it makes us very comparable. So that's really what's important to us. And if we tweaked the wording to be more technically consistent that certainly wouldn't hurt us.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you. I just have a couple more questions before I turn the mic over to Mr. Williams. The first question relates to a new area, a new thing that I don't think we've ever talked about in these proceedings before. I'll just have a couple of questions on it. I'll just have a couple of questions on it and it's with respect to the topic of Telematics. And that is what we understand to be a rapidly growing technology for auto insurers in North America.

This is the idea of there being a -- a device within the vehicle that tracks driving behaviour and -- and so forth, with the potential of providing insights into the sources of risk, improving fairness and rating, and improving driver behaviour.

Can you comment on whether the Corporation has given any consideration to this type of technology and what -- what that consideration resulted in?

MS. MARILYN MCLAREN: Well, we certainly agree it's -- it's taking off like wildfire in this country. It's sort of the new technologically advanced version of pay as you drive, right, where some insurers were offering people the opportunity to vary their rate based on how far they drove.

This is much more sophisticated. It considers acceleration, braking power, what time of day you drive, where you drive, are you in the congested area, are you not. And more and more insurers are coming forward with voluntary options for their customer base.

It -- it's -- for the most part, it is -- I really believe it continues to be a marketing tool. It is a way that some insurers are trying to either retain or extend their access to really desirable customers. This -- it's -- it's -- I think in this forum before, I've used a phrase like it -- it's really somewhat niche marketing.

I think it's expanding faster than that. I'm not sure it would still qualify as niche, but it's certainly not the business we're in. You know, we have to be accessible and do things that make sense to the entire province.

So we're certainly paying a lot of attention to it. I don't know that there is much evidence that it really, truly drives changing behaviour. So is it just a rating -- new way to rate? I don't know and I think it's something we do have to pay attention to. We need to think about what, if anything, might be appropriate for Manitoba 'cause it's a very, very different mind set.

I like what Saskatchewan has announced that they're doing, SGI. They are considering a Telematics pilot for motorcyclists because they have a particular issue, like we had had for a very long time. They don't have sufficient rates. They're trying to help improve safety of motorcycles. They're going to run a pilot with a Telematics kind of solution.

So that, kind of, may be very specific,

with an emphasis on problem solving as sort of a very broad brush, might work for us through time. We're paying attention. We don't have any strategies up our sleeves.

MS. CANDACE GRAMMOND: Thank you. So just one (1) last question for the moment. And, Mr. Johnston, this arises from an exchange that you and I had, and I just want to clarify the question and answer to make sure that we've -- we've got the right understanding.

So at page 235 of the transcript -- you can go there if you want, and I'll just -- I'll just read you the question and answer. This was in the context of the new collector insurance use and, so, I had asked you whether the major class, proposed rates were altered in any way by the instruction of this use:

> "So, for example, are motorcycles still at an indicated rate change of a 6 percent decrease?"

Your answer was:

> "Yeah. There's no changes to the proposed rates by major class."

So the followup question is: is the rate change that's being proposed by the Corporation still the same in light of the collector insurance use being put forward? So rate change as opposed to proposed rates and that's at the major class level.

MR. LUKE JOHNSTON: Yes.

MS. CANDACE GRAMMOND: Thank you. We just wanted to have that clarified.

So, Madam Chair, I'm -- I'm finished with that portion of my cross. I'm not closing my cross 'cause I still will have questions likely on the IFRS report that was filed. There may be followup questions on pre-asks or undertakings that are still rolling in, or maybe just a few areas of cleanup. So I'm probably not done, but I'm done for the moment.

Well, and, yeah, and of course there'll be the outside witnesses coming in as well, but in terms of the MPI panel, I just probably have a little bit that I'll complete on another day. So I'm happy to turn the mic over to Mr. Williams.

THE CHAIRPERSON: Before Mr. Williams starts, maybe we'll take our fifteen (15) minute break right now, and then we'll start fresh with Mr. Williams when we come back. Thank you.

--- Upon recessing at 10:25 a.m.

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

THE CHAIRPERSON: We're ready to begin the proc -- proceedings again. But just prior to Mr. Williams speaking, we have a question -- well, first I think, Ms. Kalinowsky, you have a -- an undertaking to register?

MS. KATHY KALINOWSKY: Yes, there are a number of people working back at the office preparing undertakings very quickly. And Undertaking number 9 should be filed and marked as MPI Exhibit number 26, please.

--- EXHIBIT NO. MPI-26: Response to Undertaking 9

THE CHAIRPERSON: Thank you. And now, Mr. Gosselin had a -- a follow-up question he had for MPI.

MR. REGIS GOSSELIN: I wanted to quantify, in my own mind, if the -- if the -- the Board -- the Board was to accept the -- the formula and we arrived at a 172 million, in terms of the range around that 172, what are we talking about in terms of numbers, using 172 as the base?

MR. LUKE JOHNSTON: So do you mean, like, how much variability would you expect in future DCATs? Or -- or how -- or a range?

MR. REGIS GOSSELIN: That -- that's the -- my next question. Although we could address it right now, if you'd like. I'd like -- I'd like to know how -- I -- I do want to know how table that 172 is, you know, going forward. Is it -- are we looking at significant year-to-year variability in -- in the -- in the amount, or -- and -- and also understand what would cause the variability? What -- what...

MR. LUKE JOHNSTON: Well...

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'll start -- I'll start with -- maybe with the -- just the variability question. I definitely understand the -- the concern about variability in the DCAT, particularly in the past where it was myself or Jim Christie who used to do the DCAT. You have a report where an actuary makes assumptions, comes up with an opinion, here's the number, and the actuary stands by that amount. What -- what involvement does the, you know, the Board have to keep that number stable and, you know, and then from changing all -- you know, up and down?

So one (1) -- the biggest thing we've done in that regard is the collaborative exercise that we're -- we went through last year. And -- and I -- I hope and expect to continue to do that. So even -- even just in the -- in the last year you've seen much more agreement on the assumptions and methods used in the model. So that should add a -- a significant amount of stability.

For -- for risk factors where you're using long-term data like equity returns, would be a good example. In general, the -- adding an extra year of equity data should not change your -- your expected distribution that you're modelling on too much, unless there's some kind of really fundamental change that we need to talk about here.

Similarly, with -- with claims data, we pro -- provide the models, you know, hundreds of thousands of claims. We wouldn't expect very, you know, quick fundamental changes where the model's just all of a sudden going to start putting out numbers, you know, significantly higher than -- than the current DCAT.

The -- definitely an important consideration that -- that I talked about is -- is something I had to use judgment in -- in this DCAT was the management and regulatory action. So there -- there's judgments in there that -- that myself and --

we're -- we're working with a -- our CEO and CFO made. But clearly if -- to the extent that those are modified, you can -- you can definitely change the -- the target. But those are in our control, right? They're -- they're not, you know, these adverse events.

The other -- the other thing that, again, would aid us in somewhat of our control is the -- the Corporation's risk profile in general when it comes to re-insurance. If -- if we're considering making a change to our re-insurance policies that would be something important to talk about, and that would definitely have an immediate impact on the DCAT.

For example, if you decided to accept more -- have more retention on hail storms, right, that would be -- that would flow right into the DCAT results. And just if I -- one second to answer your -- your remaining question.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: And in -- in terms of the range, I'll ask another clarification. Do you -- is your question, What -- what is the actual range in terms of a one (1) in twenty (20) to a one (1) in forty (40) or a one (1) in a hundred (100), or -- or are you asking, What would MPI recommend as having a range around this 172 million?

MR. REGIS GOSSELIN: No. Your recommendation, or at least the -- the Application suggests that a range around the RSR target of one (1) in twenty (20) and a one (1) in a hundred (100) probable event.

So in relation to the one seventy-two (172), what are we talking about in terms of dollars?

MR. LUKE JOHNSTON: I'll -- I'll take that as an undertaking and -- and get it to you. The -- one -- one thing I noted in the report is that there's literally hundreds of scenarios, and they're all estimated and then only the ones we want we put through a financial model, which takes a lot more work.

So I just want to see what those numbers are, and maybe even run them through the model for you to get that number, yeah.

MR. REGIS GOSSELIN: Yeah.

--- UNDERTAKING NO. 26: MPI to quantify the dollar value of the one (1) in twenty (20) to one (1) in

one hundred (100)
referenced in the
Application, and also
provide some situational
potential actions based on
solely a number

MR. REGIS GOSSELIN: I -- I think one of the difficulties I'm having with the one seventy-two (172) is at what point do you get into the zone where you either trigger rebate? I know I -- so if -- if you say one seventy-two (172) and we're going to -- you know, we're at one eighty-eight (188) or one ninety-two (192), where is the -- where is the point at which the panel would be able to say, Okay, well now we've got too much, you know?

So -- so that's one -- one issue, but the -- the opposite is also true. In other words, we're at one sixty (160) and, you know, at what point you would trigger -- do we trigger an increase to address the one seventy-two (172), or at least the -- the notional target of one seventy-two (172)?

We had the same dilemma, I suppose, in -- in respect of the range that was established before, but I just want to have some comfort around what those numbers would look like because one seventy-two (172) is -- is a hard figure. And are we going to trigger a rate increase when it's one sixty-nine (169)? Or, you know -- so I just want to have a better understanding of what we're getting ourselves into.

MS. MARILYN MCLAREN: Would it also be helpful if, when we provide the answer to that undertaking, that we also try to suggest some scenarios that if the Board decides to go just with the number, as -- as we're suggesting, what might be some of the sort of contextual considerations that we would think about before we would come forward for either a rebate or a surcharge, if we were working with just the number?

You know, and it would be things like -- I -- I don't believe we've ever applied for or the Board has ordered a rebate of less than fifty (50) something million dollars, you know. So I would say 189 million wouldn't trigger anything with a target of a hundred and seventy-two (172).

So things -- if it -- if we really believe that a number is better than a range, then that might be one way to give you some understanding as how we would think about working with the number while Mr. Johnston also gives -- quantifies the range for you. Would that be fair?

MR. REGIS GOSSELIN: Very good.

MS. MARILYN MCLAREN: That -- that we'll quantify the dollar value of the one (1) in twenty (20) to one (1) in one hundred (100) referenced in the Application, and also provide some situational potential actions based on solely a number.

MR. REGIS GOSSELIN: Just another question. I'll now turn to Tab 8 of the book of documents. Looking at -- what I was looking for here specifically are the retained earnings. And I'm -- I note that in -- at the end of 2010 the retained earnings were eight-seven thousand, seven hundred and seventy-three (87,773), so there was a significant level of retained earnings at that point.

(BRIEF PAUSE)

MS. HEATHER REICHERT: Sorry, for the 2010 actual year end?

MR. REGIS GOSSELIN: Yes, that's right.

MS. HEATHER REICHERT: So the second column. The total Basic retained earnings for that year is the very last number on the column, two hundred and twenty-four million, seven hundred and nine (224,709,000).

MR. REGIS GOSSELIN: No, I was looking -- I'm sorry, I'll be more specific, retained earnings prior to transfers of 87 million.

MS. HEATHER REICHERT: So that -- that would be the next income, or in -- it was net income in this particular year from annual operations was eighty-seven million, seven hundred and seventy-three (87,773,000).

MR. REGIS GOSSELIN: I'm simply trying to understand. So surplus is beyond the once every two (2) --

MS. HEATHER REICHERT: Oh, oh, oh, oh. Oh, I'm sorry. I'm -- I'm sorry. I see -- I see the next line that you're referring to. I'm sorry. So that's retained earnings prior to transfers. Is that -- that was the line that you were looking at. So -- yeah, so -- so any -- I apologize for the complexity of this particular schedule, but what it is trying to do is we set aside -- in the rate stabilization reserve at the top of this schedule we -- we transfer amounts of net income in any given year to the RSR until it reaches the maximum RSR target set by the

Public Utility Board.

So we began the year -- if you look at the very top of that column, we began the year with a hundred and thirty-four million, nine fifteen (134,915,000) in the RSR. The target was 154 million maximum as per the Public Utility Board 10 to 20 percent of premiums. So we transferred from net income in that year into the RSR nineteen million and eighty-five (19,085,000).

So we -- we say, Here's the RSR maximum as per the Public Utility Board target. Any retained earnings we have in excess of that is treated as excess retained earnings. So there was excess retained earnings, the balance, if you will, in -- in the fund -- in that year of seventy million, seven hundred and nine (70,709,000). And it did not, in that year, trigger any -- it did not -- it in and of itself did not trigger a rebate.

There was other combinations of things that had occurred that triggered that rebate in 2011, the -- the very large release that occurred, that -- is -- is that helpful? Is that --

MR. REGIS GOSSELIN: Well, just that, you know, it -- it becomes rather obvious to me that we're using headers that -- as we go further down the pipe into '17 and '18 we're losing the value of having second -- separate categories or retained earnings, one (1) dealing with the rate stabilization reserve and retained earnings. Because monies, you know, whatever you generate at the end of the year as far as retained earnings -- I'm sorry, as far as net income or loss shows up in the retained earnings and then it's floated back into the rate stabilization reserve.

So -- so I'm not sure we're getting much value of having separate categories for the rate stabilization reserve and the retained earnings. I mean, those are -- those are rather notional amounts, but in reality what we are talking about is having a suf -- sufficient retained earnings to address what could potentially be a -- a rate shock.

So I guess what I'm say -- suggesting is that this is rather a legacy document in terms of how we manage the retained earnings of MPIC, both at the Board level and MPIC level. It's not for today's discussion, but simply making the point that -- that really what we're talking about is -- is establishing a re -- a level of retained earnings that protects from the vagaries of operating an MPIC day to day, but also it protects us against a rate shock that might occur as a result of an untoward event, though.

MS. HEATHER REICHERT: Agreed.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. Thank you very much. Now I would like to call upon Mr. Williams to begin his cross-exam.

MR. BYRON WILLIAMS: Yes. Thank you and good morning. This morning, I'm hoping that the Board secretary distributed an additional book of documents. It should be titled, "MPI GRA Book of Documents, October 2nd, 2013."

And with the advice of the Board secretary, I'd recommend that it be marked as CAC Exhibit 7. It's comprised almost exclusively of documents on the record. I -- I believe there's an MPI press release in there as well as a little blurb from a rate-making textbook.

--- EXHIBIT NO. CAC-7: MPI GRA book of documents, October 2nd, 2013

CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Just -- I'm probably going to start with you, Ms. Reichert, a couple of questions about drivers' premium, and the -- it may spill over to Ms. McLaren just for a couple on the same theme. I'll leave that up to the two (2) of you.

But if you turn to, marked in the top right-hand corner, page 1 of CAC Exhibit 7, Ms. Reichert, you -- you'll -- you'll agree with me that what we have here is an excerpt from the Corporation's Application presenting the -- the projected -- or a multi-year statement for the Corporation.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And in terms of focussing on the 20 -- the 2014/'15 projection year, am I correct in suggesting to you that, in terms of net premiums earned, the Corporation is looking at drivers' premiums in the range of 44.8 million?

Correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And if we compared that to the total net premiums earned of -- projected of 814.2 million, can we agree, subject to check, that, in that particular year, they would account for roughly 5 percent of total net premiums earned?

MS. HEATHER REICHERT: Actually, 5.5 percent, yes.

MR. BYRON WILLIAMS: Yes. I was trying to be conservative, but thank you for that. And would it be fair to say that, if MPI was not in a position to draw -- charge drivers premiums, it was -- would most likely have to make up that shortfall through an increase in motor vehicle premiums?

MS. HEATHER REICHERT: Sorry. Yes, in order to maintain a break even overall position.

MR. BYRON WILLIAMS: And, Ms. Reichert, just moving across Canada for a second, would I be correct in assuming that other public insurers such as ICBC may receive a contribution from drivers' premiums? If you're not aware, Ms. Reichert, that's fine.

MS. HEATHER REICHERT: I am, personally, not aware.

MR. BYRON WILLIAMS: Would I be correct in suggesting that the Corporation is not aware of any private insurers collecting drivers' premiums?

MS. HEATHER REICHERT: I -- definitely, that would be the case.

MR. BYRON WILLIAMS: And it would be

fair to say that, for private insurers, drivers' prem -- driver premiums are -- are not really an option. Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And just going, now, to the cross-Canada comparison of -- of rates between MPI and other insurers across Canada, how, if at all, does MPI make provision for the fact that its motor vehicle premiums are lower than they would otherwise be due to drivers' premiums?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Subject to check, I believe that we include the driver premium based on the driving record of the person in the scenario. I'm confident of that because I remember many discussions making sure that we have gone to the effort of including that same premium in Quebec where they also do it.

MR. BYRON WILLIAMS: So in your view, then, the -- any kind of competitive adv -- advantage from the comparison is -- is averted by including that into the analysis?

MS. MARILYN MCLAREN: Exactly.

MR. BYRON WILLIAMS: Thank you. I'm going to jump a question for Ms. Reichert and then over to Mr. Johnston for just a couple.

In terms of forecasting the -- developing the MPI forecast for inflation rate, Ms. Reichert, would I be correct in suggesting to you that the projected Manitoba inflation rate is based on median forecasts from the major banks and Global Insight? I think a reference for that might be C1.1, page 4.

(BRIEF PAUSE)

MS. HEATHER REICHERT: Yes, it is the median rate.

MR. BYRON WILLIAMS: Okay. And -- and that median rate is derived from forecasts from major banks and Global Insight?

MS. HEATHER REICHERT: Yes, that is correct.

MR. BYRON WILLIAMS: Now, Mr. Johnston, My Friend Ms. Grammond put you through the wringer yesterday, so I'm not sure if you can recall the entire conversation.

But you do recall -- well, I'll -- I'll

ask you, do you recall a conversation with her about the Corporation's record in terms of forecasting claims incurred?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And in the course of that conversation you identified particular challenges flowing from the introduction of the reserving cal -- calculator, as it may have affected the Corporation's estimate of IBNR for lines such as accident benefit, weekly indemnity?

MR. LUKE JOHNSTON: Yes, I believe my reference was to the 2010 and prior years.

MR. BYRON WILLIAMS: And indeed, you noted that while there may have been systemic overestimas -- estimation, 2010 or prior, it was your view that any systemic bias that may have existed had been addressed, correct?

MR. LUKE JOHNSTON: Correct.

MR. BYRON WILLIAMS: And, Mr. Johnston, would you agree with me that you're probably not the first analyst who has had to make revisions to their forecast as new information comes in and new insight is gained?

MR. LUKE JOHNSTON: Definitely. Definitely not the first.

MR. BYRON WILLIAMS: Indeed, the -- you'll agree with me that the forecasting process is a evolutionary process?

MR. LUKE JOHNSTON: If by 'evolutionary' you mean that we're constantly getting new information and new data and -- and deciding what -- how to use that, yes.

MR. BYRON WILLIAMS: And, indeed, we expect that there will be deviations from the forecast, but as professionals you strive to learn from experience and minimize future deviations.

Agreed?

MR. LUKE JOHNSTON: Agreed. There -- there are certain forecast variables or categories where you're going to expect a lot of deviation just from normal patterns of how those risk factors play themself out. And others would expect less, but, of course, you would want to improve your models continuously.

MR. BYRON WILLIAMS: Ms. Reichert, you had a busy day yesterday as well, particularly discussing with My Learned Friend, Ms. Grammond, interest rates. Agreed?

MS. HEATHER REICHERT: Yes, I answered questions on interest rates yesterday.

MR. BYRON WILLIAMS: And without wanting to step too far over the discussion that -- or too much into the discussion that you had with Ms. Grammond, we can agree that given the current dura -- matching of -- of durations of liabilities and -- and investments, where interest rates are increasing, the benefits to the claims liabilities exceeds the negative impact to the bond values, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And in that happy circumstance, we have a net positive impact upon income, agreed, all other things being equal?

MS. HEATHER REICHERT: All other things being equal, agreed.

MR. BYRON WILLIAMS: Now, one of the concerns the Corporation has flagged for this regulator in this hearing is that over the past several years where -- when interest rates were declining, the Corporation's net income was negatively impacted, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And the concern expressed by the Corporation is that not only did -- did rates decline over this period, but they declined while the Corporation had been relying upon forecasts suggesting that they -- they would actually do the opposite and significantly increase.

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Now, generally we can agree that it's the Corporation's expectation that interest rates are expected to rise from current levels over the next few years, correct?

MS. HEATHER REICHERT: Can -- can you say that one more time, please?

MR. BYRON WILLIAMS: Yes, and I -- and I think I'm quoting directly from your submissions. But it's -- it's the corporate -- Corporation's view that interest rates were expected to rise from current levels over the next few years, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: The challenge is, of course, accurately predicting how fast or when they will rise, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And when you come before the Public Utilities Board bringing a revised approach to interest rate forecasting, the issue you wish to remedy is a concern with what appears to be systemic bias in the forecasts that you have historically relied upon.

MS. HEATHER REICHERT: What the Corporation is trying to remedy, or trying to address, we're trying to mitigate the risk to the Corporation of continuing to forecast quickly increasing interest rates when the history has demonstrated that that has not occurred.

So what we are trying to do is to mitigate the risk of assuming too high of an interest rate increase that doesn't actually come to fruition and thereby negatively impacts the Corporation's results and, therefore, our rate stability.

MR. BYRON WILLIAMS: To be blunt though, Ms. Reichert, you've not been satisfied with the information you've got from your current forecasters so you're looking to amend your forecast methodology, agreed?

MS. HEATHER REICHERT: I want -- we have not been comfortable with assuming in the -- we have not been comfortable with the fact that in the past forecasters have consistently forecasted high interest rates that have not come to fruition.

So that -- we have been uncomfortable with that occurrence and felt that it's prudent for the organization to deal with that in our forecasts moving forward.

MR. BYRON WILLIAMS: And the remedy you have chosen is a revised forecast methodology, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: Now, I wonder if you could turn to page 2 of CAC Exhibit 7. And, Ms. Reichert, you'll agree with me that what this is, is an excerpt from -- from your Application relating to investment income, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And what it's presenting in the top half of the table is an analysis of the -- the Corporation's assets numerically in any particular year, running from 2008/'09 through 2017/'18 projections.

Agreed?

MS. HEATHER REICHERT: That's correct. It's -- it's showing the total amount of our investment portfolio in those years actual and projected going forward.

MR. BYRON WILLIAMS: Thank you for that. And I want to focus on the total assets, which are about halfway down -- down the first column and head over to the -- to the 2014/'15 year.

Do you see that, Ms. Reichert, under

total -- or across from total assets, you'll see figure, two point four-three-eight (2.438)?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: Two (2) -- yes.

MS. HEATHER REICHERT: Yes, I see that.

MR. BYRON WILLIAMS: Okay. And the Corporation, I'll suggest to you, is forecasting that for the 2015/'16 year, the -- its total assets will grow to about 2.545 billion dollars.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And is forecasting for the 2016/'17 year that its total assets will grow to about 2.6 -- 2.6 or 2.7 billion dollars, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And projecting out to 2017/'18 it is forecasting that the base -- the total assets will -- will be in the range of $2.8 billion, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Now, if you can turn to the next page, page 3 on the -- in the top right-hand corner, you will -- I'll suggest to you that what you see is an -- again an excerpt from the Corporation's Rate Application seeking to summarize investment income, correct?

MS. HEATHER REICHERT: That is correct.

MR. BYRON WILLIAMS: And if we head right down in the first column to the bottom line there, we'll see the Corporation's information in terms of the investment income that was allocated to the Basic program.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And on the -- the first year, the '08/'09 year is a -- a figure of -- of less than -- less than $4 million.

And that would be related to the stock market crash in that particular period, correct?

MS. HEATHER REICHERT: I believe so, yes.

MR. BYRON WILLIAMS: And just if we -- just drawing your attention to the '09/'10 through 2013/'14 years, can we agree that between '09/'10 and 2013/'14, the low investment allocation to Basic was the figure of about 68 million in 2012/'13, correct?

MS. HEATHER REICHERT: That is

correct.

MR. BYRON WILLIAMS: And the high is the projection of 114.5 million for the current or 2013/'14 year.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: Moving to the right from the current year, we see the Corporation is projecting an allocation to Basic of about 63 million in the rest year, or 2014/'15.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And then we see the forecast declining to 2015/'16 to the range of forty-five point eight (45.8) -- or forty-five thousand (45,000) -- excuse me, forty-five point eight (45.8) thousand?

MS. HEATHER REICHERT: That would be 45.8 million.

MR. BYRON WILLIAMS: Point eight (8) million. Thank you, Ms. Reichert. And we see a further decline out to -- in 2016, 37.7 million.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And a further

decline in 2017/'18 projected down to 36.4 million.
Agreed?
MS. HEATHER REICHERT: Agreed.
MR. BYRON WILLIAMS: And in -- in essence, I'll suggest to you, Ms. Reichert, when we look at those farther out years -- the '15/'16, the '16/'17, and the '17/'18 -- we have the phenomena where the Corporation is expecting interest rates will rise. We have the phenomena where the asset base is growing.
Yet we have the result where the projected allocation to Basic in terms of investment income is declining.
MS. HEATHER REICHERT: Which is as a result of forecasting that interest rates, in fact, will increase, which negatively impacts the value of our bond portfolio.
MR. BYRON WILLIAMS: Thank you for that. Now, if one were to rely upon the Corporation's forecast of investment income for 2014/'15, would it be fair to say that we -- we would be expecting that investment income in that particular year would be less than sixty dollars ($60) per policy, agreed?
If you flip to the next page, there's a reference. Sorry. Page 4 in the top right-hand

corner.

MS. HEATHER REICHERT: '14/'15, yes. Less than sixty dollars ($60) per policy.

MR. BYRON WILLIAMS: And that would compare to about -- in the 2011/'12 year, of over a hundred dollars ($100) in investment income per policy, correct?

MS. HEATHER REICHERT: That's correct.

MR. BYRON WILLIAMS: And even in 2012/'13, sixty-six dollars ($66) in investment income, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: Mr. Johnston, this probably goes to you. Would I be correct in suggesting to you that -- that one (1) innovation in the most recent DCAT, or DCAT, prepared by the Corporation was the modelling of the risk associated for the Corporation in terms of low interest rate?

MR. LUKE JOHNSTON: Yes, and I -- I'll just expand on that really briefly. As we talked about earlier in the hearings, it's -- the -- the financial model was not able to forecast these impacts before. So the -- the fact that we are forecasting benefits, it now becomes a -- a issue in the DCAT that you -- you wouldn't get the projected benefits from interest rates.

MR. BYRON WILLIAMS: And if we turn to page 5 in the CAC Exhibit 7, we can see that the Corporation is recommending a minimum retained earnings of $80 million in terms of an RSR to withstand a sustained low interest rate risk, agreed?

Mr. Johnston, it's at page 5 of the exhibit as well, CAC Exhibit 7.

MR. LUKE JOHNSTON: Yes. There's a -- I -- I do agree with you, this is a -- clearly a -- directly from our Rate Application. I just wanted to note what -- that this was with assumed management and regulatory action. So I'll just very quickly, I'm almost there, get the number.

MR. BYRON WILLIAMS: Fair enough, Mr. Johnston.

MR. LUKE JOHNSTON: Yeah, it's... On -- I don't know if it's necessary to turn there, but we ran a DCAT scenario assuming completely flat or stable interest rates. And the result of that scenario was a reduction of $165 million from the base forecast over the Corporation's five (5) year forecast period.

And then what -- what's on page 5 of the CAC exhibit is just a few pages later in the DCAT, where we put in the management action. And then as you can see on the exhibit it shows the rate changes that you'd -- that we assumed in there and the surcharges. But confirmed that 80 million is the impact after management action.

MR. BYRON WILLIAMS: Thank you, Mr. Johnston. Ms. Reichert, back to you. In developing the Corporation's modified interest rate approach, did the Corporation consult with its sister organizations, such as the Workers' Compensation or Manitoba Hydro, in terms of how they were responding to challenges and forecasting interest rates?

MS. HEATHER REICHERT: Yes, we did.

MR. BYRON WILLIAMS: And are you aware the approach that -- that either of those organizations has taken?

MS. HEATHER REICHERT: Not in the same level of detail that I understand our forecast. The -- the risk and the interest rate risks that those corporations face as compared to what MPI faces, I view as -- as being different. So don't -- I don't expect that they would -- or that we would follow the same forecasting methodology necessary that they -- that they follow.

MR. BYRON WILLIAMS: Wouldn't one

expect you to all follow a best-estimate forecasting methodology?

MS. HEATHER REICHERT: We all would want to follow a best-estimate forecasting methodology for the situation that we each individually face. So again, I'll reiterate that our interest rate forecast was made based on mitigating for the Corporation the risk of forecasting too high or the result of forecasting too low.

So we looked at what -- what the risks of the Corporation was in those scenarios and chose an interest rate forecast that mitigated and balanced that risk on behalf of MPI and our ratepayers.

MR. BYRON WILLIAMS: And so would it be fair to say that recognizing you had a greater downside risk, you skewed your forecasts down?

MS. HEATHER REICHERT: Recognizing that we have a downside risk and that interest rates in the past have been very volatile, we chose a forecasted -- a forecast for our interest rates that acknowledged that volatility and mitigated the downside risk for MPI.

MR. BYRON WILLIAMS: Now, Ms. Reichert, you'll -- you'll remember a conversation with Board Chairperson Gosselin last week in -- in which he referenced you to a recent decision of the Public Utilities Board relating to the -- to the General Rate Application of Centra Gas?

MS. HEATHER REICHERT: Yes, I do.

MR. BYRON WILLIAMS: You no doubt went right out and memorized that decision.

MS. HEATHER REICHERT: I didn't memorize it, but I did read it.

MR. BYRON WILLIAMS: And we'll come to that decision in -- in just a moment but you -- are you -- you would be aware, as well, that both the -- the PUB and my client, CAC (Manitoba), have been raising issues relating to interest rate forecast error over the past few years in terms of the rate applications of Manitoba Hydro and Centra Gas?

MS. HEATHER REICHERT: I am now aware that you've been raising those issues, yes.

MR. BYRON WILLIAMS: Now, if you could turn to -- in CAC Exhibit 7 to the top of page 8 in the -- in the top-right corner, and I'll direct you on that page to Board findings under Section 5.25. And I apologize for the print quality, and we have to blame me for that.

Now, Ms. Reichert, marked on the second line with a -- with a number 1 under Board findings you'll see a determination by the Public Utilities Board that:

> "The forecasts of interest rates in this changing environment has been a challenge."

You see that statement, Ms. Reichert?

MS. HEATHER REICHERT: Yes, I do.

MR. BYRON WILLIAMS: And that's certainly something you would agree with?

MS. HEATHER REICHERT: Yes, I agree that in the changing environment it is a challenge to forecast interest rates.

MR. BYRON WILLIAMS: You see, as well, a general belief from -- by the Corporation that a consensus-based approach in using forecasters is appropriate?

MS. HEATHER REICHERT: I see that line, yes.

MR. BYRON WILLIAMS: And, as well, you see the belief by the -- from the Board on the next line that the most current information should be utilized, agreed?

MS. HEATHER REICHERT: Yes, I see that line.

MR. BYRON WILLIAMS: And moving down

to the next paragraph, your -- you'll see on the thir -- third line, a determination by the Board that it is reasonable to correct, in the Centra context, an upward bias by removing the highest forecaster for both long and short-term rates, agreed?

MS. HEATHER REICHERT: I see that line.

MR. BYRON WILLIAMS: And that approach is -- you had some discussion of that with My Friend Ms. Grammond yesterday, correct?

MS. HEATHER REICHERT: I can't remember all the discussions, but I'll take your word for it.

MR. BYRON WILLIAMS: Well, that's a dangerous thing. But I -- I wouldn't say it was an exsens -- extensive discussion, but you at least looked at some of the outcomes from that approach. And what -- what -- we may come back to these -- this language in a -- in a couple of moments, Ms. Reichert.

But if you could turn to page 10 of CAC Exhibit 7. And, again, I'm -- I'm anxious not to duplicate too much of what My Friend Ms. Reichert -- or My Friend Ms. Grammond has done with your able assistance, Ms. Reichert. But I -- I do -- I do want to set a bit of a -- a basis for our discussion.

And if we look at page 10, we'll see again that this is an excerpt from the Corporation's Rate Application portraying the -- the four (4) scenario interest rate -- rates that the Corporation presents in its analysis, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And we will go through them one (1) by one (1), but the first is the standard interest rate forecast, the second is the lower interest rate growth forecast, the third is the CBOC interest rate forecast, and finally there is the GRA interest rate forecast selected by the Corporation, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Now, staying on this page for a second, in terms of the standard interest rate forecast, the Corporation describes it as a -- for -- using for the forecasted years 2013/'14 through 2015/'16 the median of five (5) major banks and Global Insight, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: The Corporation, in terms of the forecasted years of 2016/'17, and '17/'18, again describes it as the median of the five (5) major banks and Global Insight, correct?

MS. HEATHER REICHERT: That is correct.

MR. BYRON WILLIAMS: Now, if you turn to page 13 of CAC Exhibit 7, Ms. Reichert, you'll see again, and you'll agree with me that, again, that this is an excerpt from a -- the Corporation's application relating to in -- inter -- investment income?

MS. HEATHER REICHERT: Yes, it is.

MR. BYRON WILLIAMS: And you'll agree with me that Table 13.2.2 presents the information available to the Corporation for the purposes of the standard rate approach in its estimate of Government of Canada ten (10) year bond rates, agreed?

MS. HEATHER REICHERT: Correct. And I believe that was as at the April forecast for those entities.

MR. BYRON WILLIAMS: Thank you for that. Now, I want to focus on the 2013 and 2014 years for just one (1) -- one (1) moment. And, first of all, you'll agree with me that both twenty (20) -- well, both of these years are divided into four (4) quarters, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And for each quarter the Corporation has the benefit of six (6) different estimates, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Twenty-four (24) estimates for the year?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Now, while the Corporation -- let -- let's move to 2015 and out to 2017. While the Corporation describes the standard forecast projections for year 3 as the median of the big five (5) and Global Insight, it would be more accurate to say that you place your entire reliance in the standard forecast on Global Insight for these last three (3) years. Agreed?

MS. HEATHER REICHERT: Agreed. The banks don't have confidence, I don't believe, in forecasting past two (2) years.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Are -- and just so I'm clear, are you saying that none of the banks produce those forecasts or are you suggesting that the Corporation hasn't obtained them?

(BRIEF PAUSE)

MS. HEATHER REICHERT: The -- I understand that the forecasts beyond two (2) years from any of the major banks are not publicly available.

MR. BYRON WILLIAMS: And just so I'm clear, you're not suggesting that you couldn't purchase a proprietary fore -- forecast from CIBC or BMO Nesbitt Burns, are you?

MS. HEATHER REICHERT: No, I'm not suggesting that.

MR. BYRON WILLIAMS: So the banks, at least -- just to be clear, the -- some of the banks do, do forecasts out beyond two (2) years, but the -- your evidence is that they're not publicly available.

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: So when we look at the -- the standard approach, basically, you're switching from the median -- to back up, when you move into, in this case, your 2015, you're switching from the median of six (6) forecasters to total reliance on one (1) forecaster.

Correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And you're, no doubt, alive to the risk of a logical break in moving from the median of six (6) to total reliance on one (1).

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And, of course, it's possible that, in jumping from six (6) to one (1), you might inadvertently pick up a sharp distance -- difference in perspective.

MS. HEATHER REICHERT: I would say that anything is -- is possible.

MR. BYRON WILLIAMS: Generally, if we were looking at six (6) forecasts or more than one (1) forecast, could we expect the views of the six (6) to temper the views of a potential outlier?

MS. HEATHER REICHERT: Yes, that is a possibility.

MR. BYRON WILLIAMS: And it certainly would be possible for the Corporation to get information from other forecasters beyond the first eight (8) quarters. Agreed?

MS. HEATHER REICHERT: Yes, I agree, as we understand now that we could purchase forecasts from other -- or beyond the two (2) years.

MR. BYRON WILLIAMS: In -- in light of the con -- the concerns of the Corpor -- of MPI, with the recent reliability of the forecasts of the major banks or Insight, can you advise me in terms of what, if any, conversations MPI has had with these organizations in terms of amendments they may have made to their algorithms to adjust or evolve in the face of changing evidence and changing circumstances?

MS. HEATHER REICHERT: We have not had those conversations.

MR. BYRON WILLIAMS: Madam Chair, might I be excused for water just for one (1) second.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I think we both -- we both had our drink of water, Ms. Reichert. Thank you for your courtesy. Turning to what the Corporation describes as its lower interest rate growth forecast, probably at the risk of grossly simplifying, in essence, what the Corporation has done is present a scenario where the increase predicted by the standard interest rate forecast is -- instead of occurring over the next five (5) years is assumed to, instead, occur over a ten (10) year period.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: Now, while you describe this as a low inter -- low interest forecast, would it be more accurate to replace the word 'forecast' with low-growth scenario?

MS. HEATHER REICHERT: I don't think so. I think it is a low interest rate growth forecast that the Corporation has forecasted.

MR. BYRON WILLIAMS: Well, you cannot point me to any specific professional interest rate forecaster who has endorsed this scenario, can you?

MS. HEATHER REICHERT: No, I can't, but MPI in -- MPI is -- we do forecasts for everything with respect to the GRA that we are submitting. So we forecast claims. We forecast expenses. And, so, in this particular instance MPI is forecasting interest rates on a low interest rate growth basis.

MR. BYRON WILLIAMS: Okay. Just so I understand, you're not claiming that the low scenario is the median of the views of any aggregation of professional interest rate forecasters, are you?

MS. HEATHER REICHERT: I think we stated in this particular thing that -- what -- what we did was take the median of the five (5) major banks based on this -- on the standard interest rate forecast and we, MPI, took that and forecasted it to occur over a ten (10) year period instead of a five (5) year period.

MR. BYRON WILLIAMS: So just so I'm clear, you're not suggesting that the five (5) major banks or Insights would endorse this as a reasonable representation of their views?

MS. HEATHER REICHERT: I don't believe that we have put that forward in any of our documentation, no.

MR. BYRON WILLIAMS: Now, Ms. Reichert, normally in terms of a forecast for interest rate, one would expect that forecast to be based upon certain key assumptions: growth in the economy, government debt, and an examination of the relationship between those variables. Agreed?

MS. HEATHER REICHERT: I will not pretend to understand fully how interest rate forecasters come about their interest rate forecast, but I'll -- I'll take what you've said if -- if that's how they -- how they approach it.

MR. BYRON WILLIAMS: So what I'm trying to get at, Ms. Reichert, is, is the output from the low interest rate growth analysis an output of an analysis of certain assumptions about the growth in the economy and government debt and translated into an interest rate forecast, or is it just a modelling of -- of a scenario assuming that the returns predicted by the major banks would incur over a ten (10) year period instead of a five (5) year period?

MS. HEATHER REICHERT: I -- I think I have stated previously and -- and I will again, the interest rate forecast contained within our GRA Application was an interest rate forecast done by the Corporation looking at what had occurred in the most recent past with interest rate forecasts and actual interest rate experience; and we selected an interest rate forecast that would mitigate for the Corporation the downside risk of forecasting too high of an interest rate or the up -- upside risk, upside benefit, of forecasting too low of a -- of a interest rate.

Pure -- pure and simple, that's what it -- that's what it was. And I don't think we put it out to be anything more than -- than that.

MR. BYRON WILLIAMS: Okay. Now, in terms of the conference Board estimates, number 3 on your item, for the three (3) forecast years 2013/'14 through to 2015/'16, would I be correct in assuming that you would be relying in each of those three (3) years on one (1) quarterly forecast?

(BRIEF PAUSE)

MS. HEATHER REICHERT: Sorry, can you repeat your question, please?

MR. BYRON WILLIAMS: When we look at those first forecast years, '13/'14 through '15/'16, the sole input into the CBOC interest rate forecast would be the one (1) quar -- you know, the four (4) quarters a year by that one (1) forecaster. Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: So that one (1) forecast per quarter would stand in contrast with the six (6) forecasts per quarter under the standard forecast.

Agreed?

MS. HEATHER REICHERT: Agreed for those -- the first two (2) years of the standard rate forecast and, then, I guess it would stand in comparison to the Global Insight forecast for the last three (3) years.

So it would be one (1) forecaster versus one (1) forecaster in the last three (3) years.

MR. BYRON WILLIAMS: Thank you. Now, I believe you advised My Friend Ms. Grammond, yesterday, that you did not retrospectively test the accuracy of the Conference Board of Canada estimates for their success in a declining interest rate environment.

Did I -- do I have that correct?

(BRIEF PAUSE)

MS. HEATHER REICHERT: We didn't back test them. We did look at what their interest rate forecasts had been in the past, and just on a -- on a high level gross basis compared that to what the actual interest rates have been.

MR. BYRON WILLIAMS: You didn't back plot them on a -- a graph such as you did with Global Insight and the -- the five (5) major banks?

MS. HEATHER REICHERT: We did not plot it on the graph that is in our submission, true, but we did look at what their forecasts had been relative to what the actuals were in those past years.

MR. BYRON WILLIAMS: And given that you expect to be entering an increasing interest rate environment, have you evaluated how the Conference Board of Canada has performed historically in an increasing interest rate environment?

MS. HEATHER REICHERT: As I said, we

looked at their interest rate forecast compared to what had actually occurred in the last five (5) years, which, of course, was a declining interest rate environment. So, no, we did not -- we did not look back further than that to a time when it may have been an increasing interest rate environment.

MR. BYRON WILLIAMS: Now, as a corporation, does MPI purport to have any special expertise in forecasting interest rates?

MS. HEATHER REICHERT: No.

MR. BYRON WILLIAMS: You do not purport to have developed specialized models for forecasting interest rates?

MS. HEATHER REICHERT: No, I have not purported that.

MR. BYRON WILLIAMS: And you do not purport to have specialized knowledge of macroeconomic factors that may influence interest rates?

MS. HEATHER REICHERT: No.

MR. BYRON WILLIAMS: And you do not purport to have specialized knowledge of financial matters that may influence incre -- interest rates. Agreed?

MS. HEATHER REICHERT: Not to the detailed level that professional interest rate forecasters would have. I agree.

MR. BYRON WILLIAMS: If we go to your GA ra -- GRA interest rate forecast, again, focussing on the 2014/'15 and 2015/'16 years, am I correct in suggesting you that, as compared to the standard process, you have gone from six (6) professional forecasters for the test and subsequent years to zero?

MS. HEATHER REICHERT: I guess from the perspective of how we arrived at the interest rate forecast within our GRA, in that we did not base it precisely on a professional interest rate forecaster that forecasted those interest rates to occur over a ten (10) year period. I guess, from that perspective, we would say that, yeah, it -- that our interest rate forecast is based on -- I think you said zero.

However, we looked at all of the information that was available to us at the time that we were doing the forecast, which included the five (5) major banks out two (2) years, Global out five (5) years, CBOCK, the -- forecasts for the next five (5) years. We looked at all of that information.

And we looked at what the impact would be to Manitoba rate payers and to our rate stability if we assumed that the five (5) major banks for the next two (2) years, with Global Insight, had a -- a accurate forecast, or if we assumed the CBOCK for the next five (5) years had a -- had the most accurate interest rate forecast.

We looked at all of that information and, as I've stated, chose to forecast interest rates at the level that we did in order to mitigate the downside risk to the Corporation and/or mitigate potential forecasting too much of a benefit from interest rates; or too much of a -- of a decrease from interest -- interest rates, so that we could put forward what we believed was fair, reasonable rate for rate payers that would not cause us to have to come back should interest rates not reach the levels that were being forecasted by all of these forecasters and not have to come back and ask for an even more significant rate increase. So that's essentially what we -- what we did, and what I -- I think I have explained.

MR. BYRON WILLIAMS: When we look at the forecast years 2016 and '17, and 2017 and '18, in terms of the GRA interest rate fore -- forecast, you've chosen to rely upon a forecaster that you've never used before. Agreed?

MS. HEATHER REICHERT: Again, from the standpoint of: we chose an interest rate forecast essentially that was in the middle of the high interest rate, increasing interest rate forecast and one that was predicting lower increasing interest rates and, again, mitigated the risk of being too high or too low by going in -- in between those sets of forecasts.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. Reichert, you'll agree that the test of a robust forecasting methodology is -- is one (1) that we can have some confidence in over the short-term and the long-term?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And if I can put my -- my...

(BRIEF PAUSE)

MS. HEATHER REICHERT: Sorry, can you repeat your question?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Any -- let me rephrase it. Any interest rate forecasting methodology that the Corporation puts forward, one would want to have confidence that it's one (1) that, with a tweak here and a tweak there, could stand the test of time.

Agreed?

MS. HEATHER REICHERT: Sure, with transparent documented, tweaks, some tweaks being larger than others.

MR. BYRON WILLIAMS: Ms. McLaren, I may -- may come back to that after lunch. If I turn to page 12 of CAC Exhibit 7, and direct your attention to Table 13.2.1, would I be correct in suggesting to you that -- that in terms of the information presented by the Corporation, in terms of the five (5) banks and the -- and Global Insight, the -- the forecast presented date to March and April of 2013?

MS. HEATHER REICHERT: That is correct, yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I want to turn -- stay -- stay on investments just for another second and turn to Slide -- or page 17 of CAC Exhibit 7. And I apologize for the -- the small print. And, Ms. Reichert, I assume it's you, you'll -- you'll agree that this is an excerpt from the Corporation's assessment of its investment market value and performance which was attached as a response to PUB/MPI-1-18B?

MS. HEATHER REICHERT: Yes, it definitely looks like an excerpt from that.

MR. BYRON WILLIAMS: I just want to focus your attention on the real estate market value and performance as at February 28th, 2013. Would I be correct in suggesting to you that in terms of the category of 'direct', the three (3) month performance was 1.5 percent as compared to the benchmark of 4.7 percent, correct?

(BRIEF PAUSE)

MS. HEATHER REICHERT: Yes, I agree that the three (3) month performance for direct shows 1.5 percent. But I do just want to make clear for -- for the Board, the direct is the -- MPI's investment in the CityPlace building. And I think we had talked about that earlier in these proceedings, that there is not an appraisal done every single year and every single month for that particular asset, so this only reflects what would be income generated from renting out aspects of CityPlace. So it's not a full comparison of -- it's not a fair comparison to a benchmark that includes capital appreciation.

MR. BYRON WILLIAMS: And that's fair enough, Ms. Reichert, and thank you for that reminder. In terms of Manager F, his -- am I correct in suggesting to you that his three (3) month performance as compared to the -- was one point seven (1.7) as compared to the benchmark of four point seven (4.7)?

MS. HEATHER REICHERT: Yes, but there again, the appraisal done by -- or appraisals on the real estate done by Manager F would occur at the end of the year and not every month, as in the benchmarks...

(BRIEF PAUSE)

MS. HEATHER REICHERT: Sorry. So again, because of the different timing of when Manager F might do appraisals versus when the benchmarks assumed appraisals, it really is more appropriate to look at a twelve (12) month performance for Manager F and --

MR. BYRON WILLIAMS: I was just going there, Ms. Reichert.

MS. HEATHER REICHERT: Good. Good

MR. BYRON WILLIAMS: In terms of Manager F, at the more appropriate twelve (12) month performance, we're looking at 12.3 percent as compared to the bench -- benchmark of 14.2, are we?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Madam Chair, I may review my notes on this particular area but, subject to that, I'd -- I'd suggest this is a -- not a bad time for a break.

THE CHAIRPERSON: Okay. Thank you very much. We'll break now for lunch, and we'll return at one o'clock.

--- Upon recessing at 12:00 p.m.
--- Upon resuming at 1:05 p.m.

THE CHAIRPERSON: Good afternoon, and welcome back. I'm going to ask Ms. Grammond to just comment about tomorrow's hearings, please.

MS. CANDACE GRAMMOND: Yes. Thank you, Madam Chair. We had expected previously that we'd be hearing from Mr. Gary Gibson tomorrow from the Department of Finance with respect to investment-related issues. I've had some discussions with Ms. Kalinowsky, Mr. Williams, the advisors, and due to Mr. Gibson not feeling particularly well today, the request was made that perhaps we ask him to come on the 9th of October instead of tomorrow.

So I think everyone is agreeable to that, so we'll defer Mr. Gibson's evidence until October 9th. And I have just sent an email to Mr. Oakes, giving him the head's up that pending Mr. Williams timing we may -- he may finish tomorrow, and then we'll be looking to Mr. Oakes to cross-examine tomorrow, October 3rd.

So hopefully that will be in the works, as well.

THE CHAIRPERSON: Okay. Thank you, Ms. Grammond. Okay. We'll continue again now with Mr. Williams and his cross-examination.

MR. BYRON WILLIAMS: Yes, thank you. And -- and just for the timing of Mr. Oakes and others, I'm not confident I'll be finished this afternoon, but I am quite confident I would be finished sometime tomorrow morning, if -- if we do not finish today, so...

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Turning to page 18, Ms. Reichert, of CAC Exhibit number 7...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Excuse me. You'll agree with me that presented there is a response -- Table 4 from the response to CAC/MPI-1-21A, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And we'll go -- we'll explain this table in -- in just a moment, Ms. Reichert. But at a -- at a high level, what this analysis is attempting to do is compare operating expenses if -- if they were growing at the rate of -- of change in the consumer price index as opposed to the actual MPI reported operating expenses for the Basic -- Basic.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And so, of course, in column number 1 we see the -- the year. And moving over to the second column, you'll agree with me, that presented there is the Corporation's calculation of changes in the Manitoba consumer price index on a year-over-year basis.

Correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And what is presented in the average operating expense per unit, column number 3, is a numerical depiction of what the average operating expense per unit would be if it grew at the same rate as the change in the consumer price index, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And one takes that average operating expense per unit based upon CPI change in column 3, times it by the number in column 4 to create the output in column 5, CPI operating expense, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: Column 6 presented the MPI operating expense for each of the respective years, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And column 7 pronounces upon the difference between the CPI operating expense and the MPI operating expense, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: So let's just look, if you would, to the 2012/'13 year, and go over to column 5 under 'CPI Operating Expense' and you'll see that the -- the estimate presented by this calculation would be operating expense of about $52.3 million, correct?

MS. HEATHER REICHERT: Yes, that's correct.

MR. BYRON WILLIAMS: As compared to the actual MPI operating expense of $65.4 million. We're on -- in agreement on that?

MS. HEATHER REICHERT: Yes, we are.

MR. BYRON WILLIAMS: And the difference is presented in column 7, being some roughly $13 million?

MS. HEATHER REICHERT: That's correct. And it's at this point that I would like to remind the -- the Board that there are a lot of assumptions contained within this particular table. It is assumed in this table that it's -- that in comparing a CPI operating expense is a fair comparison to MPI operating expense. And I would maintain that that's not a fair comparison.

The CPI index -- and I'm -- I'm just

trying to get confirmation -- will be based on a bundle of goods that is not representative of the bundle of good that MPI as an organization, as an auto insurer, is in the habit of purchasing. So that this -- the CPI for -- for the general Manitobans is not something that is applicable to specifically an auto -- and auto insurer corporation like MPI.

And as an example, within our operating expense are the IT expenditures that have been incurred by the Corporation over several years. And we have testified previously about how it was important that we increase the expenditures in our IT area quite substantially in order to ensure that our technology was -- was sustainable, was reliable, accessible.

So that -- those particular costs, as an example, I can assure you, did not increase year over year at the rate of CPI because of the nature of that particular type of expenditure. And there are other examples where -- where it's not reasonable to expect that CPI's expenses would increase at the same rate as the CPI.

MR. BYRON WILLIAMS: Ms. Reichert, we can agree that as compared to claims expenses and claims incurred, the Corporation exercises more discretion and more ability to control its operating expenses, correct?

MS. HEATHER REICHERT: Sorry, I need you to repeat that.

MR. BYRON WILLIAMS: As compared to other aspects of the MPI business, such as claims expenses, we can agree that the Corporation has more control in terms of its ability to control operating expenses?

MS. HEATHER REICHERT: Generally speaking, but keeping in mind that claims expenses, operating expenses, are -- are allocations from the overall corporate expenses. So I -- I look at our corporate expenses as a whole.

And we -- we do take steps to ensure that we are not -- that we contain those as -- as much as -- as we can. And they do get impacted by things such as information technology enhancements that aren't enhancements from the standpoint of luxuries; they're requirements in order to be able to continue to operate and function in a -- in an appropriate way for Manitobans.

MR. BYRON WILLIAMS: But we can agree that in terms of operating expe -- well, let's back up. In terms of claims expenses, if it's a bad winter, it's a bad winter. The Corporation has to react and respond accordingly with increased service, correct?

MS. HEATHER REICHERT: So with respect to claims incurred, yes, I agree.

MR. BYRON WILLIAMS: Okay. With operating expen -- expenses, there are many choices for the Corporation in terms of the timing of its information technology choices. There are many choices that are -- are more discretionary than there would be with claims expenses, correct?

MS. HEATHER REICHERT: I agree that there are choices. Whether that's more or less than in claims expenses, that I -- I'm not necessarily agreeing.

MR. BYRON WILLIAMS: And would it be fair to expect that roughly 60 percent of the cost associated with operating expenses would be compensation?

MS. HEATHER REICHERT: That's a -- a fairly safe -- safe estimate, yes.

MR. BYRON WILLIAMS: And the Corporation certainly, subject -- it's subject to collective bargaining agreements, but it is free to negotiate contracts and to seek to control expenses in terms of compensation, correct?

MS. HEATHER REICHERT: Within the mandate provided to us by the Province of Manitoba.

MR. BYRON WILLIAMS: And it's also free to make choices in terms of staffing level when -- when it comes to operating expenses.

MS. HEATHER REICHERT: Yes, that's correct.

MS. MARILYN MCLAREN: If I could, just to clarify and not really fully understanding your questions about discretion of operating expenses versus claims expenses, the single biggest expense under the claims expense category would also be compensation, staffing.

MR. BYRON WILLIAMS: Fair enough. Ms. -- Ms. Reichert... Ms. Reichert, to -- if we look at the change from the actual basic operating expenses of the Corporation, if we look at the year 2008 -- if we look at the year 2008/'09, we see a figure of 41.26 million.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: Five (5) years later, the Corporation is projecting for 2013/'14 some 66.7 million.

Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: That would be about $25.5 million increase over those five (5) years, subject to check?

MS. HEATHER REICHERT: I agree.

MR. BYRON WILLIAMS: I see Ms. -- my friend Mr. Johnston has a calculator. Rough a 61.8 percent increase?

MS. HEATHER REICHERT: I'm told that's close enough.

MR. BYRON WILLIAMS: You caught me on the point five (.5) earlier on, Ms. Reichert, so I wanted to be more precise.

Now, does the Manitoba Public Insurance -- in terms of claims expenses, has it developed an industry-adjusted CPI to explore how claims expenses, particularly associated with the auto rope -- auto repair business, track against inflation?

(BRIEF PAUSE)

MS. HEATHER REICHERT: Sorry, your question was to -- whether or not we have a -- an MPI claims cost index?

MR. BYRON WILLIAMS: Yes, and -- and just -- Ms. Reichert, by way of background, if we look at utilities such as Manitoba Hydro for large capital programs, they -- they have an industry-adjusted index.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: We -- we do have tables that we produce as part of these hearings that do take the -- the claims expenses incurred by MPI -- I don't believe that this is what you're looking for -- but where we show what the -- what the increasing -- what the increases in those expenses are relative to a base year. But that really is just doing essentially what you've been trying to do on this particular table.

MR. BYRON WILLIAMS: And I guess my question to you, Ms. Reichert, as we start to explore benchmarks for the Corporation -- and -- and I'm not saying that we accept your premise in terms of claims that there are unique costs, but let's assume for a moment that we did.

Would it make some sense to -- to track how claims exte -- expenses tracked against costs unique to the auto repair business?

MS. HEATHER REICHERT: So we do have -- and we have talked about it at these proceedings, the Ward Group comparison of MPI ratios compared to Canadian ratios for P & C insurers. And that shows, as I -- as I recall, that, in total, our expenses as a percentage of our premiums -- I believe that is the ratio. If someone can pull that Ward report --

MR. BYRON WILLIAMS: We'll come to that in a little bit --

MS. HEATHER REICHERT: Yeah.

MR. BYRON WILLIAMS: -- anyways, but...

MS. HEATHER REICHERT: Yeah, but it -- it shows, and I thinks that's a -- a worthwhile comparison. It shows that our expenses -- our expense ratio relative to the Canadian nat -- like, Canadian trade, are lower. Like, that ratio of our expenses is -- is lower. So I think that that's a good benchmark and a good measure.

MR. BYRON WILLIAMS: Ms. Reichert, though, what I'm inquiring about is if the Corporation does not accept, for -- for claims at least, CPI as a good proxy for how its costs should -- should change, has it considered developing a CPI-like proxy focussed on costs unique to the auto repair industry?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Off the top of my head I can't identify any specific claims expenses that would have a specifically different CPI. Incurred certainly does, and we use that in our forecasting. We don't roll that up into Manitoba Public Insurance business-specific CPI indication, but we use the fact that healthcare costs have, over the longer term, tended to grow faster than other CPI. We build that into our PIPP forecast. We build into the fact that parts prices have been significantly -- that goes into our forecast.

So on the incurred side we do it in very specific, discrete ways. Might we sometime, if we had resources with nothing higher priority to do, to somehow turn that into an MPI industry-specific CPI forecast? We could do that, but it's not something we've done to date and we've always been able to pull out those specific factors in the incurred, which is, you know, 80 something percent of our budget.

MR. BYRON WILLIAMS: And in terms of claims expenses, you're not able to identify anything unique about them as compared to CP -- CPI?

MS. HEATHER REICHERT: Within claims expenses we did state 60 percent of claims expenses would be compensation. As you mentioned, we do negotiate with our unions on -- on the collective agreement. To the extent -- and that's within mandates provided to us by the -- the provincial government. So there had been four (4) years, before the -- the current contract where it was negotiated for 2.9 percent increases. Those were negotiated increases within the mandate provided to us by the provincial government.

Those -- that particular negotiated increase far exceeded what the CPI would have been in those particular years. Maybe not for 2011/'12, but if you look at the CPIs that you've indicated throughout 2007/'08, to 2017/'18, only once did it -- it go above the 2.9 percent. So that is a significant cost to the Corporation that is outside of the CPI index bundle, if you will. It's unique to MPI on what we are incurring there.

MR. BYRON WILLIAMS: Wage settlements are unique as compared to CPI?

MS. HEATHER REICHERT: That particular element of our cost component of claims expenses, being compensation and being negotiated within a provincial mandate is something that was above what CPI was in the years of the contract. So that would contribute very much to us being, on this particular schedule that we were referring to, having higher expenses both in claims and operating compared to a Basic CPI.

MR. BYRON WILLIAMS: Now, if we turn -- I just want to turn to page 20 and 21 of CAC Exhibit number 7. And, Ms. Reichert, we see the announcement of an agreement with the ATA, the MMDA, and MPI in terms of an agreement with the automotive trades to amend the current labour rate agreement, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Now, just first of all, would the costs associated with this agreement already be built into the -- the forecast for the '13/'14 and '14/'15 years?

(BRIEF PAUSE)

MS. HEATHER REICHERT: While Mr. Johnston is looking that up I can just confirm that there was an estimate in our forecast, and we're just looking to see what -- what the estimate was.

(BRIEF PAUSE)

MS. HEATHER REICHERT: Okay. So within our -- within our forecast we did assume that labour expenses surrounding auto body repairs of vehicles would grow by 2.25 percent. So that was within the forecast submitted.

MS. MARILYN MCLAREN: And we would not have -- have built in the increase for the balance of the '13 year. So the increase that took effect of August would be incremental to what we had planned to spend during the '13 fiscal year.

MR. BYRON WILLIAMS: Just so I understand, for the '13/'14 year the increase would be incremental to what you -- your expectations were? And then we'll get to '14/'15.

MS. MARILYN MCLAREN: That's right.

MR. BYRON WILLIAMS: And for the '14/'15 year, you had built in an expectation of settlement in the range of 2.25 percent, agreed?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And would I -- would I be right if I turned to the rates on page 21 that the settlements for body technician labour and glass labour come in at or slightly below that 2.25

percent?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And would the fifteen dollar ($15) administration fee referenced on page 20 have been built into the estimates as well?

MS. MARILYN MCLAREN: No, they wouldn't have.

MR. BYRON WILLIAMS: And magnitude-wise, Ms. McLaren, any sense of what that -- what the dollar bill associated with that is?

MS. MARILYN MCLAREN: No, we would have to figure that out. But the overall -- given that we are somewhat under the 2.25 percent, given that the actual number of claims have been well accounted for, we're very comfortable that this agreement is -- has absolutely no impact on the Rate Application or the forecast for next year.

MR. BYRON WILLIAMS: And given the number of undertakings I asked you last week I'm not planning to ask you one (1) on that one. The rec -- let the record show I got a 'thank you' and a nod from Ms. McLaren.

MS. MARILYN MCLAREN: Thank you.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. Reichert, we've already had a bit of this con -- conversation but we've agreed that compensation accounts for roughly 60 percent or more of the overall corporate expense, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And the Corporation's position is that the key driver of cost increase -- creases over time is the negotiated economic increases within the collective agreements, correct?

MS. HEATHER REICHERT: It is one of the key drivers of increasing compensation in the former contract I was referencing where there was 2.9 percent increases in each of the four (4) years, yes.

MR. BYRON WILLIAMS: And staffing levels are certain another important driver of compensation costs.

MS. HEATHER REICHERT: Staffing levels, of course, are another component of the compensation, yes.

MR. BYRON WILLIAMS: Now, Ms. Reichert, if you can turn to page 22 of CAC Exhibit 7.

And if you check the date, you'll agree with me that this is an excerpt from last year's general rate application from section TI8 discussing compensation increases, the Basic share, correct?

MS. HEATHER REICHERT: That is correct, yes.

MR. BYRON WILLIAMS: And I'm just trying to understand what happened between '13 -- the '13/'14 GRA and the '14/'15 GR -- general rate application.

If we look at the top line for this compensation increase, it's Basic share. We see in the first year, the 2008/'09 through 2009/'10, an economic increase of 2.9 percent, agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And the next three (3) years are the -- are the four (4) successive two-point-nines (2.9) that you referred to earlier in our conversation.

MS. HEATHER REICHERT: That's correct.

MR. BYRON WILLIAMS: And then the Corporation, for the next two (2) years, being the '12/'13 through '13/'14, and the -- and the subsequent year, was looking at zero percent for each of those years, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Now, if we can --

can go to the next page, page 23. You'll agree with me, Ms. Reichert, that we have the -- again, a portrayal in -- for this year's General Rate Application of compensation increases, Basic share, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And the Corporation had forecast a zero percent for that '13/'14 -- from the '12/'13 to '13/'14 year. And -- and that, indeed, has materialized, correct?

MS. HEATHER REICHERT: That's correct.

MR. BYRON WILLIAMS: And then we see that for the -- from '13/'14 to '14/'15, that transition, we see instead of the zero percent from last year a 1.4 percent, which is reflective of the collective bargaining agreement signed in September of this year.

MS. HEATHER REICHERT: Yes, that is correct. So it's for half -- half the year, as it comes into effect in September of 2013.

MR. BYRON WILLIAMS: And just -- just for my clarification, if we were looking last year we were -- the Corporation was forecasting a -- a two (2) year wage freeze for its employees, agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: Am I right in interpreting this for the -- from the twenty (20) -- from the current forecast, that what in effect happened was that there was a year and a half wage freeze?

MS. HEATHER REICHERT: No, the start of this contract that was just negotiated was September of twenty (20) -- I've got to get my dates right, 2012. September of 2012 was the effective date of the contract just negotiated. So there was zero percent September 2012, and zero percent September 2013. If I got my years right, then that is what I understand, the years of the contract.

MR. BYRON WILLIAMS: And you are quite right with the contract. I think you're -- you meant to say that it went from September 23rd, 2012 to September 17th, 2016.

MS. HEATHER REICHERT: Yes. Thank you.

MR. BYRON WILLIAMS: Ms. Reichert, and -- and what I'm trying to understand is, given the two (2) year wage freeze, why isn't there a -- two (2) zeros in -- two (2) successive years of zeros for economic increase? And if you compare last year's you'll see the -- those two (2) ye -- two (2) zeros.

(BRIEF PAUSE)

MS. HEATHER REICHERT: You have highlighted for me the -- a mistake, an error if you will. We try not to make too many, but I think we have made one (1) in the -- in this particular schedule.

So the -- the column that shows the difference between 2012/'13 to 2011/'12, that should -- that's overstated. So that should only show the -- I -- I think it should show the zero percent that was negotiated as at September 2012 that goes -- that crosses the September 2012/'13 year end.

MR. BYRON WILLIAMS: Or perhaps half of -- half a year's weighted -- rate -- compensation increase, given that the contract was signed in September of 2012.

MS. HEATHER REICHERT: That -- that's correct. So from March to August of the fiscal year, '12/'13, they would have continued to be under the old contract that had an effective increase of 2.9 percent in September of 2011.

So September of 2011 there was a 2.9 percent wage increase that impacts, if you -- looking -- that's an annual increase effective in September that crosses over half of the 2011/'12 fiscal year end and half of the 2012/'13 year end.

MR. BYRON WILLIAMS: Ms. Reichert, I'm not asking this of Ms. McLaren; I just want it noted. But would you undertake to -- to correct the -- the table just so -- so that it's clear?

So I'm asking you to undertake to correct the PUB -- the response to PUB/MPI-1-74A --

MS. HEATHER REICHERT: I would be happy to.

MR. REGIS GOSSELIN: Is -- is it a correction, or is it -- you used 2.9 percent as your economic increase for budgeting purposes for the entire year?

MS. HEATHER REICHERT: In -- in this particular schedule, because we're comparing 2012/'13, which would be actual to that point in time, to 2011/'12 you -- you may have noticed that this part of a -- of a IR request this year that we didn't provide it in our Rate Application, and I can take -- I can take accountability for that.

This particular schedule is -- it's really -- just let's say it -- it, I don't believe, is the best display of what is impacting on our compensation. It's -- the -- the way that this was presented as being just the changes between the two (2) years, I find to be rather difficult.

But we will correct the schedule for the record and -- and make it make more sense for everyone here.

--- UNDERTAKING NO. 27: MPI to correct the response to PUB/MPI-1-74A

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you, Ms. Reichert. In...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: In -- I'm interested in the definition of 'normal operations'. Would it be fair to say that normal operation expenses are calculated through the compilation of expenses associated with the various day-to-day operational departments within the Corporation?

MS. HEATHER REICHERT: Are you referring to a specific reference within the Application, or is this just your understanding?

MR. BYRON WILLIAMS: Well, for

example, I probably did pull that from a specific reference but I'm -- the -- the Corporation certainly looks at its Basic expenses and one (1) category that it looks at is normal operations, agreed?

MS. HEATHER REICHERT: Correct. We do differentiate between what we consider to be normal operating expenses and improvement initiative expenses. So really the -- the definition of 'normal operations' is everything that is not considered an improvement initiative. So the...

MR. BYRON WILLIAMS: You defined it by excluding all implement -- implementation and ongoing costs that are related to improvement initiatives that are currently being undertaken by the Corporation in the forecast period, correct?

MS. HEATHER REICHERT: That is correct.

MR. BYRON WILLIAMS: In essence, they are calculated through the compilation of expenses associated to the various day-to-day operational departments; they're excluding the improvement initiatives.

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: If you can turn to page 24 of CAC Exhibit 7, what you'll see, I'll suggest to you, Ms. Reichert, is a comparison in terms of Basic expenses for normal operations comparing the 2013 GRA in the middle -- the middle table with the 2014 GRA at the top table.

Agreed?

MS. HEATHER REICHERT: I agree.

MR. BYRON WILLIAMS: And focussing on the 2013 GRA and staying on compensation, I would be correct in suggesting to you that your forecast of compensation expenses for the '12/'13 years was just a touch over $105 million for normal operations.

Correct?

MS. HEATHER REICHERT: That is correct.

MR. BYRON WILLIAMS: And your actuals for that year were close to 8 million higher.

Agreed?

MS. HEATHER REICHERT: Yes, I agree. And that is due to the fact that, as has been documented, we do not, in our forecast, forecast for actuarial gains or losses on the valuation of the pension plan because of -- of the -- the complexity of trying to do that, again impacted by discount rates in the future.

So the reason that you see actual

expenses reflected in 2014 for '12/'13 compensation as 8 million higher than what we forecast in the 2013 GRA is almost solely as a result of a -- of an increase in the -- the pension plan valuation.

MR. BYRON WILLIAMS: That's helpful, Ms. Reichert, and thank you for reminding me of that. Sticking with normal operations -- and if you need a reference, I think it's E2.12, page 8. Or you could accept it, subject to check.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I don't have it right in front of me, Ms. Reichert, but if we look at the equivalent full-times associated with normal operations, would I be correct in suggesting to you, in 2009/'10, they were about one thousand, seven hundred and fifty-two point nine (1,752.9)?

MS. HEATHER REICHERT: On a corporate basis, not just the -- on a corporate basis, not just the Basic insurance program, the actual FTEs, yes, in 2009/'10 were one thousand, seven hundred and fifty-two point nine (1,752.9).

MR. BYRON WILLIAMS: And, Ms. Reichert, if memory serves me right, you don't really produce these on a Basic basis?

MS. HEATHER REICHERT: That is correct.

MR. BYRON WILLIAMS: So we've got that seventeen fifty-two point nine (1,752.9) in '09/'10. Can -- can we agree that the FTEs associated with normal operations in the 2012/'13 year were one thousand, eight hundred and ninety-four point seven (1,894.7)?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: A difference of one hundred and forty-one point eight (141.8)?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Always seems strange to think of a point eight (.8) of an EFT.

Now, I may come back to that, but is it -- in terms of -- we asked a question actually which appears at page 25 of CAC Exhibit. And we asked whether the -- the government had seconded any MPI staff for whom MPI pays their salaries and benefits. And I'll suggest to you that -- that the Corporation's answer is that there is one (1) staff person on secondment to the Department of Finance.

Is that right?

MS. HEATHER REICHERT: Yes, that is

correct.

MR. BYRON WILLIAMS: And I wonder if you can explain the -- the role of this individual in the Department of Finance.

(BRIEF PAUSE)

MS. HEATHER REICHERT: This individual has been seconded to the Department of Finance to assist the Department of Finance in the management of our investment portfolio, as well as other duties that the -- that the Assistant Deputy Minister for the Department of Finance would ask of that staff person to do.

MR. BYRON WILLIAMS: And his entire salary is -- is paid by MPI?

MS. HEATHER REICHERT: That is correct.

MR. BYRON WILLIAMS: And how was the determination made that MPI should be paying his salary instead of the province?

MS. HEATHER REICHERT: From MPI's perspective, having this individual seconded to the Department of Finance is an opportunity to broaden their experience, to provide them with education within the Department of Finance area on the direct purchasing and selling of bonds in other debt management or treasury functions.

So from our perspective, it is of benefit to us to have that individual broaden their education and experience in this way.

MR. BYRON WILLIAMS: So just so I understand, it's -- is it job training or is it a service that he's providing to the Department of Finance, or perhaps both?

MS. HEATHER REICHERT: I would say it's both.

MR. BYRON WILLIAMS: I'm not sure who the IT person is. Is that you again, Ms. Reichert?

MS. HEATHER REICHERT: That depends on the question, but... I once did have a letter mis -- misnamed and -- and called me the chief information officer, but I quickly rectified that.

MR. BYRON WILLIAMS: It would be very rare for a lawyer to be referred to as a chief information officer, I have to tell you, Ms. Reichert. And before we get along too far, we may end up torturing this analogy.

You don't need to turn to it, but you'll recall in the Gartner Report, Gartner Group spoke of MPI spending close to twenty (20) -- 20 million in 2012/'13 modernizing the IT footprint to fix its twenty (20) year roof problem.

Do you recall a statement to that effect?

MS. HEATHER REICHERT: I do recall that statement.

MR. BYRON WILLIAMS: And Gartner as well noting for that particular year, being 2012/'13, the Corporation, in addition to fixing its roof problem, was spending an additional $18 million on a project that added to its space.

Fair enough?

MS. HEATHER REICHERT: Fair enough.

MR. BYRON WILLIAMS: And an example of projects that added to its space cited by the Gartner Group was the HRMS project.

Agreed?

MS. HEATHER REICHERT: Agreed.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now, if you turn to page 16 in the CAC Exhibit number 7, you'll see, Ms. Reichert, the respo -- Corporation's response to

PUB/MPI-2-33, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And again, on a corporate basis, what this does is track the change in information technology costs. That's page 26. Just one (1) second.

It tracks the change in information technology costs from the '05/'06 year through 2017/'18. Agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And if we go down to the bottom line, "Total IT Expenses," we'll see the expenses reported in '05/'06 for the Corporation were about $24.8 million, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And if we go out some twelve (12) years to the 2017/2018 projection, we'll see a projection of somewhere between 74 and $75 million.

Agreed?

MS. HEATHER REICHERT: Agreed. And that is a -- a considerably larger number than twelve (12) years previous, but one (1) of the more significant components of that number is the amortization of deferred development costs, and that is the amortization of those very IT projects that are considered to be improvement initiatives and then move into quote, "normal operations," and are amortized.

So what you have is a combination of -- of several IT projects that are still being amortized. So new projects in '17/'18 that would be just starting to be amortized, plus ones that were continuing to be amortized from before, which makes that number grow and appear to be quite a large component of the overall cost.

MR. BYRON WILLIAMS: Yes, and indeed we see over a decade of fairly significant compound annual growth, agreed?

MS. HEATHER REICHERT: Yes. And, again, the amortization of those many projects that were done in previous years.

MR. BYRON WILLIAMS: If we look to the extreme right under the compound -- compound annual growth rate we'll see that the rate from '05/'06 to -- to 2012/'13 as calculated by the Corp -- Corporation was over 10 percent?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: If we again look to the -- from '12/'13 to '17/'18, we see a -- a rate in the range of 8 percent in terms of compound annual growth, agreed?

MS. HEATHER REICHERT: Again, I -- agreed. Again, the most significant component of that being the amortization of those initiatives.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. Reichert, in the Gartner Group report presented to the MPI -- to MPI in, I -- I believe, June of 2013, they suggest that for the 2012/'13 year close to one (1) out of five (5) MPI staffed worked for IT.

Do you recall that statement?

MS. HEATHER REICHERT: I recall that statement. Did you want to have the reference in the record?

MR. BYRON WILLIAMS: It's page 4 of -- 4 of 15.

MS. HEATHER REICHERT: Okay. Yes.

MR. BYRON WILLIAMS: And would the Corporation generally agree that whether it's 20 percent or 18 percent, that that -- that statement is relatively accurate?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: At page 4 of the

Gartner report, Gartner also reports that for the 2012/'13 year the Corporation used more contractor resources than the insurance industry average.

Do you recall that statement, Ms. McL -- Ms. Reichert?

MS. HEATHER REICHERT: Yes, I -- I recall that statement and I also recall Ms. McLaren, in the first week of these proceedings, talking about how despite the fact that we might have higher IT expenses as a ratio, our overall expenses compared to the Canadian industry are less. So it is, again, a reflection of the fact that MPI has invested more and has -- has advanced more in the use of technology in serving our customers than some of our counterparts in the -- in the industry.

MR. BYRON WILLIAMS: Just so I'm clear, are you suggesting that the Gartner Group is concluding that you have lower staff levels than the industry? I might have misheard you.

MS. HEATHER REICHERT: No, I don't believe that's what I said. I acknowledged that our percentage of IT staff or -- and, therefore, IT costs compared to the Canadian industry will -- will be higher. But our overall expenses, including IT expenditures, compared to our Canadian -- compared to the Canadian industry is lower, which indicates that we, at MPI, have put more of an emphasis on technology and the support of that technology compared to other Canadian counterparts.

MR. BYRON WILLIAMS: Just so I'm clear, Ms. Reichert, if we go to page 41 of the CAC Exhibit 7, you'll see an excerpt from the Gartner report, being page 11 of -- page 11 of 15.

MS. HEATHER REICHERT: Yes, I'm there.

MR. BYRON WILLIAMS: And if I go to the right-hand corner there, am I correct in -- okay, am I correct in suggesting that the total cost for MPI as compared to its peer is somewhat higher?

MS. HEATHER REICHERT: The total IT cost compared to our peer is somewhat higher, yes.

MR. BYRON WILLIAMS: Okay. Now, just to -- I want to go back to page 29 of CAC-7.

And we did agree previously that for 2012/'13 the Gartner Group was noting that MPI was using more contract resources than the insurance industry average, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And on page 29 you'll see the response to CAC/MPI-1-14, and would you agree that if we look at the consulting -- let me back up.

You'll see that for the 2012/'13 year, the Corporation had actual consulting fees of $18.3 million, correct?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And we can agree that the Corporation is budgeting to increase those consulting fees in 2013/'14 to $28 million, agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: Roughly a $9.8 million increase?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: 53 percent, subject to Mr. Johnston's check?

MS. HEATHER REICHERT: I don't even think I need Mr. Johnston to check this one. That sounds about right.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. McLaren had a bit of a discussion with my -- my friend Ms. Grammond last week on the HRMS system, so I won't belabour it, but I'm correct in suggesting to you that the budget for implementing the HRMS system increased from $10 million to $16 million, agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And going back to that analogy of the Gartner Group talking about you both fixing the roof and adding a new base in the 2012/'13 year, would it be accurate to say that while you were fixing the roof the costs for the base, i.e., the HRMS program, got away from you?

MS. HEATHER REICHERT: I'm not sure I accept the term 'got away from us.' We continued to manage that project with all of the difficulties that Ms. McLaren had cited last week, so we -- we did -- we did manage that project with all of the difficulties that we faced.

MR. BYRON WILLIAMS: Now, Ms. -- Ms. Reichert, just remind me: When was HRMS completed? Just roughly.

MS. HEATHER REICHERT: Phase 2 was completed at the end of June -- well, with a post-implementation phase, so July of this year.

MR. BYRON WILLIAMS: So would the budget figures from Phase 2 have been available to the Gartner Group when they did their analysis for the 2012/'13 year?

MS. HEATHER REICHERT: To be honest,

I'm not exactly sure of the timing of the Gartner's report. I believe that they would have had some information with respect to the HRMS project and -- and the costs being incurred.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: The report's dated June 28, 2013. And so you may not be aware of this and I'll -- just -- but just so I'm clear, are you aware whether they would have had the information relating to the magnitude of the HRMS budget overrun available to them when this report was issued?

MS. MARILYN MCLAREN: I -- I can tell you the individual that we work with from Gartner absolutely had that information. I'd meet with him on a regular basis and discuss all the IT initiatives that are going on. This is a structured CIO scorecard process that Gartner has. I can't tell you the extent to which that information was embedded in this report, but they absolutely had it available.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. Reichert, I'm

not sure I can give you the actual page reference right now, although I'll -- I'll do my best to big -- dig it up at the break.

But would it be accurate to say that Gartner suggested that the Corporation spend, in terms of IT per company employee for the 2012/'13 year, was roughly forty-three thousand dollars ($43,000) per employee?

(BRIEF PAUSE)

MS. HEATHER REICHERT: On your -- on your page 41 of your exhibit there is a -- a table -- I'm -- I'm not sure if this is what you're referring to -- that talks about the cost per FTE of MPI. That table shows the cost per FTE of MPI of the IT FTEs as -- as being eighty-five thousand (85,000). Is that what you're...

MR. BYRON WILLIAMS: Ms. Reichert, the page -- and I apologize for my imprecision. If one turns to page 43 in the top right-hand corner and then goes to the box at the bottom of the page, you'll see an IT spend per company employee of forty-three thousand, two hundred and forty-three dollars ($43,243)?

MS. HEATHER REICHERT: Oh, I'm -- I'm sorry. So, yes, this -- this is IT spend per company employee. And what I was just looking at was the cost of an IT employee. Okay. I appreciate the difference.

MR. BYRON WILLIAMS: Yeah, the -- the question was poorly asked and I apologize. So let me -- let me rephrase it.

Gartner has reported for the 2012/'13 year that the IT spend per company employee was roughly forty-three thousand dollars ($43,000), agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And if we focus back on the Human Resources Management System, or HRMS, would it be safe -- fair to say that with the cost overruns, MPI will have spent over eight thousand dollars ($8,000) per employee for the HRMS?

I can give you that calculation, Ms. Reichert, if you'd like it.

MS. HEATHER REICHERT: I would love it. Thank you.

MR. BYRON WILLIAMS: We can agree that the cost for HRMS was about $16 million?

MS. HEATHER REICHERT: That's the

budget for the HRMS system, is $16 million, correct.

MR. BYRON WILLIAMS: And --

MR. REGIS GOSSELIN: I'm sorry, sixteen (16) or sixty (60)?

MR. BYRON WILLIAMS: If I was unclear, I meant to say one-six (1-6).

MR. REGIS GOSSELIN: Okay.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And I -- apologize if I left a mistaken impression.

And can -- from E7, Appendix 1, I'll suggest that the staffing budget for 2012/'13 was roughly one thousand, nine hundred and thirty-six point seven (1,936.7) FTEs?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And so if one took the budget of 16 million, divided by the nineteen hundred, thirty-six point seven (1,936.7) FTEs, we get something in the range of eight thousand two hundred and sixty-one dollars ($8,261) per employee?

MS. HEATHER REICHERT: I -- I agree subject to check. I understand it is correct.

MR. BYRON WILLIAMS: Fastest calculator in the west, Mr. Johnston. And -- and just to remind us, the HRMS was a payroll human resource system?

MS. HEATHER REICHERT: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. Reichert, thank you for bearing with me on going through this scorecard. If you can turn to page 42 in the top right-hand corner, still on the Gartner report, and on the right-hand side of that presentation, Ms. Reichert, you'll see a box which purports to evaluate MPI versus a team player versus the insurance industry versus MPI 2012.

Agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And if we went down the evaluation component -- let's go to, 'Effectiveness innovation enterprise viewpoint' -- MPI appear -- performs pretty well compared to either the team player or insurance.

Agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: If we move up to 'Business process management', would it be fair to say that -- that there -- the Gartner Group at this point in time has identified a need for improvement for MPI as compared to the team player or insurance?

MS. HEATHER REICHERT: I agree that the rating that they've given MPI is lower than the team player or the insurance industry as a whole. I don't know to what extent that -- that rating difference indicates significant improvement required.

MR. BYRON WILLIAMS: Excuse me. We'll come to that in a second. And when we move up a little bit higher to 'Cost containment', would it be accurate to state that again MPI rates lower than the team player or insurance? Agreed?

MS. HEATHER REICHERT: Yes, based on these numbers.

MR. BYRON WILLIAMS: And --

MS. MARILYN MCLAREN: Mr. Williams, I want to interject here for a minute, just to maybe elaborate a little bit on what Ms. Reichert said.

The question you just asked, Is it true that the score in cost containment is lower than team player insurance, that's a pretty straightforward answer. It's not the same as asking: Has Gartner identified opportunities for improvement in business process management?

These are all -- it -- it's a balance. You look at this holistically. There's a cost asso -- associated with every change that you make in this world. And if you look, we are, you know, significantly moved ahead at the overall score level. We're ahead of where we were last year. We are ahead of insurance. We're basically on with the team player.

So how do we want to move forward within the different components of the score is really the question. We don't have all the answers to that here today, but that (sic) are the questions that we ask ourselves, those are the questions that we asked Gartner for advise on, and we make decisions, Where can we get the best bang for the buck.

Where do we really believe we need to move ahead, because we're -- we're not trying to exceed team player and insurance on all score, necessarily.

MR. BYRON WILLIAMS: But certainly, Ms. McLaren, the Gartner Group has identified cost containment and business process management as areas where there is room for improvement.

MS. MARILYN MCLAREN: They have --

MR. BYRON WILLIAMS: And it said so

expressly.

MS. MARILYN MCLAREN: -- they have scored us lower than team player and insurance in that category.

MR. BYRON WILLIAMS: And indeed it says in terms of impli -- implications that MPI can still improve in areas such as cost containment and business process management, agreed?

MS. MARILYN MCLAREN: Absolutely, sure.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I want to talk about benchmarking for a little bit. And, Ms. Reichert, is that -- that you again?

MS. HEATHER REICHERT: You can start and we'll see where it goes.

MR. BYRON WILLIAMS: Excuse me. If you turn to page 45, Ms. Reichert, you'll see an excerpt from PUB Order 157/'12.

Do you see that?

MS. HEATHER REICHERT: I do.

MR. BYRON WILLIAMS: And we'll get into the outcome of -- of this recommendation in a --

in a moment. But for now can we agree that there was guidance or indeed an order from the Board to Manitoba Public Insurance inviting it to develop productivity factors to ass -- enable the assessment of cost containment measures as they related to operating and claims expenses.

Agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And, again, we'll -- we'll get to those in -- in a moment. If we flip to the next page, page 46 of CAC Exhibit 7, just above "Cost Saving Initiatives - All Perils," you'll see a discussion related to the business and injury improvement initiative.

Do you see that Ms. McL -- Ms. Reichert?

MS. HEATHER REICHERT: Yes, I do.

MR. BYRON WILLIAMS: And in discussing the business improvement -- business and injury appro -- improvement initiative, you'll see the -- the Public Utilities Board commenting on use of the software:

"Will allow the Corporation to accurately benchmark its outcomes with other similar national and

international organization through
the use of coding stan --
standards."

Do you see that, Ms. Reichert?

MS. HEATHER REICHERT: Yes, I do.

MR. BYRON WILLIAMS: And there's the -- the suggestion that:

"The Corporation can mine its data
sources for insight and ultimately
reduce disability durations to
optimize claimants recovery time and
achieve program cost savings.

Do you see that?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: Now, Ms. Reichert, I don't think you need to turn here, but certainly in the Corporation's strategic plan, I believe pages 3 and 4, I saw reference to the bodily injury improvement initiative BI3. And also a notation of benchmarks or measures for accessibility and timeliness of pay -- of payments.

Does that sound familiar to you?

MS. HEATHER REICHERT: Yes, it does.

MR. BYRON WILLIAMS: Ms. Reichert, what I haven't observed in this application, and I simply may have missed it, in terms of bodily injury -- the bodily injury improvement initiative, is a report on how the Corporation is doing in terms of disability duration as compared to -- to benchmarks. And is -- is that somewhere in the report and I've simply missed it?

MS. HEATHER REICHERT: No.

MR. BYRON WILLIAMS: It would be fair to say that going into the business and injury improvement initiative, the Corporation would have set a baseline in terms of the status quo or existing standards in terms of disability durations?

MS. MARILYN MCLAREN: No.

MR. BYRON WILLIAMS: Would the Corporation have established expectations in terms of improved outcomes in terms of reduced disability durations?

MS. MARILYN MCLAREN: Expectations that we were introducing a framework where that would happen going forward. And you and I, I'm sure, have had some discussions. You have asked other members of the MPI panel. I've had conversations with other participants through the last many years that that was a severe shortcoming of the, in many ways, inadequate IT and infrastructure support system we had for our case managers since we moved to no-fault in 1994.

We can't tell you what our typical claim duration was. So we're not going to -- we -- we're not in a position to be able to implement a new system and expect to see reductions from that, because we had no real strong ability to understand what we were dealing with through the old system.

So we're trying to get to a position, after we clear up issues like the transition and the severe loss of productivity that staff faced as they were learning a new system, and putting in place rehab plans for all claimants and things like that. We will start to be able to track those kinds of durations and then we will be in a position to make decisions about the extent to which we have opportunities to reduce those durations.

That's absolutely part of the plan. It's not something that was ever expected to be there at the beginning of -- and I -- we are still at the beginning of the transition to this new bodily injury case management method. We have introduced protocols, the Presley Reed guidelines in terms of different kinds of injury duration or recovery durations. We -- we pay a lot of attention to that. Our staff are learning to work with those. But, no, we did not implement this new system with clear benchmarks as to how we were going to reduce disability durations from what they had been previously.

MR. BYRON WILLIAMS: And just so I -- I recall, the -- the system would have gone live, what, in about September of 2010?

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

MR. BYRON WILLIAMS: And you experience some material productivity challenges for roughly the first eighteen (18) months or so?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And as I understand it, you are -- you've indicated that you're monitoring durations closely?

MS. MARILYN MCLAREN: I believe we are starting to learn to work within this new construct, yes. So I'm not monitoring durations. This is not something that is at the point of being reported to the executive of the Company as a performance indicator yet. But the people in injury case management are adopting what they -- modifying what they have done from 1994 until 2010 to start considering and working with these kinds of new indicators.

MR. BYRON WILLIAMS: So when -- when does the Corporation expect that reports in terms of recovery duration will be generated for the executive level?

MS. MARILYN MCLAREN: I would expect that we would clearly know where we're standing on our ability to do that with -- within the next two (2) years.

MR. BYRON WILLIAMS: And, Ms. McLaren, recognizing the importance of being humane and respectful to injured victims, but also recognizing the importance of returning persons to -- as full a recovery as possible, both for themselves and for the Corporation's bottom line, does the Corporation anticipate it will need external expertise in terms of working to reduce injury durations?

MS. MARILYN MCLAREN: No, I don't think so. I think we have -- we have some of the best doctors in this province available to us as -- on a contract, temporary basis as part of our healthcare services team.

Part of what we -- we do expect from this system is not so much that people are actually going to recover faster, but I think one (1) of the significant barriers in the old system, or -- or almost virtual lack of system, it was almost entirely a paper-based system -- is that people were recovered and we continued to pay personal care assistants longer than we needed to.

So not that they weren't recovering quickly. I think we always had -- not always, but for -- for a significant period of time, had very good collaborative, cooperative team approaches to helping people recover. But getting the paperwork done was not always one (1) of the first priorities for our staff.

And I -- and I -- you know, if they're having to make choices between working with claimants and doing that, I understand that. But part of the -- what the expectation was is that we would save some money on personal care assistants by having more appropriate file management, not that they would necessarily recover quicker but the payments would better reflect their needs more promptly, as an example.

MR. BYRON WILLIAMS: And just so I'm clear, I understand that one (1) outcome you expect to achieve from this is once persons are fully recovered, to more promptly cease the payments which -- which they're -- which are no longer necessary.

MS. MARILYN MCLAREN: Or -- or adjusting them downward more frequently and more promptly.

MR. BYRON WILLIAMS: And would I have been in error if I assumed that one element of the business and injury improvement initiative was -- was actually to optimize claim -- claimant recovery times?

MS. MARILYN MCLAREN: No, not necessarily. I think whenever you have better information and more prompt information there are always opportunities to do a better job of that.

MR. BYRON WILLIAMS: And you would expect --

MS. MARILYN MCLAREN: Bodily injury improvement initiative as opposed to business injury improvement initiative.

MR. BYRON WILLIAMS: There's too many programs, Ms. McLaren. Part of the reporting that will flow through the executive and presumably to -- to the Board as a benchmark will -- will be these improved or optimized claimant recovery times.

Agreed?

MS. MARILYN MCLAREN: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: This is probably back to you, Ms. Reichert, at page 47 of CAC Exhibit 7, or maybe it's Ms. McLaren, one of you.

You'll see -- before we get to the response you'll see a preamble suggesting that the response to CAC/MPI-1-3 indicates the -- that:

"MPI has not formalized the key performance indicator framework nor has set productivity targets for future years for injury claims management, contact centre, physical damage, and other divisions within MPI."

So, Ms. Reichert, just as a starting point, would it be accurate to say that the key performance indicator framework has not been formalized yet?

MS. HEATHER REICHERT: Yes, I believe that is what it says.

MR. BYRON WILLIAMS: And that's your understanding?

MS. HEATHER REICHERT: Are you asking if that's my understanding of what it says?

MR. BYRON WILLIAMS: The -- Ms. Reichert, I -- I -- we -- we've put a proposition to you indicating our understanding that it hasn't formalized the key performance indicator framework. My question to you is: Is that assertion accurate?

Has the key performance indicator framework been finalized?

MS. HEATHER REICHERT: No, it has not.

MR. BYRON WILLIAMS: And can we agree that there are productivity targets still to be set in terms of injury claims management, the contact centre, physical damage?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: Now, if you go to the response to CAC/MPI-2-20, Ms. Reichert, you -- the Corporation responds, and I'll ask you to confirm:

> "The development of key performance indicator framework is underway. The framework is evolving, its historical data is collected, and analytics are conducted. The Corporation will continue to develop these indicators, benchmarks, and targets in the upcoming year."

Did I present that fairly, Ms. Reichert?

MS. HEATHER REICHERT: Yes, you did.

MR. BYRON WILLIAMS: And I -- I have to tell you, Ms. Reichert, when I saw that statement, it -- the answer kind of sounded like the answer I give to my boss when he asks me why my performance evaluations are -- are four (4) months late.

And -- and I guess the -- my question to you is: Are you confident that the Corporation will be preparing a draft productivity benchmark fram -- benchmark framework for the next GRA?

MS. HEATHER REICHERT: I think that this answer is consistent with what Ms. McLaren just responded in a -- in a similar question, if I'm not mistaken. Ms. McLaren...?

MS. MARILYN MCLAREN: That's fair. I think id -- ideally, I am -- I'm hopeful that we will actually come up with the framework, some of it populated, some of it not. That may not be how this best evolves. We may not come with the framework, we may come with more indicators and talk to you more next year about how we see this trending into the future. But the -- the commitment that we -- that I made last week that we are prepared to make, is that there will be progress.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Turning to the Ward Group information, which app -- appears at -- starting at page 50 through 52 of CAC Exhibit 7.

Was this three (3) page report the entirety of the information provided by the Ward Group or was there additional information provided to the Corporation?

MS. MARILYN MCLAREN: That -- that sounds extremely similar to an undertaking that I believe we still have outstanding. It'll be filed very soon. Contrary to what I believe I said on the record at the time, this doesn't fall into the category of 'I remember when', apparently. This is part of a larger effort.

This is the synthesis of the information that the Ward Group is prepared to make public. We have a services agreement and a statement of work with the Ward Group, 95 percent of which is them telling us what we cannot release publicly. So they have created this for us specifically for filing in this public forum. There was no additional cost associated with preparing this, and the contract and comment to that effect is what will be in the undertaking.

MR. BYRON WILLIAMS: In pre --

presenting this information, Ms. McLaren, and I'm not asking for what they tell you, but will you be provided with background information about the size of the respective comparators and their business model?

MS. MARILYN MCLAREN: Not from Ward. I mean, they're -- that kind of information is available publicly and we would have access to it. Some of it I know personally, in terms of which are some of the bigger ones and which are not. So, no, Ward did not give us information about the comparative size of the different organizations that comprise this Canadian auto benchmark.

MR. BYRON WILLIAMS: And do they provide an explanation of why these are the key factors for their analysis?

MS. MARILYN MCLAREN: My understanding of what they are is they are, I guess, to a certain extent rolled up. And this is not -- this basically covers the landscape of what the costs are, what the -- what the costs are. But -- but they are not provided at the level of detail that you might see in the actual confidential report. So there may very well be a number of measures under finance, under adjusting and appraising, those kinds of things, which they -- that is what they're not prepared to make public.

MR. BYRON WILLIAMS: And will they provide some sort of analysis of why MPI's results might be superior in some cases and inferior in other, to the other companies being analyzed?

MS. MARILYN MCLAREN: I don't know that for sure, but I think we've provided some of that the first time when we went through this with Ms. Grammond. And I think we are in a reasonable position to explain some of those differences ourselves.

MR. BYRON WILLIAMS: It's a very different exercise than what you're getting from the Gartner Group, obviously.

MS. MARILYN MCLAREN: Sure, that's fair. Yeah, I mean, you know, and -- and they're -- the companies are different, their processes are different. Gartner won't even tell us who is in the benchmark, right? All we know is they're Gartner clients.

MR. BYRON WILLIAMS: Madam Chair, noting the time, I'm going to suggest a -- a brief break, if that's appropriate?

THE CHAIRPERSON: I think that would be a good idea, and we'll come back at a quarter to 3:00.

--- Upon recessing at 2:30 p.m.
--- Upon resuming at 2:45 p.m.

THE CHAIRPERSON: Okay. It looks like we're all here again. Mr. Williams, are you going to be continuing with your cross-exam?

MR. BYRON WILLIAMS: I thought I'd better. Just in terms of I think the schedule, I will not be finished today. I've discussed with My Friend Mr. Oakes, I'll get done as -- I don't expect to be that long tomorrow, but I will take a bit of time. When I'm done today we're proposing that I would stand down and Mr. -- Mr. Oakes would have at it for the better part of the morning, and then I would step back in subject to the guidance of the panel.

MS. CANDACE GRAMMOND: I'll just add to that that I'll likely have some additional cross for tomorrow based on the Deloitte report and so forth that we're just working on. So after Mr. Williams is done tomorrow, then I can probably fill the rest of the day or so.

THE CHAIRPERSON: Okay. Thank you very much. That will work then. Mr. Oakes, you'll begin tomorrow morning and -- at 9:30?

MR. RAYMOND OAKES: That's correct,

Madam --

THE CHAIRPERSON: Okay.

MR. RAYMOND OAKES: -- Chairperson.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Johnston, without getting into too many details, it would be fair to say that you found the DCAT technical conference to be a useful exercise?

MR. LUKE JOHNSTON: Yes, I did.

MR. BYRON WILLIAMS: Almost fun?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Maybe not on a weekend, but during the week, yeah.

MR. BYRON WILLIAMS: And you would agree that ongoing dialogue regarding the DCAT in previous general rate applications also has had some value for the Corporation's development of its 'Made in Manitoba' DCAT?

MR. LUKE JOHNSTON: Absolutely.

MR. BYRON WILLIAMS: And without asking you to elaborate just quite yet, it would be fair to say that despite the progress made in the technical conference, there are still some steps to be taken in terms of refining the product.

Agreed?

MR. LUKE JOHNSTON: Yes, without elaborating, that is true.

MR. BYRON WILLIAMS: And I'm not going to use the word 'pause', because I'm not sure Ms. McLaren likes that word, but it would be fair to say that the DCAT technical conference was adjourned with the agenda being incomplete.

We can agree on that?

MS. MARILYN MCLAREN: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just in terms of more work yet to be done, Mr. Johnston, coming out of the DCAT technical conference it was agreed that the -- it was agreed that MPI would be prepared to run some adverse scenarios and risk tolerance levels as requested by the PUB and Intervenors subject to the request being limited in numbers, recognizing the extensive work required.

Agreed?

MR. LUKE JOHNSTON: Agreed, and I won't elaborate too much on this. I've talked about this already. But we did kind of in advance try to include some additional scenarios. I'm trying to recall if there were additional scenarios requested. I don't know if there were, but if -- if there -- there, were we would have run them.

Part of what made that much easier is the new financial model.

MR. BYRON WILLIAMS: There might have been one (1) in CAC-2-16, which we might come to, Mr. Johnston. But -- and if I'm unclear or inaccurate, you'll correct me.

But in terms of the -- the agenda items to be resumed, part of that was a discussion of some standard scenarios that -- that might be sought by the PUB or -- or other Intervenors for inclusion?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I don't recall that -- I don't recall that being on -- on, for example, the areas of agreement that -- that we had, but I don't see that request being un -- unreasonable, if that's your question.

MR. BYRON WILLIAMS: Well -- well, let me put it another way. When and if the technical conference resumes, we would expect that one (1) item on the agenda would be some -- a discussion of whether there are additional scenarios the PUB wishes to have run by the Corporation, or Intervenors might request that the Corporation run.

Agreed?

MR. LUKE JOHNSTON: Agreed. I -- I think you're refreshing my memory a little bit there. The discussion we had at the technical conference was absolutely the Corporation can run alternate scenarios. The -- the only issue from my perspective in terms of the DCAT is that those scenarios falls within actuarial standards of practice.

And -- and it -- it's not that we can't run them, but to be included and considered in the DCAT, we'd want them to fall in that one (1) in -- one (1) in twenty (20) to one (1) in a hundred (100) year probability level.

MR. BYRON WILLIAMS: And you've had a -- a discussion of a -- of -- probably ad nauseam with My Friend Ms. Grammond, in terms of the -- the balance sheet forecast. But we've agreed that balance sheet forecast is still to come in terms of the DCAT?

MR. LUKE JOHNSTON: Yes, we have. By next year's GRA DCAT.

MR. BYRON WILLIAMS: And you would anticipate that perhaps the PUB or Intervenors might wish to assess the model and/or validate it. Agreed?

I'm not saying you -- you're -- you're agreeing to that. I'm suggesting that it would be your expectation that -- that the PUB and Intervenors will want to validate that model.

MR. LUKE JOHNSTON: I would agree that it is definitely reasonable that the Intervenors and PUB would want to evaluate the models that -- that we're using in the DCAT to come up with -- with the -- the result. I just -- I'm -- I'm a little bit hesitant because I'm not sure if you're talking about handing over entire models and -- and that type but -- but absolutely, I would expect everyone to review the models and -- and the assumptions.

MR. BYRON WILLIAMS: And that indeed may be the subject for future debate at a technical conference, whether or not the Corporation would -- would be prepared to hand over its models, although I suspect I know the answer to that one.

MR. LUKE JOHNSTON: I do -- I can suspect that that'll be a topic of conversation. I think that was your question.

MR. BYRON WILLIAMS: This one may go to you, Mr. Johnston or Ms. Reichert. I don't think a lot turns on it, but if you're looking for reference, it's page 53 of PUB -- CAC Exhibit 7. I'll start with you, Mr. Johnston. It's fair to describe the investment financial model as still a work in progress.

Agreed?

MS. HEATHER REICHERT: Actually, I'll take this one. The -- the investment model component of our financial model we don't view as a work in progress. That comment is with respect to the fact that we are still intending and working on including a balance sheet as part of our overall financial model.

MR. BYRON WILLIAMS: Fair enough, Ms. Reichert. You sat through a fairly lengthy questioning yesterday on the investment model, and would it be fair to say that there is still significant ongoing debate in terms of some of its key assumptions?

MS. HEATHER REICHERT: The assumptions that we are making with respect to interest rates or any other inputs into the -- into the model don't have any impact on the model itself or the -- the composition of the model. So I'm not sure I'm -- I'm clear on what you're asking.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. Reichert, just -- we'll break it into two (2) parts. In terms of the investment, the output of the investment model, there is still significant debate in terms of whether the assumptions presented by the Corporation are valid, agreed?

MS. HEATHER REICHERT: Agreed that there is still discussion about whether or not the Board accepts the assumptions that the Corporation is making within the investment model.

MR. BYRON WILLIAMS: There's a question in terms of whether the Canadian equity return should be set at the 5th percentile, twenty (20) -- twenty (20) year annualized return, or the 1st percentile annualized return, agreed?

MS. HEATHER REICHERT: I'm not sure if there is still a question in the Board's mind with respect to that particular assumption. I know that there were questions asked around how we arrived at and what assumption we were using in the model around what you've just quoted.

MR. BYRON WILLIAMS: And the Board has not yet ruled in terms of the appropriateness or reasonableness of employing the Corporation's investment scenario, the GRA scenario, as a best estimate of future interest rates, agreed?

MS. HEATHER REICHERT: Agreed. The Board has not yet ordered on -- in that respect.

MR. BYRON WILLIAMS: And in terms of the nuts and bolts of the model, there is no formal documentation of testing that can be provided at this time.

MS. HEATHER REICHERT: That's correct. I think I spoke to that at a -- at a previous question last week, or maybe it was even yesterday, that when we complete the entire model, including the balance sheet, we will have the documentation that -- that has been -- been requested.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Johnston, I -- I think this is more to you. It would be fair to say that one of the interrupted agenda items from the technical conference related to the issue of appropriate risk tolerance, agreed?

MR. LUKE JOHNSTON: I agree that that was a key point of discussion, and I don't know if I would use 'interrupted' but definitely different opinions on what's appropriate for a public insurance company.

MR. BYRON WILLIAMS: Okay. Would you accept 'incomplete'?

MR. LUKE JOHNSTON: Yes, I had to -- I did have to make a judgment in that regard in the DCAT. And I chose one (1) in forty (40) risk tolerance. And I -- I did acknowledge in the report or in an IR, I can't recall, that that change was in consideration of the discussions that we had at the DCAT technical conference and -- and the hearings with the intent to bring the tolerance more in line with a public -- public insurer.

MR. BYRON WILLIAMS: But it would not surprise you when we resume the DCAT technical conference that an issue near the top of agen -- of the agenda may indeed be risk tolerance?

MR. LUKE JOHNSTON: It would be reasonable that that would be on the agenda, agreed.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Johnston, I'm quite sir -- sure you don't need a citation for this. But in terms of the -- the Corporation's recommendation of a $172 million minimum target for the RSR, that flowed from a scenario, a one (1) in forty (40) year probability, related to the Corporation's combined scenario of interest rates, equity, and loss ratio adverse events, agreed?

MR. LUKE JOHNSTON: With management and regulatory action, agreed.

MR. BYRON WILLIAMS: And I'll make sure I include that scenario in my next question. Mr. Johnston, if you turn to page 55 of the CAC Exhibit 7, I'll ask you to agree that what is presented here is an excerpt, a -- a partial page from the Corporation's response to CAC/MPI-2-16.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And in this Information Request, CAC (Manitoba) asked you to take that same interest rate equities loss ratio scenario at a one (1) in twenty (20) four (4) year scenario, as compared to the one (1) in forty (40) four (4) year scenario, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And, Mr. Johnston, just to ensure that I'm reading your table correctly, if I went under -- recognizing management action has been undertaken, if I went under 'retained earnings' in the -- in the second table appearing on that page and to the 2016/'17 year, would I be correct in assuming that the recommended target, if the PUB was adopt a one (1) in twenty (20) four (4) year scenario, would be 125 million?

MR. LUKE JOHNSTON: You would have to move over one (1) -- one (1) year to the one hundred and forty (140). Yeah, it's -- so we're looking at the maximum reduction in retained earnings with management action over the forecast period. It's a -- it doesn't necessarily always happen in the final year. It -- it could happen earlier and then you react, and it's getting better. And that -- that's the idea.

MR. BYRON WILLIAMS: And, again, the -- the -- what I'm understanding from you, sir, is -- is your -- your most ad -- adverse scenario, looking at a one (1) in twenty (20) and a one (1) in forty (40) probability, the range that would flow from that type of analysis would be a range between 140 million and 172 million, recognizing that management action has already been undertaken in that scenario, correct?

MR. LUKE JOHNSTON: I do have an undertaking on this particular question, mainly just so that I can go back and make sure that there is no other scenarios at a one (1) in twenty (20) level that are -- that are worse than this one. For this particular scenario only, if that -- if that was the case, the one (1) in twenty (20) would be 140 million and 172 million at the one (1) and forty (40) level, correct.

MR. BYRON WILLIAMS: And, Ms. Johnston -- Mr. Johnston, I'll move off -- off that issue. And just if we could move to page 56 of CAC Exhibit 7.

And, Mr. Johnston, here you'll see a -- a pre-ask from CAC to MPI trying to -- ask -- seeking the formula for the derivation of a figure that occurred in the claims incurred forecast, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And I -- I certainly won't want to curl anyone's hair by going through the formula, but on page 1 of this response the Corporation provides the formula that it employed. And then if I can flip you to the back of this response, the Corporation provided the breakdown by claim cover group.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: Now -- now, Mr. Johnston, this information that appears on page 2 of CAC pre-ask 1, would I be correct in suggesting to you that it cannot be found in the Rate Application?

MR. LUKE JOHNSTON: That's right. There's four (4) -- if you go -- if -- in the claims incurred section for weekly indemnity, we do our forecasting on an ultimate basis.

We also -- internally also do a -- an at -- what's called an at twelve (12) month forecast. The iss -- the -- the big issue with the at twelve (12) month forecast is that there's not a lot known about weekly indemnity losses. When I say, "at twelve (12) months," I basically mean in the first twelve (12) months of the year. And that forecast is not seen as very reliable of -- in terms of the ultimate level of -- of claims to expect.

So I agree, this -- this information is not in the -- the Rate App. I do recognize in -- in responding to this answer that it would be helpful in the future to include some of the details. It does not at all affect the ultimate forecast that we're projecting though.

MR. BYRON WILLIAMS: And, Mr. Johnston, I'm not being critical of your forecast, at -- at least not now.

But if -- if we flip over to the question on CAC Pre-ask 1, would it be fair to say that a -- even as astute an actuary as Mr. Pelly, if they were trying to determine the derivation of that figure, would -- would not be able to do so based upon the information on the -- on the record -- the Application?

MR. LUKE JOHNSTON: Yes, that's -- that's correct. And that's -- that's essentially the -- the shortcoming that I admitted to, that more details on that particular number would have been -- would have been helpful. Again, the fact that it doesn't impact the forecast is -- is true. But in terms of interpreting all the -- the full range of -- of development of this partic -- this particular coverage, it would be good to include that in the future.

MR. BYRON WILLIAMS: Mr. Johnston, just turning to page 58 of CAC Exhibit 7, you'll see the Corporation's response to Information Request

CAC/MPI-1-103.

Agreed?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Did you want to borrow my notes, Mr. Johnston?

MR. LUKE JOHNSTON: I'm -- I'm good.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: In the Information Request you'll agree with me that CAC was asking you to reconcile a -- a figure from the ultimate incurred as compared to the ul -- ultimates given in the claims incurred forecast.

Would that be fair?

MR. LUKE JOHNSTON: Yes.

MR. BYRON WILLIAMS: And the -- the Corporation's response was that the -- the ultimate incurred for the two (2) sections were not comparable, because one (1) is on an accident year basis and the other on a fiscal year basis.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And if we flipped over one (1) page to CAC -- or page 59, we'll see a similar response to the CAC Information Request 1-104, correct?

MR. LUKE JOHNSTON: Correct.

MR. BYRON WILLIAMS: And the point you're making in both responses is the -- the ultimate incurred claims from the two (2) sections are not comparable, because one (1) was on an accident year basis and the other on a fiscal year basis.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: Mr. Johnston, I'm -- I'm seeking some assistance in understanding the terms 'accident year' and 'fiscal year'.

And I take it that you might be somewhat familiar with the -- the text Basic rate-making?

MR. LUKE JOHNSTON: Yes.

MR. BYRON WILLIAMS: And, Mr. Johnston, after I answer -- ask the question, feel free to translate it into English if I'm unsuccessful in my question.

But if we turn to page 61 of CAC Exhibit 7, you'll see a subheading 'Data Aggregation'.

Do you see that, Mr. Johnston?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And you'll agree with me that one (1) method of data aggregation described here is a calendar year aggregation which considers all premium and loss transactions that occur during the twelve (12) month calendar year without regard to the data policy issuance, the accident date, or the report date of the claim.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And would it be fair to say, just going down a little bit in this paragraph, Mr. Johnston, that an important element of the calendar year aggregation is that at the end of the calendar year all premiums and exposures are fixed?

MR. LUKE JOHNSTON: That's right, and this -- this would be similar to our fiscal year reported basis that -- that you see on the statement of operations. So those -- those clearly don't change after the accounting year is over.

MR. BYRON WILLIAMS: So at the end of the calendar year, all reported losses are fixed, correct?

MR. LUKE JOHNSTON: That's right. You're -- you're looking at the reported losses in that particular year, and any change in your provisions after which the year ends, that -- that number is fixed.

MR. BYRON WILLIAMS: And if there's subsequent development, that would be recorded in a subsequent year, Mr. Johnston?

MR. LUKE JOHNSTON: That's right. The -- a good example would be when we do policy liability evaluations and there's a change in the -- the estimate. Let's say it's $30 million plus or minus. It'll flow through into the accounting year regardless of whether or not those changes reflect policies issued ten (10) years ago or -- or last year.

MR. BYRON WILLIAMS: Now -- and thank you. And your -- your point was that that's analogous, or a synonym for your use of the word 'fiscal', agreed?

MR. LUKE JOHNSTON: Correct.

MR. BYRON WILLIAMS: If we go onto page 63 of CAC Exhibit 7 marked with a 'B', you'll see a term 'accident year aggregation' partway down the page.

You see that, Mr. Johnston?

MR. LUKE JOHNSTON: Yes, I do

MR. BYRON WILLIAMS: And accident year aggregations of losses consider losses for accidents that have occurred during a twelve (12) month period regardless of when the policy was issued or the claim was reported. Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: Unlike the calendar year aggregation, at the end of the accident year reported losses can and often do change as accident claims are reported, claims are paid, or reserves are changed, agreed?

MR. LUKE JOHNSTON: Agreed, and this is -- this is the view that you'll see in the actuarial report. We're focussed on the accident year as just described and the development of the claims that occurred in that accident year from the -- you know, from the time of occurrence until their -- until their ultimate value.

We then take that accident year view, and we convert it to the fiscal year view we just discussed for financial reporting purposes.

MR. BYRON WILLIAMS: Now, it seems so long ago, Mr. Johnston, but I believe it was last week in your discussion with Ms. Grammond, I believe another term was used, 'underwriting year'. Does that ring a bell, sir?

MR. LUKE JOHNSTON: Yes.

MR. BYRON WILLIAMS: And if we go down to 'C' marked on page 63, we see a definition:

"Policy year aggregation which is sometimes referred to as underwriting year, considers all premiums and loss transactions on policies that were written during a twelve (12) month period, regardless of when the claim occ -- occurred, or when it was reported, reserved, or paid."

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And at the end of the policy year again losses can and often do change as additional claims occur, claims are paid, or reserves are changed.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: Now, is -- now, when Mr. Pelly used that term 'underwriting', did you understand him to be meaning this same definition here, sir?

MR. LUKE JOHNSTON: I'd have to check the record. I -- I hope I did. The policy year is -- again is -- is different than -- than the previous two (2) we just discussed. It's not used regularly by MPI for either the reporting purposes or for the actuarial evaluation purposes. This would be literally tracking everything that happens with a particular -- it's associated with a particular group of policies, and we don't -- we don't do our rate making, our liability reviews, on that basis.

MR. BYRON WILLIAMS: And it would often be used in -- with other insurers in the aggregation of data relating to premiums.

Would that be fair, sir?

MR. LUKE JOHNSTON: That's fair. And that's -- again, not -- not seeing the transcript, but that's likely where I was discussing with Ms. Grammond in terms of the policy year rating, bringing back all the -- the costs and expenses associated with a particular group of policies, and that's likely where we were discussing them.

MR. BYRON WILLIAMS: So just in the response to -- just -- you don't have to turn there, but in the response to CAC-103, when you used the term 'fiscal year', that, as you've confirmed, is synonymous -- synonymous with calendar year.

MR. LUKE JOHNSTON: As described in -- in this document, basically, the financial reporting period, being a fiscal or a calendar year, it's a fiscal March 1st, Feb 28/29 for us.

MR. BYRON WILLIAMS: Now, my life would be easier, Mr. Johnston, if you actuaries always used the same words. I want to turn you to page 66 of CAC Exhibit 7, and you'll agree with me -- that's page 66 of CAC-7, and you'll agree with me that this is an excerpt from Mr. Cheng's actuarial report of October 2012?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And down towards the bottom of this page, sir, you'll see the statement -- at the very bottom actually, you'll see the statement by Mr. Cheng and Associ -- and Partners that:

> "Insurance years (policy years) are used in lieu of accident years. For MPI, the fiscal insurance year ends February 28th."

Mr. Johnston, am I correct in suggesting to you that when Mr. Cheng is using 'insurance years', he's referring to the fiscal year?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, noted the -- this should refer to the insurance year being the fiscal accident year of MPI.

MR. BYRON WILLIAMS: So it would be akin to your use of the word 'fiscal' in your response to CAC-103, sir? Or am I wrong?

MR. LUKE JOHNSTON: Sorry. It's on an accident year basis in our fiscal -- fiscal year. I -- I note the confusion, and I -- I agree that this -- this particular sentence needs to be revised. Thank you.

MR. BYRON WILLIAMS: So -- so let's -- let's remove that particular phrase from -- from my -- my mind and let's just see if I've got the difference between fiscal year and accident year down pat. And I want you to assume -- you could use a pen if you need it, Mr. Johnston, I don't think it's real hard but if you want it feel free -- that Mr. Pelly owns an insurance company. We'll call it the Toronto Maple Leaf Fan Club Insurance Company. You don't need to rem -- memorize the name, sir.

Are -- are you refusing to answer the question based upon that premise?

MR. LUKE JOHNSTON: I -- I'm not sure what you're insuring against but you better get lots of coverage for that particular...

MR. BYRON WILLIAMS: And -- and let's assume that Mr. Pelly's insurance company, for them the 2014/'15 fiscal year and accident year run from March 1st, 2014, through February 28th, 2015, okay?

MR. LUKE JOHNSTON: Okay.

MR. BYRON WILLIAMS: On May 1st, 2014, Ms. Ratepayer is involved in an accident with very severe consequences, initially reserved at $1.5 million, okay?

MR. LUKE JOHNSTON: Okay.

MR. BYRON WILLIAMS: And I would be correct in suggesting to you that that initial incurred of 1.5 million would be attributed to the 2014/'15 accident year, and fiscal year, agreed?

MR. LUKE JOHNSTON: If you're saying that the case reserve was put up for 1.5 million, correct.

MR. BYRON WILLIAMS: Let's go one (1) year later, now, Mr. Johnston, to May of 2015. And let us assume that the case reserve went up by an additional $1 million, okay? In terms of the accident year 2014, the incurred would now be 2.5 million, I'll suggest to you.

MR. LUKE JOHNSTON: Correct. Correct.

MR. BYRON WILLIAMS: In terms of the fiscal year 2014/'15, incurred would remain at 1.5 million, agreed? We'll get to the adjustment for the next year in a minute.

MR. LUKE JOHNSTON: A -- a little -- a little bit of a note on this, okay? So there's -- in the accident year we'll have done a policy liability review -- I un -- I understand your example. There's -- in terms of the reported amounts in the accident year, absolutely. The -- the dollar -- additional dollars are going to follow, basically, the -- the year of the loss. It's going to increase to 2 1/2 million.

The reported dollars are -- are going to show up as reported incurred in the following fiscal year. The piece that -- the other piece that is always going to show up in every year is any changes we've made to our ultimate liability estimates. So if -- if we did a actuarial review in the following year, made an adjustment, that would flow through and that reflects any claims, including this one, from the previous year. That's a little bit more complicated than you wanted to get into, maybe, but -- but that's also part of it. It's not just the reported dollars, but also the change in the actuarial provisions.

MR. BYRON WILLIAMS: Well, let's do the simple part first, and then let's go -- go to the -- the complicated part. Because I think it's important, Mr. Johnston, for my client's understanding of the issue. So we've figured out what to do with accident year. We're all happy.

That 2.5 million will be reflected in the 2014/'15 accident year, correct?

MR. LUKE JOHNSTON: Correct.

MR. BYRON WILLIAMS: And was I mistaken in suggesting to you that the fiscal year 2014/'15 incurred would remain at 1.5 million?

MR. LUKE JOHNSTON: In -- in terms of just the reported dollars in that year, they would stay the same.

MR. BYRON WILLIAMS: And we'll -- we'll come to the parts 2 and 3 in a second.

Would I be correct in suggesting to you that the fiscal year 2015/'16 incurred would go up -- would go up by 1 million, given this fact scenario?

MR. LUKE JOHNSTON: Fiscal year incurred, yes.

MR. BYRON WILLIAMS: Now, Mr. Johnston, in the -- you wanted quite legitimately to add some complexity to my simplistic scenario. And I understood you to say, but I'm happy to have you correct me, the other factor you wanted to identify would be that the -- the consequences of that $1 million adjustment in 2015 would be reflected in the projection of ultimate incurred.

Is that what you were saying, sir?

MR. LUKE JOHNSTON: The -- basically the -- the actuarial review -- whenever it's done, October or February, we'll just say February -- has to contemplate the acci -- on an accident year basis, Here's, you know, the amounts that have come in, the claims that have come in, what is the ultimate final liability for all those accidents that -- from those -- from those particular years.

And -- and that of course has to be included on -- in -- in the fiscal year incurred. So if everything is identical to expectations, the adjustment would be zero in that particular year. If there is favourable or unfavourable growth in the reported incurreds and paid amounts from previous years, you'll see an actuarial adjustment that flows through fiscal year incurred.

MR. BYRON WILLIAMS: Now, just going back to what MPI does in terms of its rate-making exercise, the Corporation currently takes the accident year ultimates from the February 28th actuarial report and forwards this to the rating year being examined, with appropriate trends, and...

MR. LUKE JOHNSTON: The -- so again the actuarial report is looking at a accident year basis. Definitely the historical ultimate accident year estimates are a consideration in forecasting. For -- for personal injury protection they're a very important consideration because we know almost nothing about the -- you know, the new claims yet.

So they're -- that's -- that is what we do for those coverages. We look at the history and we project forward based on trends and, you know, historical averages.

Collisions would be -- is a little bit different. Collision is more, you know, what happened in the last year or two (2), the costs of those claims is -- isn't quite just a projection of ultimates. It's -- it's more detailed than that because we know -- we know mostly what -- what happened with our collision losses.

But in the general sense I -- I agree with that statement, yeah.

MR. BYRON WILLIAMS: And what you were pointing out to me, Mr. Johnston, is the statement I was presenting to you was really description of the process with the -- the PIPP benefits.

MR. LUKE JOHNSTON: That's right. And so maybe -- maybe I'll finish my thought there. So we -- we do project forward on an accident year basis, but then that -- to be -- to be put into accounting -- fiscal year accounting basis, all those numbers have to be converted in terms of what is being reported in each fiscal year and the expected change in our provisions in -- in those years. So that's -- that's the con -- the conversion that we -- we talked about.

MR. BYRON WILLIAMS: So -- and if one went to the claims incurred forecast, one would see a series of exhibits in which these accident year ultimates are con -- then converted to calendar year ultimates.

MR. LUKE JOHNSTON: Fiscal year, yeah.

MR. BYRON WILLIAMS: Fiscal year, excuse me.

MR. LUKE JOHNSTON: Fiscal year claims

incurred, yes.

MR. BYRON WILLIAMS: And would it be fair to say that MPI is rating to ensure a breakeven position on the income statement?

MR. LUKE JOHNSTON: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now, Mr. Johnston, you're going to clarify me if I become confused. It's generally accepted that accident year aggregation represents a better match of premiums and losses than -- than fiscal year aggregation.

Would that be fair?

MR. LUKE JOHNSTON: That's fair. Perhaps I can assist the Board and maybe -- and perhaps you, Mr. Williams.

MR. BYRON WILLIAMS: I could certainly use it.

MR. LUKE JOHNSTON: Page -- claims incurred, page 11 and page 12, if you -- that's Volume II of the CI, claims incurred, section.

MR. BYRON WILLIAMS: What page, Mr. Johnston?

MR. LUKE JOHNSTON: Page 11 and then

page 12 eventually.

MR. BYRON WILLIAMS: Which volume?

MR. LUKE JOHNSTON: Sorry. Volume II, claims incurred, page 11.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Okay. So maybe some -- putting some numbers or -- and a table -- and tables around this will make it -- it easier to talk -- talk about.

Page 11 is this accident year basis that -- that we've been discussing, and these are the accidents that actually occur in those particular -- not to get this confused with fiscal year, so -- and ultimate is the ultimate final value projected for all accidents that occurred in those years.

So the top table, you're seeing weekly indemnity, and fairly -- you know, running in the $50 to $60 million a year range over the long term. So that's some stability in those numbers, for sure.

If you then turn the page, there's a table under a section called 'Fiscal Year Claims Incurred Forecast', and there's also a history provided there. Now, when -- when we were talking about fiscal year accounting basis, 'reported' means newly reported losses from any year, any -- any one (1) of these past accident years where we've had either development on the incurred or -- or declines sometimes.

There's also changes in our IBNR provision which come largely from the -- from the actuarial report. We also forecast changes in IBNR, but -- but you'll notice the really big one that stands out in 2011, 197 million negative IBNR change. And that was the big actuarial review where we released a very significant amount of money.

So -- and then the total of the -- the dollars reported plus the change in the provisions is the fiscal year claims incurred in that particular year and, at least historically, you can see that's been quite -- quite volatile, much more volatile than the accident year losses. And -- and that's -- that's essentially the difference between the two (2).

If you look on the forecast going forward, you'll note that we also have -- the interest rate impacts are something that -- that flows through fiscal year, claims incurred. That's noted there. But -- but hopefully that -- that helps everyone's understanding.

MR. BYRON WILLIAMS: Mr. Johnston, this is -- this is helpful. And just to return to page 11 for a second, these are the -- on the second column, that would be the accident year ultimates brought forward from the actuarial report?

MR. LUKE JOHNSTON: That's correct.

MR. BYRON WILLIAMS: And you've got some fairly stable development, whether one looks at the five (5) year trend, the ten (10) year trend, or the all year trend?

MR. LUKE JOHNSTON: Yes. PIPP -- PIPP has had relatively flat stable claims counts in -- in recent years. And -- and, yes, the ultimate losses are -- I -- I would describe this as relatively stable.

MR. BYRON WILLIAMS: And then if we go back to page 12, we see the conversion from accident year to fiscal year presented in this -- this table.

Is that right, sir?

MR. LUKE JOHNSTON: That's right. So if -- if we -- so if we -- if we did an actuarial review on the numbers you just saw on the other table, and just let's leave out interest rates for now, we reassessed and brought down the ultimate estimates, you would see some favourable flowthrough into this fiscal year claims incurred in the -- in the change in IBNR provision.

MR. BYRON WILLIAMS: And the -- the distinction is that if there's favourable development in, let's say, the year 2006/'07 from the -- the fiscal perspective, you can't go back into that year and -- and open it up because the -- the book is fixed at the end of the year?

MR. LUKE JOHNSTON: That's correct. And that's -- going back to page 11 you'll see that's why we can actually have a this year's forecast and a last year's forecast, because the historical accident figures are constantly changing. Collision will eventually close and it should not change after a few years. But for long -- long-term PIPP coverages, they -- they're constantly changing, hopefully by not much.

MR. BYRON WILLIAMS: And so staying with the fiscal claims incurred on page 12, we've got a much more volatile report than we -- than we would if we looked at the -- the accident year ultimates on the previous page.

Agreed?

MR. LUKE JOHNSTON: Agreed. And I -- I will note that when Ms. Grammond and I discussed the volatility of -- of PIPP in general, that's -- that's going to reflect itself on this table. That's essentially what was being looked at in those -- in the -- in those spreadsheets, how -- how the fiscal year claims incurred came in relative to expectations. And -- and as we discussed, there was -- it has been quite volatile in -- in the past. And we hope that we've made adjustments to -- to reduce that volatility in the future.

MR. BYRON WILLIAMS: Mr. Johnston, this pres -- this conversion from accident year to fiscal year, is it, in your view, consistent with actuarial best practices, or is it a historical artifact?

MR. LUKE JOHNSTON: This is -- this is really the discussion I was having with Ms. Grammond in regards to rate setting per actuarial standards of practice. The Corporation, as you know, sets rates on a -- a breakeven basis in the -- based on the fiscal year net income from the average of the two (2) rating years. In order to create that forecast, the claims have to be converted to the fiscal year accounting basis, and that's what we use -- since we're breaking even to -- to those numbers, that's what we use for rate-setting purposes.

Where I noted in -- in the PUB's

Information Requests in regards to actuarial rate setting was that we can look at the policy year basis and recalculate rates on that basis, just against all costs and expenses associated with a particular group of policies. That would produce a different rate indication than -- than this -- this does. And we'd have to decide how to adjust it from that point.

MR. BYRON WILLIAMS: Mr. Johnston, you just used a -- a new word, or I think it's a new word. We've been talking accident year and fiscal year. And did I just hear you say, "policy year basis"?

MR. LUKE JOHNSTON: So the -- the -- setting rates so you have breakeven net income in the fiscal year -- as we've talked about the fiscal year claims incurred is not just the experience of that particular group of policies that you're rating for. There's -- specifically, talked about investment income, right? There's -- we have a very substantial amount of investment income flowing from -- from our asset portfolio.

So to revise rates based on actuarial standards of practice we'd want to pull out the -- all the costs and, again, all the costs, expenses, et cetera, and investment income associated with the particular group of policies that we're issuing in the

'14/'15 year, and calculate rates, essentially, based on the present value of all of those costs on that basis, which is di -- which is different than what -- what we do today. Our rate -- our rate-setting methodology was a -- designed to -- to, basically, force us to break even in the -- in the rating period.

MR. BYRON WILLIAMS: And you don't know what the outcome of a policy year basis evaluation would be, but you know that the indications would be different?

MR. LUKE JOHNSTON: Correct, I -- I don't. And -- and it's not something that -- that we could do easily but we've -- we've committed to -- to doing it. My expectation would be that it would indicate a rate increase initially and then you'd -- you'd have the issue of deciding what to do. You know, you have additional investment income and -- and we -- I talked about that with Ms. Grammond. There's -- there's ways you could adjust to break even, balance rates, et cetera.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just so I understand, Mr. Johnston, you've expressed some openness to at least looking at this policy year approach. A move to accident year rating is -- am I correct in saying that that's not something you would consider?

MR. LUKE JOHNSTON: It's -- it's something -- I -- I think for now it's best that the Corporation say that we're committed to looking into it, producing the output from that. We do -- we would need to have a discussion in terms of what -- what we want to do with -- with that output. The specific -- also specifically to -- if -- if there's interest in myself or -- providing an actuarial opinion on those rates, you know, what -- what -- where do we go from there. But I'm not really pre -- prepared to comment any further on it at that -- at this point.

MR. BYRON WILLIAMS: Not a -- not a problem, Mr. Johnston. And thank you for assisting me with that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Johnston, you can probably turn to page 67 of -- of PUB -- or CAC Exhibit number 7.

MR. LUKE JOHNSTON: I'm there.

MR. BYRON WILLIAMS: And I'm not -- I'm not going to start walking into that pre-ask just yet, but I am -- we'll be turning to it in just a second.

In terms of the methodology for selecting the provision for IBNR for accident benefits weekly indemnity and accident benefits others, for the purpose of the most recent actuarial report the IBNR was based on the higher of the incurred BF method and paid BF method for the most recent five (5) years instead of the most recent three (3) years, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And this had an impact in terms of your IBNR in the -- that was fairly significant, agreed?

MR. LUKE JOHNSTON: Yes, on approximate terms, around a $30 million increase.

MR. BYRON WILLIAMS: And, in essence, what -- what the Corporation -- the -- the consequence of the change in method -- methodology would be that for the most recent five (5) years the IBNR would be based on the paid BF method, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And perhaps I should be clear. When -- when I use the word 'incurred' am I correct in -- in suggesting to you that incurred would -- would mean the combination of what's been paid plus how much has been set aside in terms of case reserves?

Would that be fair, sir?

MR. LUKE JOHNSTON: That's right.

MR. BYRON WILLIAMS: So the incurred BF method is what's been paid as well as what's been set aside in case reserves, as contrasted to the paid BF method which is what has been paid?

MR. LUKE JOHNSTON: Yes. I -- I talked about this a little bit in direct so I -- I don't want to go through it all again but -- but essentially what we're talking about is a method that is looking at paid losses as a -- as a basis for estimating the ultimate liability, and then another method that's looking at incurred as -- as the basis for making that estimate.

MR. BYRON WILLIAMS: And the Corporation was motivated with -- the actuaries were motivated to make this recommendation given challenges in terms of the incurred BF information that was coming forward?

MR. LUKE JOHNSTON: I can describe it a little -- a little more detailed than that. The challenge is that we -- as I discussed, we have this methodology in place because again we don't know a lot about serious losses and the development of those -- of those claims in the early years of the -- after the accident.

So you have paid information and you have incurred information. You can make estimates on -- on those -- on those two (2) items.

MR. BYRON WILLIAMS: And -- and in -- in essence the challenges with the incurred BF method related to challenges in setting case reserves within the Corporation, agreed?

MR. LUKE JOHNSTON: Yes. I -- the -- the -- maybe 'dilemma' isn't the right word, for me, but for the actuary, I -- I -- what I saw was that paid seemed to be at similar, or -- or higher in some cases, levels than normal, while case reserves seem to be much lower than normal. And the -- you would hope on average that your paid and your incurred estimates would converge. They're going to be more variable in the early years but that was an issue that we -- what -- that we highlighted in the October review.

And the decision there for going to the higher of five (5) was to -- because of the concern over case reserves, placed more reliance on -- on the paid data.

MR. BYRON WILLIAMS: And -- and the Corporation went back and investigated the case reserves and they identified a -- a problem with a -- a failure to comply with policy.

Is that correct, sir?

MR. LUKE JOHNSTON: Yes, I can maybe just read in Response E to CAC Pre-ask 4, which is page 69 of -- I believe it's Exhibit 7. Is that correct? Yeah, Exhibit 7. And part E says, quote:

"The problem was a failure to comply with policy precipitated by an increase in workload and decrease in productivity in the first eighteen (18) months of the new system implementation."

End quote. That new system being the BI3 system.

MR. BYRON WILLIAMS: And because I've got it wrong once before this afternoon, BI3 refers to Bodily Injury Improvement Initiative.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. REGIS GOSSELIN: Could you give us the reference again, please, where that statement is found?

MR. BYRON WILLIAMS: Mr. Chair, if you turn to page 69 of CAC Exhibit number 7 you'll see (e) where that statement was read in.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I'll ask Mr. Johnston to confirm that.

MR. LUKE JOHNSTON: Yes, and confirmed. I apologize for not letting you find that reference.

MR. BYRON WILLIAMS: And probably the -- the Chair was struggling with my messy printing. Page 69 in the top right corner. Now, Mr. Johnston, I'll -- we'll just wait one (1) second. Mr. Johnston, turning back to page 67, which is the actual Pre-ask number 4, you'll see in question (c) my client was asking the Corporation to please give the amount that the case reserves were underestimated by accident benefits WI and accident benefit other, separately by accident year. And you see a similar request in -- in question (d) as well, correct?

MR. LUKE JOHNSTON: Correct.

MR. BYRON WILLIAMS: And in the corp -- if you flip to the next page under (c), the

Corporation's response was to indicate that it is unable to quantify the insufficiency in the reserve levels by accident year due to the difference in the composition of claimants by accident year, as well as the difference in the recovery potential of each claimant.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And, Mr. Johnston, we're struggling -- or my client's struggling to understand how you're unable to quantify the insufficiency. And I wonder if I could get you to elaborate further, please?

MR. LUKE JOHNSTON: The difficulty is that there is normal loss development on accident year experience for -- for various reasons. There's -- as you know, we have loss development patterns where we assume that there's -- there's growth in these claims costs through time. The difficulty is sorting out what was the normal increases that would have occurred based on our expectations versus changes that happened because of the -- of the issue with the workload and productivity problems.

So what -- what we thought was the best way to -- to provide that information was to show what we budgeted and the budget would reflect what we would consider to be normal development of reported loss experience, and then -- then to show you what the actual would be. And it's not exactly what we ask -- what was asked for, for the reasons cited, but we thought I gave a -- a pretty good idea of how significant the issue was.

MR. BYRON WILLIAMS: Mr. Johnston, were the years -- were the problematic years the 2008 and 2009 years, or which years in particular were they?

MR. LUKE JOHNSTON: The -- the -- so we made an adjustment to the higher-of methods that -- that we just talked about. And to the extent that we increased the IBNR on those years, or to the extent that we already had -- were using the, the paid methodology on those years, we were budgeting for higher IBNR, more incurred losses to be reported.

And in those years, not doing the math here necessarily, but there's not -- we're not very significant from budget on a total basis. So if you go weekly indemnity 2008, the actual was four nine zero nine (4,909) higher, and then eight twenty-two (822), four twenty-two (422), and then a couple of negatives there.

Not doing the -- the math, but that -- I would say that's probably fairly close to zero in terms of net relative to budget.

Where the -- some of the larger unexpected discrepancies happened were in some of the older years where we weren't really anticipating to have additional case reserves being added. And you can see that the budget is quite insufficient in those cases. So that was -- that was definitely unexpected. If -- so if not for those particular years, this number would be quite a bit closer to zero.

MR. BYRON WILLIAMS: Mr. Johnston, what -- the older years, are you referring to 1999 through 2003?

MR. LUKE JOHNSTON: I'm -- I'm sorry. The 2006, for example --

MR. BYRON WILLIAMS: Okay.

MR. LUKE JOHNSTON: -- 2007. It's -- again, I don't want to put too much in -- of an emphasis on some of the changes you see in -- in 1999 or -- or things li -- because those still happen. And -- and, you know, there could be a mediation or a decision or some sort of change that happened to particular file that -- that generated a -- a substantial increase in reserves.

So there is some -- there is some pluses and minuses for sure in the history. The main issue there is really with the 2006, '07, '08 being over budget.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: In essence, the --

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I'm sorry. Mr. Johnston, the -- the implication of the methodological change is that, basically, for these coverages for the -- the most recent five (5) years, you're placing almost total -- well, you are placing total reliance on the paid BF method.

Would that be fair, de facto?

MR. LUKE JOHNSTON: Yeah. As a result of the methodology right now it is -- it is reliance on -- on the paid method.

MR. BYRON WILLIAMS: And does that raise a risk that the -- the reserves are too high, sir?

MR. LUKE JOHNSTON: Well, the -- this

-- the higher-of method, I -- I talked about this a little bit, but anything -- anytime you say 'higher-of' it sounds like you're being conservative. It -- you're picking the highest one. Why not -- you know, why isn't it the best one or the -- in -- the reason for this particular methodology is that you could have -- if -- if you have higher paid than -- than normal, you -- you -- and -- but low reserves, that should signal, you know, that the -- the paids are telling you that -- that it's a -- it's a worse than normal year. And so we would say, Well, we should rely on that -- that's -- that information in the -- in the first three (3) years.

On the other hand, say the paid -- the paid losses came in similar to recent years, but for whatever reason the incurred dollars were really high. That might tell us, oh, well, there's -- we haven't paid much differently than other years, but for whatever reason case managers are putting in more reserves, possibly there's more serious claims, that -- that type of thing and -- and we should consider that. We should rely on that.

After three (3) years, the -- the -- that -- you can't really make that case any more. The case managers should have a handle on it. You know, the paid -- the amounts you've paid to date kind of reflect claims you should have already closed already. You should be dealing with these remaining kind of serious, longer -- longer term claims.

In this particular case with the five (5) years, there is noticeably issues with case reserves on -- compared to history. And the -- until we could get this rectified, we -- we absolutely thought, Yes, you know what, we should be relying on the paid data because typically it's more stable, but it just doesn't always reflect the -- the serious -- the serious losses ri -- correctly.

But in light of the lower case reserve we thought it appropriate to extend it a couple more years, get the issue dealt with, and then revisit it again in the next review. What caught us a bit off guard with these numbers is that we weren't expecting reserves to be added in some of the years beyond five (5) -- five (5) years.

MR. BYRON WILLIAMS: Madam Chair, would this be an appropriate time to break?

THE CHAIRPERSON: Yes, I think it's four o'clock, or slight -- slightly after 4:00. I think this would be a -- a good time to end the session for today. We will return tomorrow at 9:30, and we'll be opening with Mr. Oakes. Thank you.

(PANEL RETIRES)

--- Upon adjourning at 4:03 p.m.

Certified Correct,

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Cheryl Lavigne