



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re :

PUBLIC HEARING

RE: MANITOBA PUBLIC INSURANCE

GENERAL RATE APPLICATION

FOR THE 2013/14 INSURANCE YEAR

Before Board Panel:

Regis Gosselin - Board Chairman

Karen Botting - Board Member

Anita Neville - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 3, 2012

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	APPEARANCES	
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1 --- Upon commencing at 9:28 a.m.

2

3 THE CHAIRPERSON: Sorry. If all the
4 parties are ready, we will -- we will start the
5 proceedings for today. Are there any matters to attend
6 to before we resume the cross-examination?

7 MR. BYRON WILLIAMS: Just one (1), Mr.
8 Chair. There's on additional exhibit for CAC/Manitoba.
9 Can you hear me, Mr. Chairman?

10 THE CHAIRPERSON: Yes.

11 MR. BYRON WILLIAMS: Okay. There's one
12 (1) additional exhibit for CAC/Manitoba. It is titled:
13 Excerpts from the record, PUB Order 110/96; and the
14 transcript from the -- and the transcript from the
15 2012/'13 GRA. And we would suggest it be marked as CAC
16 number 9.

17

18 --- EXHIBIT NO. CAC/MANITOBA-9:

19 Excerpts from the record, PUB Order
20 110/96; and the transcript from the
21 2012/'13 GRA

22

23 THE CHAIRPERSON: Thank you.

24

25 MPI PANEL RESUMED:

1 MARILYN MCLAREN, Resumed

2 LUKE JOHNSTON, Resumed

3 HEATHER REICHERT, Resumed

4

5 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: And just for the
7 panel, we are going to be working off of that exhibit
8 for the next thirty (30) minutes to forty (40) minutes.
9 And then a bit later this morning CAC-5, CAC-7, and
10 CAC-8 will be -- will be coming back up. So hopefully
11 they'll be near you on your -- on your table; 5, 7, and
12 8 are coming a bit later.

13 Good morning, MPI panel, and Ms. McLaren
14 in particular. Ms. McLaren, just a couple questions
15 for you, and then I -- I think I'll be -- many will be
16 -- for the next little bit will be for Ms. Reichert.

17 But you'll recall on Monday morning, Ms.
18 -- Ms. McLaren, that you had a discussion -- a bit of a
19 discussion with my Learned Friend, Ms. Everard, about
20 the issue of using premiums written or claims incurred
21 as an allocator with regard to the cost allocation
22 process in Manitoba Public Insurance?

23 MS. MARILYN MCLAREN: I do.

24 MR. BYRON WILLIAMS: And while the word
25 "arbitrary" might have popped up partway through that

1 conversation, as I -- I reviewed the notes of that
2 conversation I -- I think that, in terms of this
3 particular issue, you made a statement something to the
4 effect that there are a lot of shades of grey here.

5 Do you remember that?

6 MS. MARILYN MCLAREN: Yes.

7 MR. BYRON WILLIAMS: And would it be
8 fair to say that when we think of cost allocation, that
9 with -- with respect to many of the individual
10 decisions that must be made in the development of an
11 overall cost allocation methodology, there are often no
12 firm standards or guidelines?

13 MS. MARILYN MCLAREN: Well, I think
14 there's guidelines and principles, firm standards we --
15 we think we've all found to be generally lacking, I
16 think.

17 MR. BYRON WILLIAMS: And so you'll
18 agree with me that notwithstanding the principles and
19 the -- the guidelines, when we get down to the
20 standards there's an element of subjectivity in the
21 cost allocation exercise?

22 MS. MARILYN MCLAREN: That's fair. And
23 I think it's really important to keep a focus on the --
24 some of the parts, so to speak. You know, there --
25 there will be subjectivity at the detailed level, but

1 it really does need to hang together and be appropriate
2 in its entirety.

3 MR. BYRON WILLIAMS: Thank you for
4 that. Recognizing though that there is potential for
5 subjectivity, you would not disagree with me that
6 reasonable arguments could be made often for and
7 against any particular decision at a detailed level,
8 and that reasonable persons could come to different
9 conclusions, agreed?

10 MS. MARILYN MCLAREN: That's fair. But
11 I think, you know, in this context that we're talking
12 about specifically, what we've got is two (2) of the,
13 you know, preeminent national accounting firms saying
14 that the case you're talking about, claims incurred is
15 more appropriate.

16 MR. BYRON WILLIAMS: And I -- I don't
17 really wish to re-travel the ground My Friend, Ms. --
18 Ms. Everard, did travel with you, but it -- it would
19 also be the case that KPMG has signed off on a -- on
20 the written premiums incurred?

21 MS. MARILYN MCLAREN: They have.

22 MR. BYRON WILLIAMS: And I misspoke and
23 I said Ms. Everard in -- instead of Ms. Grammond. I'm
24 dating myself, and my apologies. Turning to Ms. -- Ms.
25 Reichert, and I wanted to have a little bit of a chat

1 about cost allocation.

2 And you probably know all this stuff by
3 heart, but -- but if not, some of the questions I'm --
4 I'm asking there are references in CAC Exhibit number
5 9. So, for example, at page 2 there's a discussion of
6 what Saskatchewan is doing. You've seen it before. So
7 certainly again, if the Board is wishing to follow
8 along, those first few pages of CAC Exhibit 9, I've --
9 I've marked off some of the references that we may be -
10 - may be going into.

11 And, Ms. Reichert, in terms of the --
12 the review undertaken for Manitoba Public Insurance by
13 Deloitte, you'll agree with me that captured at
14 different parts of -- of the Deloitte documentation was
15 a -- a discussion of the approaches taken by different
16 Crown corporations with regard to either cost
17 allocation or with regard to relat -- you know, related
18 companies.

19 Do you recall that?

20 MS. HEATHER REICHERT: Yes, I do.

21 MR. BYRON WILLIAMS: And the
22 information I'll ask you to agr -- agree with me that
23 we have from Del -- Deloitte suggests that in the case
24 of Saskatchewan, SGI, that they operate each of its
25 insurance operations in a separate fund or subsidiary,

1 correct?

2 MS. HEATHER REICHERT: Yes, that's
3 true.

4 MR. BYRON WILLIAMS: And so with that
5 particular Crown, there is no allocation of assets or
6 liabilities between the different insurance operations,
7 and that's because discreet balances are maintained for
8 each operation.

9 You'd agree with me?

10

11 (BRIEF PAUSE)

12

13 MS. MARILYN MCLAREN: Well, they --
14 they still have an allocation process. They handle a
15 number of different kinds of claims for different lines
16 of business in their claim centres across the province.
17 They still have some form of allocation.

18 MR. BYRON WILLIAMS: And then -- thank
19 you for that, Ms. McLaren. Just going to CAC-9, page
20 2. At the bottom on the right-hand side, you'll see a
21 -- you'll see a statement from Deloitte suggesting that
22 there's no allocation of assets or liabilities between
23 the different insurance operations as discrete balance
24 sheets are maintained for each operation.

25 Is that your understanding?

1 MS. HEATHER REICHERT: If I may, this
2 is the report that Deloitte & Touche did on the asset
3 liability allocation. What Ms. McLaren was referring
4 to where CGI would be doing some allocation would be in
5 their expense area where they are integrated, like
6 Manitoba Public Insurance is integrated.

7 MR. BYRON WILLIAMS: Thank you. Thank
8 you for that.

9 MS. MARILYN MCLAREN: But having said
10 that, they are integrated in a much different and far
11 less comprehensive way as -- as we are in their
12 practice. They operate different lines of business
13 that touch each other and touch the customer in
14 separate ways, not in one (1) way like ours is.

15 They do not handle their Extension auto
16 insurance business at the same time as they handle
17 their compulsory insurance. It is together with all
18 the kind -- SGI is a much, much bigger, broader
19 company. When they started in 1945, 1948, somewhere,
20 they were immediately into farm insurance, homeowner's
21 insurance, and all those things.

22 Their Extension auto insurance is
23 handled through that big part of their company.

24 MR. BYRON WILLIAMS: And I thank you
25 for that, Ms. McLaren. That's helpful. In terms of

1 Manitoba Hydro -- and if you're looking for a
2 reference, that's at four (4), and -- and, again,
3 that's from the asset and liability allocation
4 methodology. So we'll start with that.

5 My understanding is that while Manitoba
6 Hydro has two (2) distinct lines of business -- being
7 electric and gas -- there is no allocation of assets or
8 liabilities between these lines of business. Rather
9 each line of business is accounted for as a separate
10 entity with its own general ledger.

11 Is that your understanding as well?

12 MS. HEATHER REICHERT: Based on what I
13 read here in the Deloitte report, yes, that is my
14 understanding. They are very much a capital-intensive
15 organization as compared to MPI, which is more a
16 people/information-oriented organization.

17 So, consequently, it is -- it is
18 possible for them to segregate quite easily the assets
19 that are doing the gas work versus the electricity.

20 MR. BYRON WILLIAMS: Okay, thank you
21 for that. And as I understand it, any assets that are
22 jointly used are minimal, based upon what Deloitte
23 tells us?

24 MS. HEATHER REICHERT: Based upon what
25 I read in this paragraph, yes.

1 MR. BYRON WILLIAMS: And that they're
2 kept on the balance sheet of the electricity line of
3 business, correct?

4 MS. HEATHER REICHERT: I haven't read
5 the whole paragraph again, but I'm assuming that's what
6 it says here. Yes, I -- I don't intimately know
7 Hydro's line of business.

8 MR. BYRON WILLIAMS: But this is the
9 information provided be -- by you to Deloitte and --
10 and through you to the Public Utilities Board.

11 So you're -- you have no reason to
12 believe it's inaccurate, Ms. Reichert?

13 MS. HEATHER REICHERT: No. If it says
14 it here, I have absolutely no reason to believe that
15 it's inaccurate.

16 MR. BYRON WILLIAMS: The point -- and
17 as you do look towards that paragraph, it certainly
18 would have caught the attention of our clients is -- is
19 the fact it appears -- and Deloitte is informing us --
20 that in terms of assets that may be jointly used, such
21 as information technology, there is a charge level by
22 Manitoba Hydro for the use of the asset.

23 Do you see that?

24 MS. HEATHER REICHERT: Yes, I do.

25 MR. BYRON WILLIAMS: Now, Ms. -- Ms.

1 McLaren, I believe in your discussion with Ms. Everard,
2 perhaps it was last Friday, but there was some
3 discussion of the pro -- some of the recommendations of
4 the Gartner Group, in terms of charges for information
5 technology services.

6 And am I correct in understanding that -
7 - that -- that Manitob -- Manitoba Public Insur --
8 Public Insurance was not particularly keen on that idea
9 but was looking at exploring it somewhat more?

10 MS. MARILYN MCLAREN: Yes.

11 MR. BYRON WILLIAMS: And, Ms. McLaren,
12 in terms of your willingness to explore it somewhat
13 more, what drives -- what drives that?

14 MS. MARILYN MCLAREN: Trust in Gartner
15 as an expert in this field and the source of good
16 educational information.

17 MR. BYRON WILLIAMS: And if I'm going
18 beyond your conceptualization of this issue, you'll --
19 you'll stop me.

20 What, if any, possible opportunities for
21 the -- for the business might flow from that type of
22 levy?

23 MS. MARILYN MCLAREN: Potentially, at a
24 departmental level, you're talking about very small
25 busi -- business units within the Corporation, there

1 would be ma -- there may be more direct responsibility
2 for justifying expansions of the use of IT. I don't
3 see it much beyond that in terms of opportunities.

4 MR. BYRON WILLIAMS: Okay, thank you
5 for that. Ms. Reichert, back to you. And just a
6 couple of questions in terms of ICBC. And if you're
7 looking for a reference it's on page 3 of the CAC
8 Exhibit number 9.

9 In terms of ICBC, my understanding is
10 that there's been a cost allocation debate going on in
11 that province for -- for a fair while.

12 Is that your understanding as well, Ms.
13 Reichert?

14 MS. HEATHER REICHERT: Only based on
15 what I read here, not from any other personal
16 knowledge.

17 MR. BYRON WILLIAMS: Well, Deloitte is
18 informing us, are they not, that there's been a
19 dialogue at the British Columbia Utilities Commission
20 dating back to 2004, on certain of these issues in
21 terms of cost allocation. Is that your
22 understanding of what Deloitte is informing us?

23 MS. HEATHER REICHERT: Yes, it is.

24 MR. BYRON WILLIAMS: And, just drawing
25 your attention to the first bullet towards the top of

1 the page, you -- we can see that back in 2006, at
2 least, the BCUC was -- was struggling with the decision
3 of how to allocate a cost centre common to both the
4 Basic and optional segments, and coming to at least a
5 preliminary view that it should be split 50/50, after
6 directly costing the non-insurance segment.

7 Do you see that, Ms. Reichert?

8 MS. HEATHER REICHERT: Yes, I do.

9 MR. BYRON WILLIAMS: Ms. McLaren, you
10 may not have a -- an answer to this. But if we look at
11 what appears to be a -- an extended debate in British
12 Columbia about cost allocation, are you aware whether
13 or not that might flow from a -- a larger competitive
14 industry in the non -- non-Basic lines?

15 MS. MARILYN MCLAREN: Sorry, can you
16 repeat the question?

17 MR. BYRON WILLIAMS: I'll break it into
18 two (2) pieces, Ms. McLaren. You'll agree with me, at
19 least from what Deloitte tells us, that there appears
20 to be an extended cost allocation dialogue in British
21 Columbia?

22 MS. MARILYN MCLAREN: Yes.

23 MR. BYRON WILLIAMS: And -- and if
24 you're not aware, this is fine, but I'm asking you are
25 you aware whether or not the duration and apparent

1 intensity of that cost allocation dialogue in British
2 Columbia flows from the -- the reality that there's a
3 larger competitive market out there than there might be
4 in Manitoba?

5 MS. MARILYN MCLAREN: There's a larger
6 competitive market so -- I believe -- primarily, not
7 solely, I won't -- but primarily from the fact that
8 more of the common automobile insurance coverages are
9 optional in British Columbia. That makes the larger
10 market.

11 ICBC is a predominant player, like MPI
12 is. But the compulsory program in British Columbia has
13 no physical damage on vehicles. It is the accident
14 benefits and the liability is the only compulsory
15 coverage in British Columbia. So there is a bigger
16 market, because there are more coverages that people
17 are looking to buy.

18 MR. BYRON WILLIAMS: Thank you. That's
19 probably about as far as I'll ask you to go on that.
20 Ms. Reichert, in the Deloitte review of -- of cost
21 allocation and their -- their research of the
22 regulatory environment, to your knowledge did they
23 examine the practices or any decisions of the Manitoba
24 Public Utilities Board, as it related to Centra Gas?

25 And, specifically, if -- if you're

1 looking for a -- a reference, it's Centra Gas decision,
2 or the PUB decision 110/96. It -- I've got a little
3 excerpt from it at page 5, but...

4

5

(BRIEF PAUSE)

6

7 MS. HEATHER REICHERT: I -- honestly, I
8 don't know.

9

10 MR. BYRON WILLIAMS: Based on -- on the
11 Corporation's work with Deloitte, would it be your
12 understanding that in a number of jurisdictions that
13 rather -- excuse me -- in a number of jurisdictions,
14 that some of the relationships between regulated
15 companies and their affiliated companies are -- are
16 governed by affiliate codes of conduct?

17 If you're not aware, Ms. Reichert --

18 MS. HEATHER REICHERT: I'm not aware.

19 MR. BYRON WILLIAMS: So that's not a
20 concept that's familiar to the Corporation?

21 MS. HEATHER REICHERT: Not familiar to
22 me, anyways.

23 MR. BYRON WILLIAMS: Just travelling,
24 Ms. Reichert, a little farther afield and drawing on
25 your expertise as a CA, are you familiar with the
concept of transfer pricing as it is -- is used by a

1 number of jurisdictions to -- for pur -- tax purposes
2 relating to relationships between parent companies and
3 their affiliates?

4 MS. HEATHER REICHERT: I am familiar
5 with the concept, but in my career and my experience
6 being mostly in the public sector, it is -- has -- not
7 something that I've been intimately involved with, no.

8 MR. BYRON WILLIAMS: And if we looked
9 through Deloitte's work, for example, we wouldn't see
10 that concept articulated there?

11 MS. HEATHER REICHERT: No, you -- you
12 would not.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: For those
17 following in CAC Exhibit 9, we're probably about page
18 14. Ms. McLaren, probably over to you.

19 You'll agree that while Manitoba Public
20 Insurance has, in recent years, become a provide --
21 well, has -- let me try this again.

22 You'll agree that while Manitoba Public
23 Insurance provides other services, it is, at its core,
24 a provider of compulsory automobile insurance products
25 to Manitobans?

1 MS. MARILYN MCLAREN: I'm sorry, I'll
2 have to ask you to do that again.

3 MR. BYRON WILLIAMS: You'll agree that
4 while Manitoba Public Insurance offers other lines of
5 business, such as Extension and SRE, at its heart, at
6 its core, it is a provider of compulsory automobile
7 insurance products to Manitoba?

8 MS. MARILYN MCLAREN: That's right.
9 That's exactly the way we've talked about it here many
10 times. I would just add the perspective on that, that
11 the way that is done in Manitoba for the compulsory
12 insurance is this inextricable integration with the
13 registration as well.

14 That's a feature of public auto
15 insurance systems that does not exist other places.
16 And so as much as we exist to provide the Basic, it is
17 always together with registration on both drivers and
18 vehicles.

19 MR. BYRON WILLIAMS: Thank you. And it
20 would be fair to say that the other services provided,
21 such as Extension, are comp -- complementary in that
22 they leverage existing MPI customer records and
23 customer points of contact, agreed?

24 MS. MARILYN MCLAREN: Sure, that's
25 fair.

1 MR. BYRON WILLIAMS: And --

2 MS. MARILYN MCLAREN: Sorry, not -- not
3 all of them, but Extension does. SRE, not -- not
4 really at all.

5 MR. BYRON WILLIAMS: And I believe my -
6 - my question was premised on -- on Extension, but
7 thank you for that clarity.

8 And I don't want to get into numbers
9 with -- in terms of Extension, but there's no doubt
10 that it is -- within that marketplace, the Manitoba
11 Public Insurance product is -- is very strong.

12 MS. MARILYN MCLAREN: That -- that's
13 true. And this -- if I can expand on that just a
14 little bit, I think it's an important point, because
15 we're talking about cost allocation right now.

16 Ever since MPI was created, ever since
17 public auto insurance came to Manitoba, MPI has
18 provided add-on coverages in addition to the compulsory
19 insurance as part of the same process. It's been like
20 that since the beginning.

21 We've always had most of that market
22 primarily, because back in the day -- excuse me --
23 insurers decided they were not prepared to stick around
24 and really compete for that market. And some have
25 continued to really around the edges, but it has not

1 been a -- a very strong competitive market. Manitobans
2 have always had choices, but they've always, for the
3 most part, stuck with us.

4 So we've always had to have some method
5 of figuring out how to share those costs. It became
6 more important when we hired the first actuary and
7 started to understand the importance of rate-making and
8 then found ourselves here, really having to
9 transparently and -- and solidly communicate the
10 underlying costs for the compulsory program through --
11 through the regulatory process.

12 When I say that MPI exists to provide
13 Basic automobile insurance, that's absolutely true.
14 And the fact that we provide others is really, at its
15 heart, a benefit to the Basic ratepayers, because there
16 are -- there's an opportunity to share costs that
17 otherwise would not be there.

18 Now, let me explain what I mean by that,
19 because this is -- I think it's really important and we
20 haven't really put this in the material anywhere in
21 this kind of a context.

22 So if -- the infrastructure that we have
23 would not be any different if we had no competitive
24 lines of business. So Basic ratepayers really would be
25 bearing the sole cost of a lot of the infrastructure

1 that -- that they -- that is now shared a little bit
2 between the other lines.

3 Autopac Extension, particularly, does
4 have revenue-generating advantages by being associated
5 with Basic. I -- I will not agree that they have any
6 real cost-saving opportunities. I think that Extension
7 business would run fundamentally differently if it was
8 not part of this larger system. But it does have
9 revenue-generating opportunities.

10 But I would really make the case that
11 that also helps Basic ratepayers. In the mid-'90s,
12 throughout the '90s, after years of having a very small
13 product offering on Extension, we significantly
14 expanded that, because we found there were other things
15 that we could provide to Manitobans on an optional
16 basis that they were interested in purchasing, that had
17 value to them.

18 We've more than doubled the size of the
19 Extension book of business, which has a significant
20 cost-allocation impact, which means that Basic is not
21 paying anywhere near as much as it used to. If you
22 don't allocate costs on -- on premiums, if you're
23 allocating them on claims with \$10 million worth of new
24 premium, you get probably 7, 8, \$9 million worth of new
25 claims.

1 So either way, the fact that we have
2 managed this Extension business, expanded this
3 Extension business, and Manitobans choose to deal with
4 us helps Basic ratepayers. So even when you say, Yes,
5 Extension gets a revenue-generating opportunity,
6 because we're so integrated, that in itself helps
7 Basic.

8 MR. BYRON WILLIAMS: Let me -- we'll
9 dissect your answer in a second, but let me just see if
10 I understand your answer.

11 You're acknowledging that there is a
12 revenue benefit to the Extension program from its
13 relationship with Basic, while stating that there is a
14 cost-saving benefit to Basic in that it -- some of the
15 expenses that -- that it would otherwise incur can be
16 allocated to Extension?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: So in essence, you
19 are arguing that the benefits flow both ways, with some
20 cost-saving benefits to Basic and some revenue benefits
21 to Extension?

22 MS. MARILYN MCLAREN: Sure. I mean, I
23 guess from a cost-causation perspective, the revenue-
24 generating opportunity comes first and then the benefit
25 also flows back to Basic.

1 MR. BYRON WILLIAMS: And your evidence
2 is that the economies of scale that the Manitoba In --
3 Public Insurance Basic monopoly enjoys in no way
4 translates into cost savings for the Extension program.

5

6 Is that the third part of your argument?

7 MS. MARILYN MCLAREN: Yes. When I look
8 at the way others run their automobile Extension
9 insurance, they -- as -- the example that I had with
10 Ms. Grammond the other day, right, I mean, Extension
11 would be buying three hundred (300) stamps instead of
12 buying, back -- back in the day, when they used a
13 different me -- methodology, 20 percent of seven
14 hundred thousand (700,000) stamps.

15 They wouldn't be picking up a share of
16 these service centres all across the province, these --
17 these claim centres everywhere. They wouldn't do
18 business like that. So there are significant costs
19 that go along with being that closely linked with --
20 with Basic.

21 MR. BYRON WILLIAMS: And have you asked
22 or were -- were the terms of retainer for Deloitte
23 robust enough to test your premise that there are no
24 benefits to the Extension program flowing from the
25 economies of scale inuring to the Basic program?

1 MS. MARILYN MCLAREN: Based on -- no,
2 it was not. Based on my knowledge of the business,
3 and, again, you know, they -- let's all, me
4 particularly, try not to be too black and white about
5 this, absolutely no cost saving. I'm sure we could
6 find some somewhere.

7 But I really believe that there are,
8 overall, no real cost-saving advantages to the other
9 lines of business. Alternatively, they actually pick
10 up some costs. They wouldn't if they were truly on
11 their own running the business differently.

12 So we didn't ask them to do that because
13 what we asked them to do was to help establish a cost-
14 allocation framework. And it -- you know, I mean, we -
15 - we have to go back and always remember what we're
16 talking about here. We're trying to reasonably reflect
17 the sharing of costs in this very integrated service
18 delivery model.

19 Eighty (80) some-odd percent of all the
20 costs are directly assigned. And, you know, we're here
21 today arguing for the adoption of a methodology that
22 has minimal change from what we're doing today. We
23 believe it's a better system. So we're really -- in
24 the grand scheme of things, no, we absolutely did not
25 ask Deloitte to go right back to square 1 and do

1 anything as labour intensive, as costly as that would
2 have been, and as different as you're suggesting.

3 MR. BYRON WILLIAMS: And recognizing
4 the two (2) way benefits that we've discussed, you --
5 it would be fair to say that you also didn't go to
6 Deloitte and ask them to look at different
7 conceptualizations of how the relationship might work,
8 whether it's transfer pricing or affiliate codes of
9 conduct or anything like that?

10 MS. MARILYN MCLAREN: No, because this
11 is an organization that creates -- that -- that exists
12 because of a statute in the legislature of Manitoba.
13 It is administering a compulsory program. It is not a
14 private, for-profit enterprise. It is the organization
15 it is. And all we're really trying to do is to find a
16 way to allocate a small percentage of our overall costs
17 because the way we deliver service is so integrated.

18 MR. BYRON WILLIAMS: But the issue
19 could be defined differently, you'll agree with me, Ms.
20 McLaren, in that you're -- you're looking at the
21 overall fairness of the relationship between Basic and
22 Extension and trying to capture a mechanism that fairly
23 reflects the benefits that flow both ways?

24 MS. MARILYN MCLAREN: Well, the
25 relationship between the lines is as it exists in the

1 statute. And absolutely we have put forward a
2 methodology that as its first principle is -- is fair
3 and reasonable. So we're absolutely considering those
4 principles.

5 But, no, there was no mandate. And
6 unless this Board decides it -- it would like to tack
7 on another five (5) to ten (10) years of discussing
8 this, I don't think there's any mandate. There's no
9 issue for ratepayers to take that fundamental step
10 backwards and start all over again.

11 MR. BYRON WILLIAMS: Just in terms of
12 the economies of scale -- and if we're looking -- if
13 anyone's looking to follow along, we're probably at
14 page 19 of the CAC-9. Just in terms of the economies
15 of scale that the Corporation does enjoy.

16 Would it be accurate to say -- to
17 suggest that, by virtue of its public insurance
18 monopoly, MPI is able to manage operating expenses to
19 achieve economies of scale in the areas such as
20 infrastructure, promotion, claims processing and
21 repair, and distribution?

22 Would that be fair?

23 MS. MARILYN MCLAREN: Did you reference
24 that list somewhere? Did you come up with that list?
25 I'm -- I'm having trouble keeping it all in my head.

1 MR. BYRON WILLIAMS: I'm stealing from
2 MPI, to be quite honest, Ms. McLaren.

3 MS. MARILYN MCLAREN: Okay, give me
4 half a second.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: And, Mr. Chair and
9 members of the panel, just while MPI is conferring, I
10 did neglect to note that our client, Ms. Desorcy, is
11 here this morning. So she's in the back row.

12 MS. MARILYN MCLAREN: Okay. I see that
13 reference. I stand behind the reference.

14 MR. BYRON WILLIAMS: And those
15 economies of scale impact the bottom line by keeping
16 expenses down and also by enabling service delivery to
17 function efficiently and effectively.

18 Fair enough?

19 MS. MARILYN MCLAREN: Yes, but that
20 doesn't necessarily mean that -- even with those
21 efficiencies, that somehow extension is running its
22 business under this big umbrella in a less costly way
23 than it would if it stood on its own, because if it
24 stood on its own, it would do things fundamentally
25 differently.

1 So as it -- as -- as the system exists,
2 sure. The extension would get some of those
3 efficiencies. But that is not any indication that a
4 fundamentally different approach to managing the
5 business wouldn't be lower cost if it was alone.

6 MR. BYRON WILLIAMS: And -- and on that
7 particular issue, we really -- we don't have any
8 independent evidence of that.

9 We're relying on, kind of, your -- your
10 instinct or my instinct?

11 MS. MARILYN MCLAREN: Well, I -- I
12 actually would go a little further than saying it's
13 somewhere between your instinct and my instinct. I --
14 I've got fairly in-depth, multi-decade knowledge of the
15 business that -- that helps me stand behind the beliefs
16 I have. But, no, we have no external quantitative
17 analysis.

18 MR. BYRON WILLIAMS: Fair enough. When
19 we -- when we go to the -- the big picture of the
20 relationship between Basic and extension, would it be
21 accurate to characterize it as -- as that there are
22 some shared or joint costs as well as some jointly
23 invested assets, but different streams of revenue?

24 Is that the big picture of what's going
25 on?

1 MS. MARILYN MCLAREN: Yes. Yes. And
2 the shared costs are largely driven by the fact that we
3 serve customers as one (1) customer at a time, not as
4 users of different lines of business.

5 And we use the example of someone
6 needing to report their change of address. They need
7 to do that on the driver's licence, which also includes
8 an insurance portion. They need to do that for the
9 registrar when it comes to where that vehicle is
10 located. They need to do it for Basic. They need to
11 do it for extension. That's one (1) simple
12 transaction, shared across three (3) lines. In one
13 manner of thinking, you could say five (5) lines. How
14 do you share those costs?

15 MR. BYRON WILLIAMS: I'm going to
16 reflect upon that at the -- at the break, Ms. McLaren.
17 And, Ms. Reichert, thank you for your cooperation as
18 well. Well done. The -- Mr. Johnston, just -- there's
19 been many questions asked by Board counsel, in terms of
20 investments. So I -- I only have one (1) really, maybe
21 two (2).

22 In terms of measuring -- let me try this
23 again.

24 When we look at the -- the various
25 investment portfolio managers, in terms of measuring

1 their risk for -- for their -- within their mandates --
2 and let's take the example of the Canadian mandate,
3 would it be accurate to say that risk is measured by
4 the standard deviation of the monthly returns about the
5 mean value of a moving four (4) year time period, as
6 well as by the Sharpe ratio calculated over the same
7 four (4) year time period?

8 Mr. Johnston, if you 're looking for a
9 reference, CAC-1-82 probab...

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: Could you repeat the
14 reference, please?

15 MR. BYRON WILLIAMS: I -- I believe
16 it's page 2 of CAC-1-82. Mr. Chair -- Chairman, just
17 -- I'm only going there for a second. I don't think
18 it's contentious. I just want to get it established,
19 but that's the reference.

20

21 (BRIEF PAUSE)

22

23 MS. MARILYN MCLAREN: Okay. Our
24 investment advisor is not in the back row at the
25 moment, so we're going to give this our best shot.

1 Maybe you could repeat the question, and we'll see what
2 we can do to provide a good answer.

3

4 CONTINUED BY MR. BYRON WILLIAMS:

5 MR. BYRON WILLIAMS: In judging whether
6 the investment manager's level of risk is consistent
7 with or less than the level of risk inherent in his or
8 her benchmark, is it accurate to say that risk is
9 measured by the standard deviation of the monthly
10 returns about the mean value of a moving four (4) year
11 time period as well as by the Sharpe ratio calculated
12 over the four (4) -- same four (4) year time period.

13

14 (BRIEF PAUSE)

15

16 MS. MARILYN MCLAREN: Yes. I believe
17 you were reading from our answer to that IR, yes, so we
18 would agree with that.

19 MR. BYRON WILLIAMS: Mr. Chairman, and
20 -- and members of the Board, and also the MPI panel,
21 you can probably put away CAC-9 for a few moments, and
22 we're going to be moving to CAC Exhibit 7. The front
23 of that should say, "Addendum to the MPI Risk
24 Management." It's got a small title. CAC Exhibit 7.

25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: And we'll come to
4 this in -- and I -- I misspoke. I have one (1) more
5 reference from nine (9). I apologize for that.

6 So, Mr. Johnston, with my apologies for
7 making you shuffle papers a bit too much, if you could
8 have at hand CAC-9, page 22. And then we will come to
9 CAC-7 quite promptly.

10

11 (BRIEF PAUSE)

12

13 MR. BYRON WILLIAMS: Mr. Johnston, you
14 can see in -- in -- at page 22 of CAC-9 we've
15 reproduced the Corporation's response to an Information
16 Request CAC-1-10. You see that, sir?

17 MR. LUKE JOHNSTON: Yes, I do.

18 MR. BYRON WILLIAMS: And the question
19 being posed to Manitoba Public Insurance was why does
20 the decline in equity -- in the equity market scenario
21 assume a decline in equity asset value to -- with that
22 reduced value remaining level for the entire forecast
23 period.

24 Not that I quoted it verbatim, but that
25 was a question posed to you, Mr. Johnston?

1

2

(BRIEF PAUSE)

3

4

MR. LUKE JOHNSTON: Yes, one of the --
one of the reasons for looking at the four (4) year
period is to attempt to take in consideration that
there are certain scenarios where equities decline
quickly and -- and suddenly rise, recover.

9

If you look at the cumulative return
over multiple-year periods you have a better
understanding of a more sustained equity decline. It's
something that, of course, would -- would affect the
Corporation, to a greater extent, in terms of its RSR
balance.

15

If -- if equities decline, then recover
three (3) months later, not a big issue. If they stay
at a depressed level for multiple years then -- then
that's definitely a big issue for MPI.

19

MR. BYRON WILLIAMS: Thank you. So, in
essence, the use of the four (4) year returns was to
partially account for the impacted sudden decline
recovery scenarios, agreed?

23

MR. LUKE JOHNSTON: Yes, to -- to
partially decline, that's fair. And I'd like to
present a couple exhibits.

25

1

2

(BRIEF PAUSE)

3

4

MR. LUKE JOHNSTON: Yes, and -- and --

5

MR. BYRON WILLIAMS: And just, Mr.

6

Johnston, before you do, I'm just -- in terms of what

7

you're doing, perhaps your counsel can just advise us

8

whether this is in the way of redirect or -- or your --

9

your plans, okay?

10

MS. KATHY KALINOWSKY: Sure. I can

11

just say that Mr. Johnston anticipated the area in

12

which you'd be going today, in terms of some of the

13

follow-up. And he just prepared some -- two (2)

14

exhibits which can perhaps assist the Board in their

15

understanding, and perhaps yourself too.

16

So with your permission, we'd like to

17

file them.

18

MR. BYRON WILLIAMS: I don't think you

19

need my permission. And -- and certainly our clients

20

would not object. We would merely, certainly, ask that

21

in -- we do not have our -- our expert here. So that

22

in the event that there is further questions regarding

23

these exhibits that we would wish to pose, we would --

24

when we finish today we would -- we would ask the --

25

the tra -- Board's permission not to close our cross-

1 examination, reserving the right to -- to re -- resume
2 on this particular issue.

3 I'm not sure what Board counsel's advice
4 are -- or is. So we're -- certainly we don't ever want
5 to prevent the Board from hearing relevant information
6 though.

7 MS. CANDACE GRAMMOND: I guess one
8 thought that I have, and Mr. Williams, this is up to
9 you, is -- is would you like to take a few minutes and
10 look at the exhibits before you continue with your
11 cross?

12 If -- if so, it may be appropriate to
13 take a few minutes just to allow you to do that because
14 I -- I don't think you've seen the documents, although
15 maybe you have.

16 MR. BYRON WILLIAMS: I've not seen the
17 co -- documents. I -- I certainly anticipate that the
18 -- the witness has a kind of a prepared speech or a can
19 -- speech in the can. So I'm certainly -- there'll be
20 a break coming up. So, from our perspective, we'd
21 prefer to hear his answer now. And we'll play around
22 with it later.

23 THE CHAIRPERSON: Seems fair to me.
24 And I would agree that if there's new evidence being
25 introduced, that we should have access to the expert in

1 the subject matter.

2

3

(BRIEF PAUSE)

4

5

MS. KATHY KALINOWSKY: With that, I
6 would like to recommend to the Board that the exhibit
7 entitled "Year -- Yield of Canadian T-bills and
8 Canadian Bonds over Ten (10) Years" be marked as MPI
9 Exhibit number 13. And the exhibit entitled "Four (4)
10 Year Budgeted Compounded Return Relative to 5th
11 Percentile" be marked as MPI Exhibit number 14, please.

12

13

--- EXHIBIT NO. MPI-13: Document entitled "Yield of
14 Canadian T-bills and
15 Canadian Bonds over Ten
16 (10) Years"

17

18

--- EXHIBIT NO. MPI-14: Document entitled "Four (4)
19 Year Budgeted Compound
20 Return Relative to 5th
21 Percentile"

22

23

MS. KATHY KALINOWSKY: And I think Mr.
24 Johnston would like to speak to them -- these exhibits,
25 then, please.

1 MR. LUKE JOHNSTON: Thank you. I -- I
2 apologize for filing these. I just completed them
3 yesterday. I just -- as you can appreciate, it's --
4 it's fairly difficult to describe some of these issues
5 in words and get my point across clearly.

6 If -- if we can start with the exhibit
7 titled "Four (4) Year Budgeted Compounded Returns."
8 The -- one important consideration when we're looking
9 at equity returns is that we're comparing these returns
10 relative to budget. And you'll notice on the -- the
11 first line of this exhibit, it says:

12 "Four (4) year budgeted equity
13 returns, assuming 6.1 percent per
14 year compounded, is 26.7 percent."

15 So if we assume 6.1 percent a year over
16 four (4) years, we're going to -- we're essentially
17 assuming we're going to get a 26.7 percent return.

18 If -- if you look at the -- the
19 following table, talking about four (4) year returns --
20 and I won't get into the -- the details of this,
21 because I suspect we're going to go that way. But
22 there's some examples of -- of returns in here. And --
23 and, for example, looking at 1956, the present data,
24 you'll see that a one (1) in twenty (20) year event,
25 just purely looking at the data, would be negative 16

1 percent.

2 However, negative 16 percent relative to
3 an expected budget of twenty-six point seven (26.7),
4 you're actually 43 percent below your target. So
5 that's a very important consideration.

6 Flipping to the -- the second page of
7 this exhibit, and this -- this is really how I -- what
8 I wanted to bring up in regards to this -- this four
9 (4) year recovery that Mr. Williams was discussing.

10 This is our last four (4) years, equity
11 -- actual returns relative to budget. So you can see
12 there was a fairly significant decline in '08/'09. And
13 this is where -- this is where I struggle a bit,
14 because you see in '09/'10 we have an actual of 2.9
15 million.

16 Now, I don't -- I don't know if we call
17 that a recovery, but we have positive equity returns
18 \$15 million below budget. The '10/'11 year, we were
19 actually relative close to budget; good news. Then
20 again in '11/'12, we're -- we're way below budget.

21 So here's a four (4) year period where
22 we're looking at recov -- recovery. So what -- if --
23 you can see on the bottom, every four (4) years we've
24 basically been \$144 million under budget. And I
25 definitely wouldn't call that a recovery.

1 All we're getting at in the example that
2 -- or, the -- the IR that Mr. Williams was referencing
3 is that we're looking at the -- the total returns over
4 the four (4) year period relative to budget, and I --
5 and again, I just wanted to stress to the Board what --
6 what that exactly looks like.

7

8 CONTINUED BY MR. BYRON WILLIAMS:

9 MR. BYRON WILLIAMS: Thank you. And
10 I'll have a couple of just quick questions on this
11 right now, and then I'll have not many I don't expect
12 later, but I'm -- I would want a chance to confer with
13 our expert, which probably would not take place till --
14 till tomorrow.

15 Just going to the four (4) -- the first
16 page, Mr. Johnston, have you done a similar calculation
17 for the period between 1919 and 1956, sir?

18 MR. LUKE JOHNSTON: Yes, I have. I
19 could include that in here, as well. That -- that is,
20 as you know, is largely the assumptions used for the --
21 the DCAT scenario. If you give me just a moment, we
22 can -- we can add to this exhibit. But I can also read
23 in the information.

24 The -- using data over all periods, 1919
25 to -- to present, the 1st percentile of four (4) year

1 cumulative returns is negative 71.3 percent. The --
2 the one (1) in forty (40) year event, or the 2 1/2
3 percentile, is negative 60.3 percent. And the 5th
4 percentile is negative 42.75 percent.

5 So that's -- that's on the record; but,
6 yes, I -- the --

7 MR. BYRON WILLIAMS: You may have
8 misheard my question, so just -- and I appreciate that,
9 and we certainly don't mind having that put on the
10 record.

11 But my question was: Have you
12 calculated this for the period from 1919 to 1956?

13 MR. LUKE JOHNSTON: I didn't -- I did
14 not do that period in isolation on this exhibit, and --
15 and I -- I don't -- I don't have those statistics in
16 front of me right now.

17 MR. BYRON WILLIAMS: But you could
18 certainly undertake to do that for me, sir?

19 MR. LUKE JOHNSTON: Yes, I could.

20

21 (BRIEF PAUSE)

22

23 MR. BYRON WILLIAMS: Just to confirm
24 the undertaking, with a thank you to Ms. McLaren, is to
25 replicate the analysis presented in the four (4) year

1 budgeted compounded return relative to 5th percentile,
2 but using the time period 1919 and to the end of 1955.

3

4 --- UNDERTAKING NO. 16: MPI to replicate the
5 analysis presented in the
6 four (4) year budgeted
7 compounded return relative
8 to 5th percentile, but
9 using the time period 1919
10 and to the end of 1955

11

12 MR. LUKE JOHNSTON: Yes, that's --
13 that's clear to me. Thanks.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: Now, Mr. -- Mr.
18 Johnston, just a couple more questions about the
19 analysis that you presented to me this morning.

20 Did you model, in doing this, a change
21 in credit spreads?

22 MR. LUKE JOHNSTON: Just -- just to be
23 clear, the -- the question is asking if the equity
24 scenarios produced include a change in credit spreads?

25 MR. BYRON WILLIAMS: Yes.

1 MR. LUKE JOHNSTON: The -- the
2 percentiles shown in the exhibits are -- are purely
3 just the percentiles of the historical data, no -- no
4 other modelling was done.

5 MR. BYRON WILLIAMS: Focussing now not
6 on -- on this analysis, but on the -- the decline in
7 equities analysis found in your DCAT, for that exercise
8 did you model a change in credit spreads?

9 MR. LUKE JOHNSTON: Again, there --
10 they -- just -- just to be clear, I can step back
11 perhaps, as I mentioned last week I felt it important
12 to at least look at the entire period of the TSX,
13 recognizing that all -- all data may have some
14 importance but not carry equal weight necessarily.

15 So again, I -- I didn't -- I didn't -- I
16 did basically the exact same process to provide my
17 underlying rationale to support the equity decline
18 scenario and then made a -- a judgmental selection,
19 approximately, based on that data. No credit spreads
20 were analyzed as part of that analysis.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: Would you agree
25 that in DCAT modelling of market disruptions it is

1 standard practice to -- to model changes in credit
2 spreads, sir?

3 MR. LUKE JOHNSTON: I'm not clear if
4 it's a standard practice. That's not -- that's not
5 what we've done in this scenario. And -- and again,
6 I'm not aware of -- of other DCATs. I agree that that
7 could be a consideration. It's -- it's not one that --
8 that we used in creating this model.

9 MR. BYRON WILLIAMS: Do you consider it
10 likely, sir, that in a market disruption of the
11 magnitude of which you speak, being a 40 percent
12 decline, that nothing would happen to credit spreads?

13

14 (BRIEF PAUSE)

15

16 MR. LUKE JOHNSTON: If -- if you're
17 referencing the potential side effect of, for example,
18 increasing spreads on corporate bonds, for example, the
19 assumption that we -- we use here is that the -- the
20 Corporation's asset-liability management program will
21 essentially offset those impacts.

22 And if there are some minor impacts, or
23 -- they -- they could be positive or negative as we've
24 seen in some of these previous IRs, depending on the
25 direction and the magnitude. But again, the -- the

1 assumption is that the key driver is equity decline and
2 our asset-liability management program will stay up to
3 the task of -- of offsetting the majority of any kind
4 of interest rate change.

5 MR. BYRON WILLIAMS: Thank you, Mr.
6 Johnston, I'll ponder that. The -- in terms of the --
7 your finding that the -- you found that the 5th
8 percentile of the cumulative four (4) year returns on
9 the TSX from 1919 to present was minus 43.2 percent,
10 correct?

11 MR. LUKE JOHNSTON: Yeah, approximately
12 negative 43 percent.

13 MR. BYRON WILLIAMS: And -- and without
14 asking you to elaborate, I will ask you to confirm that
15 the Corporation undertook a historic analysis of the
16 cumulative four (4) re -- four (4) year return of the
17 TSX from 1919 to present.

18 That's correct?

19 MR. LUKE JOHNSTON: That's correct.
20 That is the -- the evidence presented with that
21 scenario to support that assumption.

22 MR. BYRON WILLIAMS: Okay. And the
23 panel does not need to turn there, but that information
24 -- that analysis was provided to the Public Utilities
25 Board in the Corporation's response to PUB-1-60(c),

1 I'll -- I'll ask you to accept, subject to check?

2 MR. LUKE JOHNSTON: That's -- that's
3 fair. Thank you.

4 MR. BYRON WILLIAMS: Now, Mr. Chairman,
5 I'm -- I'm happy to continue. I've probably got about
6 thirty (30) to forty (40) minutes on this particular
7 bit of questioning. So if -- and -- and it is a bit
8 numerical. So if the Board wished a break, it might
9 not be a bad time.

10 THE CHAIRPERSON: Why don't we do that.
11 And return to this room at a quarter to 11:00, please.

12

13 --- Upon recessing at 10:32 a.m.

14 --- Upon resuming at 10:46 a.m.

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: Yes, thank you,
18 Mr. Chairman and members of the Board. Mr. Johnston,
19 just, as I said, I don't expect to have many more
20 questions about MPI Exhibit 14, perhaps one (1) af --
21 after lunch. And then I may certainly reserve once I
22 have a chance to talk to my -- my expert, but again I
23 don't expect many.

24 But, Mr. Johnston, I've just been trying
25 to -- to understand your source information. So I

1 wonder if with -- with regard to MPI Exhibit 14 you
2 could provide a footnoted or source document with --
3 identifying where on the record each piece of
4 information is, and if any are calculated, for example,
5 some of the budgeted or actual investment numbers, that
6 would be of assistance as well.

7 MR. LUKE JOHNSTON: Definitely do that.

8

9 MR. BYRON WILLIAMS: And so your
10 undertaking simply to provide us with a source --
11 sourced identified documents. We thank you for that.

12

13 --- UNDERTAKING NO. 17: MPI to provide, with regard
14 to MPI Exhibit 14, a
15 footnoted or source
16 document identifying where
17 on the record each piece of
18 information is

19

20 CONTINUED BY MR. BYRON WILLIAMS:

21 MR. BYRON WILLIAMS: Mr. Johnston, when
22 we left we were about to embark upon the exciting
23 exercise of looking at CAC Exhibit 7. And -- and just
24 to remind the -- us of where we were, we were talking
25 about the analysis of the cumulative four (4) year

1 events that Manitoba Public Insurance had undertaken in
2 support of its equity scenario, correct?

3 MR. LUKE JOHNSTON: That's correct.

4 MR. BYRON WILLIAMS: And when we go to
5 CAC-7 -- for the Board, unfortunately, it was PDF'd, so
6 we didn't number it. But if you could move five (5)
7 pages in. And you should see a bunch of a numbers on a
8 page and a -- and a heading on the left-hand side
9 "Sorted four (4) year TSX SP returns."

10 Do you see that, Mr. Johnston?

11 MR. LUKE JOHNSTON: Yes, I do.

12 MR. BYRON WILLIAMS: And before we get
13 into a bit of a dialogue about these numbers, you'll
14 agree with me, subject to check, that these are merely
15 -- they're your numbers merely sorted by four (4) year
16 returns for particular time -- time periods?

17 MR. LUKE JOHNSTON: That's a fair
18 assessment, yes.

19 MR. BYRON WILLIAMS: And I want to
20 direct your attention, to start with, Mr. Johnston, to
21 the left-hand side of this page, under the heading "All
22 Data, 1923 to 2012."

23 Do you see that, sir?

24 MR. LUKE JOHNSTON: Yes.

25 MR. BYRON WILLIAMS: And when we look

1 at this first column, and you'll see that the -- the
2 first figure there is nineteen thirty-three, period, o-
3 two (1933.02) minus 80.91 percent.

4 Do you see that, sir?

5 MR. LUKE JOHNSTON: Yes, I do.

6 MR. BYRON WILLIAMS: And if I'm trying
7 to figure out what those -- those numbers represent,
8 what -- what is represented here on -- on this first
9 number, is the time period, the cumulative four (4)
10 year returns from the time period of February -- I have
11 to do my math here -- 1929 through February 1933,
12 correct?

13 MR. LUKE JOHNSTON: Yes, or perhaps
14 easier to explain would be the -- the four (4) year
15 cumulative return ending on that particular date for --
16 for equities.

17 MR. BYRON WILLIAMS: That is even
18 better, sir. And what it tells us for the four (4)
19 year return ending on that particular date is that the
20 observation, based upon -- on the data, is that it was
21 minus 80.91 percent.

22 Not a good four (4) year period?

23 MR. LUKE JOHNSTON: You're correct.
24 Minus eighty point nine-one (80.91).

25 MR. BYRON WILLIAMS: And what this

1 first column does -- and it -- it goes -- you'll agree
2 with me, Mr. Johnston, it goes on for several pages --
3 is it sorts the observations of Manitoba Public
4 Insurance over this time period from worst to best,
5 agreed?

6 MR. LUKE JOHNSTON: Agreed.

7 MR. BYRON WILLIAMS: And -- and just to
8 make that point, again to that nineteen thirty-three,
9 o-two (1933.02), we're agreed that the worst
10 observation during this time period was the minus 80.91
11 percent for a cumulative four (4) year return, correct?

12 MR. LUKE JOHNSTON: Agreed.

13 MR. BYRON WILLIAMS: And if we were to
14 flip all the way to the end of this document, CAC
15 Exhibit 7, you will agree with me that the best four
16 (4) year cumulative return observed was for the period
17 ended January 1929, and that was 170.49 percent.

18 MR. LUKE JOHNSTON: I see that, and I
19 agree.

20 MR. BYRON WILLIAMS: Right in the midst
21 of the Roaring '20s, I guess, Mr. Johnston, or at the
22 end of the Roaring '20s.

23 MR. LUKE JOHNSTON: Perhaps.

24 MR. BYRON WILLIAMS: And, Mr. Johnston,
25 staying on the -- on the positive side, the -- the

1 happy side, if we go up to the five (5) best
2 observations in that time period, you'll agree with me
3 that they're all in the 1920s, correct, with the fifth
4 observation being the 1929, from September, of 146.14
5 percent to the good?

6 MR. LUKE JOHNSTON: I see that. Yes.

7 MR. BYRON WILLIAMS: So -- and I do
8 apologize to the panel for flipping back and forth, but
9 let's go back to the negatives, which are about five
10 (5) pages in from the top, from the front.

11 And again, referencing you to the first
12 column, Mr. Johnston, you can do the math with me or
13 you can accept it subject to check. If I want to look
14 at the worst thirty (30) returns, the -- the worst
15 thirty (30) observations, the thirtieth observation
16 would be from 1931.1, the minus fifty-nine point one-
17 seven (59.17)? You'll accept subject to check?

18 MR. LUKE JOHNSTON: Yeah, without --
19 without counting I will say that the thirtieth
20 observation is either that number or very close to that
21 number.

22 MR. BYRON WILLIAMS: And if one were to
23 scan these thirty (30) worst observations for the date
24 on which they ended, Mr. Johnston, would it be fair to
25 say that they were all in the 1930s?

1 MR. LUKE JOHNSTON: Yes, based on the
2 summary, yeah, that -- that is the case.

3 MR. BYRON WILLIAMS: And this is MPI's
4 data, sir?

5 MR. LUKE JOHNSTON: Sorry, yeah, I'm
6 just confirming from what I see here that that -- that
7 is the case, and it is our data.

8 MR. BYRON WILLIAMS: And -- and in
9 fairness, it's -- you're presenting someone else's
10 data, but it's your analysis.

11 MR. LUKE JOHNSTON: That's correct.

12 MR. BYRON WILLIAMS: Mr. Johnston, you
13 could certainly do the math, but I wonder if you would
14 accept, subject to check, that for this entire time
15 period running from 1919 through to 2012, MPI has
16 presented to us one thousand and sixty-four (1,064)
17 observations?

18 MR. LUKE JOHNSTON: Subject to check,
19 I'll confirm that.

20 MR. BYRON WILLIAMS: And if we were
21 looking for the 5th percentile observation, would you
22 agree that we would be looking for the observation that
23 was worse than 95 percent of the observations?

24 MR. LUKE JOHNSTON: Yes.

25 MR. BYRON WILLIAMS: And I don't want

1 to challenge my math skills too much, but if I was
2 trying to figure out the -- the 5th percentile
3 observation, just in terms of what's presented here, I
4 would multiple the total number of observations of one-
5 zero-six-four (1,064) by point zero five (.05),
6 correct, sir?

7 MR. LUKE JOHNSTON: Yeah, that would
8 give you the approximate 5th percentile.

9 MR. BYRON WILLIAMS: And if we did the
10 math, we'd probably come up with around the fifty-third
11 observation approximately? Fifty-three-point-two
12 (53.2)?

13 MR. LUKE JOHNSTON: Subject to check,
14 I'll accept that.

15 MR. BYRON WILLIAMS: And, Mr. Johnston,
16 just to assist the panel, if we flip to the second page
17 of these negative observations, you'll see, highlighted
18 in yellow, the minus 43.90 percent for the time period
19 ending January 1940.

20 Do you see that, sir?

21 MR. LUKE JOHNSTON: Yes, I do.

22 MR. BYRON WILLIAMS: And you would
23 accept, subject to check, that this is the 5th
24 percentile, based upon these -- or, the approximate 5th
25 percentile, based upon these observations?

1 MR. LUKE JOHNSTON: I'll accept that.

2

3 (BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: And just another
6 way to -- to put it is, this -- this is the fifty-
7 third-worst stock market return outcome in the
8 cumulative four (4) year period examined by MPI,
9 agreed?

10 MR. LUKE JOHNSTON: I'll accept that.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: And in terms of
15 the 5th percentile calculation that MPI came up with,
16 it's -- it's relatively close in that your calculation
17 was forty-three point two (43.2), negative, agreed?

18 MR. LUKE JOHNSTON: Yeah, the magnitude
19 is -- is very close, I agree.

20 MR. BYRON WILLIAMS: Mr. Johnston, if
21 we worked, from the fifty-third-worst observation, our
22 way back all the way to the worst observation, I wonder
23 if you would agree with me that none of these
24 observations ended later than August of 1941.

25 MR. LUKE JOHNSTON: I'll accept that.

1 MR. BYRON WILLIAMS: And I don't know
2 how your history is, Mr. Johnston, but would you agree
3 with me that of the fifty-three (53) worst cumulative
4 four (4) year returns observed by Manitoba Public
5 Insurance, all ended prior to the bombing of Pearl
6 Harbour in December of 1941?

7 MR. LUKE JOHNSTON: They appeared to
8 all be before that date, so I -- I would agree.

9 MR. BYRON WILLIAMS: Mr. Johnston, if -
10 - if we could just go to the -- the second column now.
11 You -- we probably have to flip back a page. It's
12 labelled, "Data to 1955" -- "December of 1955," Mr.
13 Johnston, so that -- it should be the first page where
14 those numbers appear.

15 And I just -- I know I'm asking the
16 panel to flip, so I -- I'm hoping the panel's with me.
17 Thank you.

18 And, Mr. Johnston, you'll agree with me
19 that, essentially, this column presents the same type
20 of information as the first column, sorted from worst
21 to best, but it covers the time period only up to
22 December of 1955, agreed?

23 MR. LUKE JOHNSTON: Subject to check, I
24 agree.

25 MR. BYRON WILLIAMS: So, essentially,

1 it's covering the time frame, subject to check, between
2 1919 and December of 1955?

3 MR. LUKE JOHNSTON: Agree.

4 MR. BYRON WILLIAMS: And, Mr. Johnston,
5 you can certainly check if you wish, but I wonder if
6 you would agree that, again, the worst observation is
7 the 1933 -- the period ended February 1933 of the minus
8 80.91 percent?

9 MR. LUKE JOHNSTON: That's correct.
10 All the observations you've discussed from the 1930s
11 will of course repeat themselves in this data set.

12 MR. BYRON WILLIAMS: And likewise, the
13 best observation, if we went to the end of this column,
14 would be from the Roaring '20s, that nineteen twent --
15 January 1929, the 170.49 percent, agreed?

16 MR. LUKE JOHNSTON: Agreed.

17 MR. BYRON WILLIAMS: And just by
18 looking at the time periods, Mr. Johnston, you would
19 agree with me that there's a lot less observations in
20 the period between 1919 and 1955 as compared to the
21 period between 1919 and 2012?

22 MR. LUKE JOHNSTON: I agree. I agree.

23 MR. BYRON WILLIAMS: So while there are
24 a lot less observations than in the first column, this
25 shorter time frame between 1919 and December 1955

1 contains the extremes, both of the positive and the
2 negative, of that entire time period between 1919 and
3 2012, agreed?

4 MR. LUKE JOHNSTON: I agree that the --
5 the most extreme events, I -- I don't know what number,
6 but let's say that top five (5) definitely are -- are
7 on each end. There appears to be a lot of negatives in
8 the '30s. I won't count them, but I agree.

9 MR. BYRON WILLIAMS: And we might have
10 agreed before, subject to check, that in fact the top
11 thirty (30) negatives were from the 1930s?

12 MR. LUKE JOHNSTON: Yeah, it was
13 approximately that number. I'll accept that.

14 MR. BYRON WILLIAMS: Subject to check,
15 Mr. Johnston, you'd agree that there were three hundred
16 and eighty-nine (389) observations within this period
17 from 1919 to 1955?

18 MR. LUKE JOHNSTON: Subject to check,
19 I'll accept that.

20 MR. BYRON WILLIAMS: And that the 5th
21 percentile observation would be the nineteenth
22 observation, sir?

23 MR. LUKE JOHNSTON: Approximately, yes.
24 I agree.

25 MR. BYRON WILLIAMS: And so we're

1 looking, in terms of the observations of the
2 approximate 5th percentile, I'll suggest to you,
3 subject to check, that would be that shaded figure of
4 negative 64.81 percent for the period ended July 1933?

5 MR. LUKE JOHNSTON: I'll accept that.

6 MR. BYRON WILLIAMS: So if we were to
7 compare the 5th percentile events for the -- the entire
8 time period at 43.9 percent as compared to the 5th
9 percentile event for the period ending in December of
10 1955, you'll agree with me that the -- the 5th
11 percentile event for the period ending in December 1955
12 was significantly larger?

13 MR. LUKE JOHNSTON: Yeah, it appears to
14 be about 21 percent larger. I'll -- I'll call that
15 significant.

16

17 (BRIEF PAUSE)

18

19 MR. BYRON WILLIAMS: And we'll move
20 through these -- the next column much quicker. I'm
21 sure everyone will be pleased.

22 But, Mr. Johnston, if we move to the
23 third column, labelled "Data from 1956" -- "from
24 January of 1956," you'll agree with me that it -- it
25 covers the period from January of 1956 through to at

1 some point in 2012, subject to check?

2 MR. LUKE JOHNSTON: I'll accept that.

3

4 (BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: I apologize to the
7 court reporter. If we're looking to the worst event in
8 this modern era, that would be the period ended January
9 1977, the minus 31.65 percent, correct?

10 MR. LUKE JOHNSTON: I see that,
11 correct.

12 MR. BYRON WILLIAMS: And, Mr. Johnston,
13 if you can't agree with this, that's fine. But that
14 would be during stagflation -- S-T-A-G-flation --
15 during the 1970s, agreed?

16 MR. LUKE JOHNSTON: Yeah, I won't claim
17 to be intimately familiar with that -- that period.
18 But, subject to check, I'll accept that.

19 MR. BYRON WILLIAMS: I was going to ask
20 if you were even born then, Mr. Johnston, but the Human
21 Rights Code would probably prohibit that. So I will
22 not, sir, on the condition that you don't ask me,
23 because I was alive.

24 If we're looking for the best event,
25 sir, in that period -- dear Lord, it's -- tha -- that

1 would be the -- the cumulative four (4) year return of
2 141.47 percent for the period ended November 1980,
3 agreed?

4 MR. LUKE JOHNSTON: Agree. I see that.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: And if we -- if --
9 if we can -- purely focussing on the extremes at either
10 end within -- within this more modern era, Mr.
11 Johnston, can we agree that the lows are not as low and
12 the highs are not quite as high as in the other two (2)
13 columns, just focussing on the extremes, as in the
14 other two (2) columns?

15

16 (BRIEF PAUSE)

17

18 MR. LUKE JOHNSTON: That is true. The
19 -- the most extreme high or low observations are -- are
20 smaller, in absolute terms, than the other columns.

21 MR. BYRON WILLIAMS: And if we were to
22 assume, subject to check, that there are six hundred
23 and thirty-five (635) observations within this time
24 period, you'll agree with me that the ninety (90) --
25 the -- the 5th percentile observation would be the --

1 approximately the thirty-fourth observation, sir?

2 MR. LUKE JOHNSTON: Agree, subject to
3 check.

4 MR. BYRON WILLIAMS: And if we looked
5 for the -- the yellowed number, you'll agree with me,
6 subject to check, that that thirty-fourth observation,
7 being the 5th percentile, would be for the cumulative
8 four (4) year period ended in December of 1977 and the
9 return of minus 16.43 percent, agreed?

10 MR. LUKE JOHNSTON: Agreed.

11 MR. BYRON WILLIAMS: Again, if we were
12 to canvass the 5th percentile observations for the
13 entire period versus the 1919 through 1955 period
14 through the modern era, sir, you would agree that the
15 5th percentile observation in the modern period is
16 significantly lower than the other two (2) 5th
17 percentile observations?

18 MR. LUKE JOHNSTON: Based on my
19 previous characterization of "significant", I'll accept
20 that.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: Just a few more
25 questions in this regard, Mr. Johnston. And perhaps to

1 refresh your memory, in terms of the first column being
2 the entire time period, we had agreed previously that
3 no event worse than the 5th percentile observation took
4 place later than 1941?

5 Do you recall that, sir, subject to
6 check?

7 MR. LUKE JOHNSTON: I -- I recall that.

8 MR. BYRON WILLIAMS: In performing your
9 decline in equities scenario, were you aware at that
10 time that no event below the 5th percentile had taken
11 place later than 1941?

12 MR. LUKE JOHNSTON: Yes, I was. And if
13 I could -- if I could expand on that point. I've been
14 confirming a lot of things, but I -- I'd like to
15 discuss this in more detail.

16 So I think -- I don't think there's
17 anyone here that doesn't believe that equities are
18 risky. And how you go about measuring that level of
19 risk can be -- can be done in different ways. My
20 approach was to take the entire history and look at
21 that data.

22 Obviously, I recognize we've -- we've
23 just gone through all the historical observations in
24 these older periods. But you'll notice in the DCAT
25 I've done a few things. First, I -- I looked at a four

1 (4) year period, again, to -- to attempt to smooth out
2 some of these more severe events. The reality of the
3 Corporation is not necessarily that we have four (4)
4 years to recover. They can occur more swiftly in a,
5 for example, one (1), two (2), three (3) year period.

6 You'll also notice that I did not select
7 the observed percentile from that analysis. So as
8 we've seen here, there's -- there's numbers in the
9 negative seventies (70s), negative sixties (60s),
10 negative fifties (50s), forties (40s). I believe that
11 you -- you need to give some weight to this period. I
12 don't deny that there's more variability in the 1956 to
13 present. The issue I'm having is more around that you
14 completely ignore that period.

15 And the reason I -- I provided Exhibit
16 13, MPI Exhibit 13, if -- if you're there, is not --
17 not to suggest that equities necessarily follow this --
18 this pattern. But if we look at T-bills, ten (10) year
19 Canadian bonds, I -- I'd suggest that if -- if I
20 followed the type of approach used by Professor Simpson
21 as of 2007, I basically would have assumed zero percent
22 probability of the current interest rate environment.
23 I don't see any observations post-1956 that are in the
24 range of the ones we're seeing today.

25 So if I was to go back a few years, I

1 would probably be going through the same -- if we were
2 talking about interest rates, I'd likely be going
3 through the same discussion in terms of, you know, why
4 would I think that interest rates from pre-1956, for
5 example, are relevant.

6 Again, I -- I can see the data. At the
7 end of the day, I have to make a professional judgment
8 based on what I believe is a relevant risk for the
9 Corporation. And I have -- I have many tools to do
10 that. The ones -- the information I put in the DCAT
11 does give you that entire history. And, of course,
12 others such as Professor Simpson have different views
13 on how to -- how to utilize that data.

14 MR. BYRON WILLIAMS: Mr. Johnston, just
15 going -- and thank you for that -- that answer. Seeing
16 the events below the 5th percentile, did you
17 statistically test for a structural break in the data?

18 MR. LUKE JOHNSTON: No, I did not. And
19 I -- I am aware of the -- the evidence provided by
20 Professor Simpson in that regard.

21 MR. BYRON WILLIAMS: Did you consider,
22 in the pre-nineteen (19) -- when -- in the pre- post-
23 war period that there were not such institutional tools
24 such as bank deposit insurance?

25

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: Again I recognize
4 that -- I think the quote was "Modern economic
5 stabilization policies," perhaps are different today,
6 or believed to be different. Again, it's just a matter
7 of deciding that the pre-1956 has zero percent weight
8 or to give it some consideration.

9 If -- I would -- I would say that if --
10 if I was limiting my review only to 1956 data, if that
11 was a decision that -- that I made, then the
12 assumptions in terms of how to model this scenario may
13 also be different. The -- again we've talked about how
14 the Board's target one (1) -- one (1) in forty (40)
15 years are -- are believed to be. The -- I'm just
16 saying that I've selected neg -- negative 40 percent in
17 light of the available evidence.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: And just so I
22 understand, Mr. Johnston, you've spoken of including
23 all the data, you've spoken of using only the -- the
24 more modern data, and I think you've also suggested
25 that there's a third option which might be to give

1 significantly less weight to the less modern data.

2 MR. LUKE JOHNSTON: Yes. There's --
3 there's different approaches that can be used. I
4 haven't explicitly labelled the weighting of the -- the
5 pre-1956 data. It -- it was a more judgmental
6 selection, I -- I will admit that.

7 The -- again though the -- the issue of
8 equity risk is -- is one of the -- the reasons that I
9 produced again this Exhibit 14. And there's -- again
10 we're not -- we're not denying at all here that -- that
11 risk is present.

12 And if you look at page 2 of Exhibit 14,
13 and you go to the -- the middle of that page "Four (4)
14 year budgeted compounded return relative to 5th
15 percentile," I'm -- I'm trying to give the Board here
16 an idea of -- of what some of these impacts would look
17 like using only 1956 data, and -- and possibly using
18 the Board's target of one (1) in forty (40).

19 Again there's -- there's more -- there's
20 -- the DCAT is -- one of the benefits is that it -- it
21 runs these through their financial model, and it
22 decides how you're going to recognize the losses and --
23 and all that type of actions, but just in terms of a
24 four (4) year magnitude.

25 There's still significant risk here.

1 We're -- we're discussing really how -- you know,
2 what's the best way to assess that risk in terms of --
3 of the RSR. So that --that's really why I'm -- I'm
4 showing this here.

5 Forty (40) percent again is -- is my
6 judgment, but I've -- I've stated here that the
7 Corporation is more than willing to work more
8 collaboratively with the Board and Intervenors to -- to
9 really get this scenario to where we're all comfortable
10 and it's acceptable for DCAT purposes.

11 MR. BYRON WILLIAMS: Mr. Johnston, I --
12 I sincerely thank you for that -- that answer. And
13 just the -- the last question on this particular point.

14 If we did go back to the -- the
15 observation closest to the minus 40 percent used in
16 your decline in equities analysis, you'll agree with me
17 that all the observations worse than that are still in
18 the pre-Pearl Harbor era?

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: That appears to be
23 correct. I'll -- I'll accept that.

24 MR. BYRON WILLIAMS: I think we can put
25 that one away for -- for a while. Mr. Johnston, I -- I

1 believe I, in the presence of your counsel, notified
2 you I'd be asking just a couple questions about the
3 relationship of claims incurred with claims expenses.
4 And I don't have a reference in the materials for the -
5 - for the Board. And I'm just going to catch up with
6 my notes, so just -- if you'll permit me to stand down
7 for just a minute.

8

9

(BRIEF PAUSE)

10

11

MR. BYRON WILLIAMS: So this is not
12 going to be the first reference I make, but for the
13 Board's benefit, if you're putting away CAC Exhibit
14 number 7 and picking back up number 9, in a couple
15 minutes we'll be coming to page 25. So that's the --
16 the big CAC-9, the one that was handed out this
17 morning.

18

19

(BRIEF PAUSE)

20

21

MR. BYRON WILLIAMS: But we're not
22 quite there yet. Mr. Johnston, one of your adverse
23 scenarios you looked at was the 1:100 probability high
24 loss ratio, correct?

25

MR. LUKE JOHNSTON: That's correct.

1 MR. BYRON WILLIAMS: And so without
2 really needing a lot of detail about that scenario, it
3 was focussed on a adverse even -- event in terms of
4 claims incurred?

5 MR. LUKE JOHNSTON: That's -- that's
6 fair, yeah.

7 MR. BYRON WILLIAMS: And for the
8 purposes of your modelling, you determined that if you
9 were adjusting claims incurred it would also be ap --
10 appropriate -- and it's page 25 of the document, Mr.
11 Johnston, to adjust claims expenses proportionally.

12 Agreed?

13 MR. LUKE JOHNSTON: Agreed. That's --
14 yeah, on page 25 as you referenced.

15 MR. BYRON WILLIAMS: And, Mr. Johnston,
16 if you're capable at a high level to -- to discuss what
17 you -- real -- realizing that I'm not capable of a low
18 level, a detailed level, if you're capable of
19 articulating what you mean by a proportionate
20 adjustment.

21 Was that a 1:1 adjustment? How -- how
22 did that -- was that determined?

23

24 (BRIEF PAUSE)

25

1 MR. LUKE JOHNSTON: My -- my
2 understanding is that we -- we had to -- or, had to --
3 we wanted to ensure that more claims didn't sim --
4 assume that with expenses were going to necessarily
5 stay exactly the same. So the percentage increase that
6 we saw in -- in claims we also applied that percentage
7 increase to expenses -- a claims expense.

8 MR. BYRON WILLIAMS: And just to make
9 sure I understand what you've done -- and we'll just
10 use a -- a hypothetical, Mr. Johnston, if claims
11 incurred were ten dollars (\$10) and claims expenses
12 were one dollar (\$1), and you increase both by 10
13 percent, the result would have been claims incurred
14 were eleven dollars (\$11) and claims expenses were one
15 dollar and ten cents (\$1.10)?

16 MR. LUKE JOHNSTON: Approximately --
17 approximately that. I would -- I would -- I'm not sure
18 if the math works out exactly the same, but if claims
19 expenses are a certain portion of -- relative to claims
20 incurred that pro -- proportion would carry forward.
21 And perhaps I described that incorrectly in my previous
22 statement, so I'll -- I correct that. But
23 proportionately, it's -- it's -- that's how I describe
24 it.

25 MR. BYRON WILLIAMS: So -- and aga...

1 You were assuming, sir, that claims
2 expenses were positively correlated with claims
3 incurred, but not perfectly positively correlated,
4 correct?

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: Yeah, I'm trying to
9 get my head around "perfectly positively correlated",
10 not that I don't understand the term. But there's --
11 clearly, in this scenario, we're assuming a direct
12 relationship between these two (2) proportions. So is
13 that perfect positive correlation? I'm -- I'm not
14 sure. But the proportion is consistent and moves
15 directly with each other.

16 The -- the issue here is again to -- to
17 try to put something in here to quantify what type of
18 increase you might get in claims expenses. For -- for
19 hail, for example, we look -- we can look at past
20 storms and see how expenses came in and try to adjust
21 those to what -- what a big hailstorm might look like.

22 But for a mix of collision and PIPP and
23 all these different types of increases in claims, it's
24 not quite as clear how expenses would be impacted. But
25 we've -- again, we've assumed that proportional basis

1 as a way to forecast this.

2 MR. BYRON WILLIAMS: And just so I
3 understand, sir, was that assumption based on the
4 Corporation's analysis of the relationship between
5 claims expenses and claims incurred, or was it a
6 judgmental assumption?

7

8 (BRIEF PAUSE)

9

10 MR. LUKE JOHNSTON: That -- that's a
11 judgmental assumption. Again, to -- just to recognize
12 that in this adverse scenario we would expect to see
13 more claims expenses. And -- and how to analyze the
14 type of expe -- increase in claims expenses you might
15 see in such an extreme scenario is -- is obviously
16 difficult. So we need some sort of assumption there.

17 MR. BYRON WILLIAMS: And, sir, I'm not
18 at your financial forecast model yet. I'm directing
19 your attention now to your stochastic modelling.

20 In your stochastic modelling for the
21 Corporation, is there the same proportionate
22 relationship between claims incurred and claims
23 expenses?

24 MR. LUKE JOHNSTON: The -- the expenses
25 that we can allocate to a specific claim are included

1 in the -- in the claims incurred, so this is part of
2 the stochastic modelling. The -- the stochastic model
3 is -- is done in isolation of -- of those other non-
4 allocated level of claims expenses.

5 If we were to run the results of the
6 claim model through the financial statements, again,
7 for extreme type of scenarios we'd have to -- I would
8 assume it's -- it's reasonable to make some kind of a
9 judgment that -- about how your claims expenses are
10 going to change when you start getting, you know, much
11 -- or, deviate significantly from your base forecasts.

12 I wouldn't expect a huge change in
13 claims expenses for being, you know, moderately above
14 or below your base forecast. But again, it's -- it's
15 difficult to assess what that would be when you're at
16 the 99th percentile, for example.

17

18 (BRIEF PAUSE)

19

20 MR. LUKE JOHNSTON: Perhaps I -- I can
21 add to that. Again, just to be clear, the stochastic
22 model is not looking at these claims expenses that
23 cannot be allocated to particular claims. The benefit
24 of a DCAT type of approach is taking one of these
25 extreme events, running it through the financial model,

1 and -- and coming up with the ripple effects.

2 MR. BYRON WILLIAMS: Mr. Johnston --
3 and for the Board, I'm now at page 25 of CAC Exhibit 9.
4 And, Mr. Johnston, if you -- do -- do you have that,
5 sir?

6 MR. LUKE JOHNSTON: I do.

7 MR. BYRON WILLIAMS: If you flip
8 through that, at pages 25, 26, 27, you'll agree with me
9 that we've simply replicated pages 1 through 3 of TI.2?

10 MR. LUKE JOHNSTON: Yes.

11 MR. BYRON WILLIAMS: And what -- as --
12 as this humble lawyer was making his way through the --
13 through these documents, in -- and in terms of the
14 overall -- directing your attention, I guess, to page
15 25.

16 This page sets out the financial
17 forecasting method, agreed?

18 MR. LUKE JOHNSTON: Agreed.

19 MR. BYRON WILLIAMS: The next page sets
20 out the required rate changes from the exponential
21 method, agreed?

22 MR. LUKE JOHNSTON: Agreed.

23 MR. BYRON WILLIAMS: And the third just
24 sets out the -- the linear method?

25 MR. LUKE JOHNSTON: Agreed.

1 MR. BYRON WILLIAMS: And if I were to
2 compare under the overall, which is the second column,
3 the claims for the financial forecasting method per
4 unit versus the exponential versus the linear, there
5 are modest differences between all three (3) of them in
6 terms of the claims line, agreed?

7 MR. LUKE JOHNSTON: That's fair.
8 They're -- they're not equal.

9 MR. BYRON WILLIAMS: That might be a
10 better way of saying it. If -- again, focussing on
11 overall, the -- I would suggest to you that the claims
12 expense does stay the same, agreed?

13

14 (BRIEF PAUSE)

15

16 MR. LUKE JOHNSTON: Yes, I see that.
17 That's correct.

18 MR. BYRON WILLIAMS: And this is not
19 meant as criticism, but just for the purposes of
20 understanding, sir, so if -- if one is looking at the
21 financial forecasting method and how one derives the
22 estimate for claims expenses, would I be correct in
23 suggesting to you that there is no assumed -- how do I
24 put this; would I -- the claims expenses are -- are
25 kept constant and there is no proportionate adjustment

1 for changes in the claims incurred?

2 MR. LUKE JOHNSTON: Yes, that's
3 correct. The -- the claims expenses included in these
4 exhibits are as per our -- our forecasts. The -- we
5 did not proportionately adjust these expenses for the
6 linear exponential method.

7 And, again, I wouldn't expect these
8 claims to change significantly for -- for claims as in
9 changes in claims per unit of a dollar or two (2) here
10 -- here or there. More extreme scenarios, definitely.
11 And then that's -- it's -- it's more of a materiality-
12 type issue here that we don't -- we didn't recast
13 expenses in these exhibits.

14 MR. BYRON WILLIAMS: Sir, and -- is the
15 Corporation in a position, just for the -- my client's
16 understanding, to tell us how strong the mathematical
17 relationship between claims expenses and claims is?

18

19 (BRIEF PAUSE)

20

21 MR. LUKE JOHNSTON: Again, I just -- I
22 just want to be clear of the difference between
23 modelling claims expenses in a -- in a DCAT extreme
24 scenario and -- and this example.

25 To your question, I'm not aware of the

1 correlation, for example, over time between claims
2 expenses and claims incurred. I -- I -- I'm aware that
3 we do have some evidence that shows the historical
4 trends and -- and those numbers. But off -- off the
5 top of my head I -- I don't know how strong that
6 relationship is, and how that flows through, and how we
7 forecast claims expenses given the -- the information
8 we have at the time the forecast is made.

9 MR. BYRON WILLIAMS: And -- and I thank
10 you for that, Mr. Johnston. And going forward for
11 future forecasts, do you see any value in exploring
12 that relationship?

13

14 (BRIEF PAUSE)

15

16 MR. LUKE JOHNSTON: Perhaps. Like as
17 I've -- I've mentioned, it is fairly well documented.
18 And if -- if the suggestion is that perhaps forecasting
19 could be improved by examining that relationship
20 further, I'll possibly take that under consideration.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: Ms. McLaren, I --
25 I feel as if I've been neglecting you. The -- the -- I

1 just have a few questions, and -- and mind -- mindful
2 of human rights considerations as well, I -- I'm
3 thinking that only you and I can probably remember some
4 of these things. So at page 28 of CAC-9, if I could
5 ask you to turn -- turn there, Ms. McLaren.

6

7

(BRIEF PAUSE)

8

9 MS. MARILYN MCLAREN: I have the
10 reference.

11 MR. BYRON WILLIAMS: And not many
12 questions, Ms. McLaren, but I'm just trying to remind
13 everyone where the -- the roos -- roots of the RSR may
14 -- may come from.

15 And before you, you'll agree you have an
16 excerpt from one of the Kopstein position papers, being
17 number 7, and -- and you'll see it's referenced as a
18 response to CAC-1-175?

19 MS. MARILYN MCLAREN: Yes.

20 MR. BYRON WILLIAMS: And can we agree
21 that -- that a significant genesis for the Kopstein
22 review was a -- and directing your attention to the
23 circled third bullet, reported 62 million loss in the
24 '86/'87 insurance year?

25

1 (BRIEF PAUSE)

2

3 MS. MARILYN MCLAREN: What I remember
4 is that -- you're asking the -- the genesis for the
5 Kopstein --

6 MR. BYRON WILLIAMS: You know, I could
7 ask the --

8 MS. MARILYN MCLAREN: -- committee
9 itself?

10 MR. BYRON WILLIAMS: -- I could ask the
11 question better. And thank you, Ms. McLaren, it -- it
12 should have been asked better in the first place.

13 The context for the Kopstein committee,
14 they were looking, you know, in that particular year
15 they were -- were looking at a circumstance, one of the
16 -- a significant consideration was the -- the \$62
17 million reported loss?

18 MS. MARILYN MCLAREN: I think the main
19 rationale for forming the Kopstein Commission was a 25
20 percent rate increase that the Corporation came forward
21 with for the Basic compulsory program, I believe, for
22 the 1988 rating year.

23 MR. BYRON WILLIAMS: And Mr. Johnston -
24 - even Mr. Johnston would agree that's rate shock?

25 MS. MARILYN MCLAREN: I think we'd all

1 agree.

2 MR. BYRON WILLIAMS: The genesis for
3 that 25 percent rate increase was driven in part by a
4 significant loss in the '86/'87 year?

5 MS. MARILYN MCLAREN: Yes, in part.

6 MR. BYRON WILLIAMS: And if -- if we
7 try and disentangle what happened in that year,
8 Kopstein's conclusion was that there were three (3)
9 factors driving it, including a -- a budgeted loss, a -
10 - a bad winter, and then a -- a number of actuarial
11 adjustments proposed by Tillinghast, agreed?

12 MS. MARILYN MCLAREN: Right. And I
13 think even back at that time, the rate-making would
14 have been sophisticated enough to not put too much
15 emphasis for a going-forward rate requirement on the
16 one (1) bad weather year. I think it would be
17 primarily the recasting of the outstanding liabilities
18 and the budgeting for a loss.

19 MR. BYRON WILLIAMS: And just directing
20 your attention to the -- the line 1 above, or the
21 bullet 1 above, in that era, this was just at the time
22 when Manitoba Public Insurance was determining that it
23 would appropriate to employ either a consulting actuary
24 or a staff actuary, agreed?

25 MS. MARILYN MCLAREN: Yes.

1 MR. BYRON WILLIAMS: And, Ms. McLaren,
2 if you could just flip to the next page, being page 29
3 in CAC-9, you'll see Recommendation 7.11, basically to
4 set a -- a sur -- retained surplus target of about 15
5 percent of premiums, agreed?

6 MS. MARILYN MCLAREN: Right. And as
7 we've talked about here previously as well, at that
8 time best practice, the standard in the industry was to
9 have retained earnings as a percentage of premiums.

10 MR. BYRON WILLIAMS: I understand that,
11 Ms. McLaren. Do we generally agree that the -- the
12 genesis of the -- the RSR target is Kopstein and the
13 report?

14

15 (BRIEF PAUSE)

16

17 MS. MARILYN MCLAREN: Was their first
18 conversation about having a rate stabilization reserve
19 flowing from the Kopstein Commission. Is that the
20 question?

21 MR. BYRON WILLIAMS: Sure.

22 MS. MARILYN MCLAREN: That's probably
23 fair. I'm not completely certain. That's reasonable.

24 MR. BYRON WILLIAMS: And if we compare
25 today to then, can we agree that the Corporation's

1 forecasting methodology has materially changed for the
2 better since then?

3 MS. MARILYN MCLAREN: Yes.

4 MR. BYRON WILLIAMS: Can we also agree
5 back then that, given its dearth of actuarial support,
6 that Manitoba Public Insurance had some significant
7 issues with incurred liabilities? Let me -- Ms.
8 McLaren, let me ask that better as well.

9 At that point in time, back in the
10 Kopstein era, or just prior to that at least, MPI was
11 not really performing actuarial -- actuarial policy
12 liability violations -- valuations and had challenges
13 in under -- understanding what was going on, in terms
14 of incurred liabilities?

15

16 (BRIEF PAUSE)

17

18 MS. MARILYN MCLAREN: Yeah, just a
19 quick read of this page 28 of your Exhibit number 9.
20 It looks like this Tillinghast work that was done as at
21 October, '87, was -- was not done on any sort of
22 regular basis at all.

23 MR. BYRON WILLIAMS: And we can agree
24 that while there still may be some disputes between
25 parties in terms of the actuarial review of

1 liabilities, the Corporation has taken major strides
2 since then in improving its assessment of -- of
3 incurred liabilities?

4 MS. MARILYN MCLAREN: Absolutely. The
5 twice-annual external appointed actuary review of
6 liabilities, the work that Mr. Johnston does on an
7 ongoing basis, any -- any number of things, absolutely.

8 MR. BYRON WILLIAMS: Ms. McLaren -- and
9 I'm not sure if you're the right person, but I'll --
10 I'll deal with you. And then you can send me
11 elsewhere.

12 In -- in the event that Basic insurance
13 had to book a hundred million dollar loss regardless of
14 the cause, essentially, just starting out, on the
15 income statement this loss would be booked to the --
16 the bottom line?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: The retained
19 earnings would be reduced by that amount and, depending
20 on how much was in retained earnings, potentially it
21 would be in a deficit?

22 MS. MARILYN MCLAREN: Right.

23 MR. BYRON WILLIAMS: Now, there would
24 be some issues -- or cash flow would eventually be
25 reduced by that amount?

1

2

(BRIEF PAUSE)

3

4

MS. HEATHER REICHERT: If I can, you
5 had indicated that we incurred a loss or booked a loss
6 of a hundred million. So, eventually, as that claim is
7 paid out it would impact on the cash flow of the
8 Corporation, yes.

9

MR. BYRON WILLIAMS: And I thank you
10 for that. But again, there would be time to -- to
11 manage the -- the cash flow?

12

MS. HEATHER REICHERT: Depending on the
13 nature of the particular claim, that would determine
14 how much time there was to manage that cash flow.

15

MR. BYRON WILLIAMS: And there would be
16 a reduction in investment income from a hundred million
17 dollar loss, agreed?

18

MS. HEATHER REICHERT: Yes, I agree.

19

MR. BYRON WILLIAMS: And as Manitoba
20 Public Insurance moved forward from that loss and moved
21 into the next general rate application they would have
22 to make a determination on whether a rate increase was
23 warranted given the -- related to the lasting impact,
24 if any, of this loss on overall operations?

25

MS. HEATHER REICHERT: Yes, that's

1 correct.

2 MR. BYRON WILLIAMS: And it's
3 conceivable that if its RSR was outside the target
4 range, Manitoba Public Insurance might ask for a couple
5 percentage points for a number of years to rebuild the
6 RSR?

7 MS. MARILYN MCLAREN: Sure. And there
8 is some history on that. Back, I think, beginning in
9 1996, we had some serious issues with the RSR. And
10 that year, this Board approved a 2 percent surcharge on
11 rates. The following year, it approved an additional 2
12 percent, for a total of four (4). And then the
13 following year an additional 1 percent, for a total of
14 five (5).

15 And eventually those surcharges came
16 back out of the rate. One percent came out the next
17 year, and then the -- the four (4) was eliminated after
18 that. But at one (1) point, we were surcharging up to
19 as much as 5 percent specifically to rebuild the RSR.

20 MR. BYRON WILLIAMS: And, Ms. McLaren -
21 - and we're probably both testing our memory on that,
22 at that -- at the starting point when the RSR surcharge
23 was imposed, can we agree that the deficit in retained
24 earnings was in the range of \$50 million, subject to
25 check?

1 MS. MARILYN MCLAREN: Subject to check,
2 that sounds about right. Put another way, negative
3 retained earnings to the tune of about 50 million.

4 MR. BYRON WILLIAMS: I thank you for
5 that. Mr. Chairman, I'm moving to a lengthy area. I
6 could start it. What I -- I would recommend for the --
7 the panel, subject to your schedule, is we could just
8 start a few minutes early in the afternoon to -- to
9 make up for it.

10 THE CHAIRPERSON: Why don't we do that?
11 Let's adjourn now and return in this room at one
12 o'clock to resume the proceedings. Thank you.

13 MS. KATHY KALINOWSKY: If I could, Mr.
14 Chair? I believe Mr. Johnston has a response to an
15 undertaking that he can just give orally. So if we
16 could do that right now before the break?

17 THE CHAIRPERSON: Please do. Yeah,
18 thank you.

19 MR. LUKE JOHNSTON: Yes, the response
20 is to Undertaking number 7. And the question -- or the
21 undertaking was in regards to the interest rate risk
22 paragraph shown in the annual report. And it says
23 that:

24 "A change of 58 million flowing from
25 a hundred basis point change in

1 interest rates."

2 The question was to advise to the end of
3 September 2012, if there was a more current number to
4 the 58 million. And I have the following information:

5 "As of August 31st, 2012, if there is
6 a parallel shift in the yield curve
7 where interest rates increase by a
8 hundred basis points, it is estimated
9 that the market value of the fixed
10 income portfolio will fall by 61.3
11 million. Conversely, if interest
12 rates fall by a hundred basis points
13 the market value of fixed income will
14 increase by approximately 72.7
15 million."

16 THE CHAIRPERSON: Thank you. I think
17 we can adjourn now? Yes, adjourn and -- and resume the
18 proceedings at one o'clock.

19

20 --- Upon recessing at 11:51 a.m.

21 --- Upon resuming at 12:58 p.m.

22

23 THE CHAIRPERSON: I believe we're ready
24 to -- to resume proceedings. We have some new
25 documents.

1 MS. KATHY KALINOWSKY: Yes, good
2 afternoon, Mr. Chair and Board members. Undertaking
3 number 6, which is the accumulation of a large amount
4 of cash, I would suggest that that be marked MPI
5 Exhibit number 15.

6

7 --- EXHIBIT NO. MPI-15: Response to Undertaking 6

8

9 MS. KATHY KALINOWSKY: And Undertaking
10 number 15, I would suggest that that be marked MPI
11 Exhibit number 16. In that, we've slightly changed the
12 undertaking. It was for Manitoba Hydro to outline the
13 role of the consulting actuary, and instead we changed
14 that to MPI outline the role of the consulting actuary.
15 And I believe that Mr. Williams will probably agree to
16 that change in the undertaking.

17

18 --- EXHIBIT NO. MPI-16: Response to Undertaking 15

19

20 MR. BYRON WILLIAMS: I object.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: I withdraw that
25 objection, Mr. Chairman. We are going to come -- come

1 to the IBNR in just a second. But in what -- just for
2 the Board's information we have had some off-the-record
3 discussions with MPI just to expedite the record, or
4 the discussions a little bit.

5 So I'm -- in what will, I'm sure, look
6 like a suspiciously well prayer -- prepared response, I
7 am going to ask Mr. Johnston: In terms of the increase
8 in DSR premiums as applied for, can you provide an
9 indication to the Board of the increases by DSR level
10 after one (1) year of clean driving?

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: I may have to hold
15 my question.

16

17 (BRIEF PAUSE)

18

19 MR. BYRON WILLIAMS: If -- if that
20 answer is prepared, I would suggest certainly, with no
21 objection from my client, that you distribute it, and
22 then I'll just ask Mr. Johnston to explain what -- what
23 the -- what this demonstrates.

24 MR. LUKE JOHNSTON: Yes, thank you.

25 MS. KATHY KALINOWSKY: Sure, and if I

1 could suggest that it be marked as the next exhibit
2 number, which would be MPI Exhibit number 17.

3

4 --- EXHIBIT NO. MPI-17: Document prepared showing
5 the increases by DSR level
6 after one (1) year of clean
7 driving

8

9 MR. LUKE JOHNSTON: Yes, thank you
10 for that question. In -- in front of you, you have
11 what's titled, "Comparison of Driver Safety Rating
12 Premiums in 2012 and 2013 Proposed after One (1) Year
13 of Clean Driving."

14 And what -- the -- the purpose of this
15 exhibit is to show what drivers will actually
16 experience in terms of driver premium rates, assuming
17 that they have a clean year of driving.

18 So in the -- in the first column you'll
19 see the DSR level, followed by the 2012 and 2013
20 proposed driver safety rates. If we look at this table
21 in isolation, it -- it would appear that, for example,
22 someone at twenty (20) demerits is receiving a five
23 hundred dollar (\$500) rate increase on their -- their
24 driver premium. Or, similarly, someone at negative one
25 (1) is -- is going from forty-five dollars (\$45) to one

1 hundred dollars (\$100), which would be more than a
2 hundred percent rate change.

3 What we show in the middle table is how
4 drivers move on the scale if they have a clean year of
5 driving. So it shows the current level and standard
6 movement, which means they drive at least -- I believe
7 it's three hundred and thirty (330) days in a year.
8 And the modified movement, which is the amount that
9 they'll move on the scale if they choose to opt out and
10 not have a licence.

11 So, for example, I'll stick with twenty
12 (20) demerits, because that's the most significant
13 premium. A driver at twenty (20) demerits, or negative
14 twenty (20), who drives and has a clean year of
15 driving, would be subject to our standard upward
16 movement of -- to move to a negative thirteen (13).

17 And this is an additional incentive for
18 demerit drivers to improve their behaviour. They can
19 move up the scale faster. And if you move along the
20 bottom, you'll see they can save nine hundred dollars
21 (\$900) in their driver premium by driving one (1) clean
22 year.

23 The other option for a driver at twenty
24 (20) demerits would be to simply sit out the year. The
25 benefit, of course, to MPI would be that they are --

1 they are identified as a high-risk driver and they're
2 not driving. That would allow them to avoid those
3 driver premium costs and move up the scale to a -- a
4 more favourable level, but obviously not as significant
5 a movement as someone that actually shows that they can
6 drive a full year clean. And they would save three
7 hundred dollars (\$300).

8 So there -- there are ways for drivers
9 to get out of these significant levels, either by
10 opting out or -- or driving safely. And, again, I just
11 wanted to present this because it does appear on the
12 face of it that driver premiums are going up
13 significantly at certain levels. But that -- that's
14 not the case on the assumption that the driver has a
15 clean year. Of course, if they do not have a clean
16 driving year and fall down the scale, their -- their
17 premiums will go up.

18

19 (BRIEF PAUSE)

20

21 THE CHAIRPERSON: Can I ask a question?
22 There's a column there that talks about modified
23 movement?

24 MR. LUKE JOHNSTON: The -- on -- on the
25 demerit side, where the -- the premiums are much more

1 significant, we did recognize that drivers should be
2 able to opt out and still move up the scale, as a
3 choice to not have to -- to pay the, say, twenty-five
4 hundred dollars (\$2,500).

5 We don't want to give them the same
6 amount of credit as somebody that does drive safely,
7 but we do allow them to move to higher levels and then
8 avoid those premiums.

9 Yes, and by -- by "opt out" means they -
10 - they don't have a licence, or they don't have a
11 licence for the required period to move up the scale by
12 the standard movement.

13 So -- so, for example, if someone was
14 suspended for half a year, and then they drove clean
15 driving for the second half of the year, they would
16 still be able to receive modified movement, some kind
17 of benefit; but, of course, not the same level as
18 someone that drives a full year.

19

20 (BRIEF PAUSE)

21

22 MS. ANITA NEVILLE: How do you
23 determine the levels that they move up?

24

25 (BRIEF PAUSE)

1 MR. LUKE JOHNSTON: These -- these are
2 in regulation. However, I will say that we -- we have
3 a lot of evidence on the record also that shows that
4 the -- the risk decreases as they move up the scale and
5 the -- the movements are approximately reasonable from
6 a risk perspective.

7 So what I mean by that is if -- if we
8 look at all the drivers at twenty (20) demerits, if
9 somebody moves up to thirteen (13) demerits, we should
10 see a decreased level of risk from those drivers,
11 wherever they came from, as they move up the scale.
12 And we definitely do see that.

13

14 CONTINUED BY MR. BYRON WILLIAMS:

15 MR. BYRON WILLIAMS: Mr. Johnston, just
16 for the benefit of my client and their legal counsel,
17 in terms of the -- how the merits may apply to young
18 drivers still in the graduated licensing program, I
19 wonder if you can just articulate that -- do you have
20 to graduate from the graduated dri -- licensing program
21 to be eligible for merit?

22 Or how does that work, sir?

23 MS. MARILYN MCLAREN: No, as soon as
24 they are a licensed driver and they have -- the meet
25 the criteria of a year with no incidents, they get a

1 merit point, absolutely.

2 MR. BYRON WILLIAMS: Thank you, Ms.
3 McLaren. Mr. Johnston -- and -- and again to the
4 Board, in terms of MPI Exhibit 14, I've not had a
5 chance to discuss it with Dr. Simpson.

6 But, Mr. Johnston, if I could get you to
7 go back to that document. The front page is for your
8 budgeted compound return relative to 5th percentile.

9 MR. LUKE JOHNSTON: I'm there.

10 MR. BYRON WILLIAMS: And just directing
11 your attention to the second -- second page, if I
12 might, Mr. Johnston, in the top table it appears to me
13 -- or, I'm going to suggest to you that you were doing
14 an analysis of what was forecast and then the actual
15 results and -- and looking at the variance between
16 budget and actual.

17 And I -- am I correct, sir?

18 MR. LUKE JOHNSTON: Yes, that's
19 correct. Regardless of the level of the equity gain or
20 loss, what -- what flows through the income statement
21 will be relative to our budget. The -- the equity
22 returns budgeted in this -- in this history are -- are
23 not identical to the 6.1 percent we're budgeting in
24 this GRA, but they are relatively close, around the 6
25 percent range.

1

2

(BRIEF PAUSE)

3

4

MR. BYRON WILLIAMS: In -- and just so
5 I understand this, in comparison to the analysis that
6 you performed in the decline in equities, is what we
7 see here an -- almost an opportunity cost analysis,
8 sir?

9

MR. LUKE JOHNSTON: Really, what I was
10 trying to -- to provide for the -- for the Board's
11 information is just an -- an understanding of -- of --
12 that we're -- we are looking rel -- relative to budget
13 and -- and, also, to show a recent four (4) year period
14 where we've had, you know, a significant loss and a
15 partial recovery, which was referenced in one of the
16 IRs.

17

MR. BYRON WILLIAMS: Now, sir, the
18 other two (2) tables there on that page, is the outcome
19 of those tables also a forecast to actual analysis?

20

MR. LUKE JOHNSTON: Yes. Again, trying
21 to show that we might -- here I'm trying to show that
22 we might have differences of opinion on -- on how to
23 model equity risk. But I'm trying to show here an
24 order of magnitude in -- in terms of how some of those
25 assumptions play out.

1 And so what I've done is calculate what
2 a particular scenario would be relative to budget and
3 show the approximate magnitude of losses that would
4 occur if -- if that scenario played out.

5 Again, I -- I believe I said this when I
6 described it, the recognition of those losses and how
7 they flow through net income can happen in -- in many
8 different ways. But assuming over a four (4) year
9 period it's all recognized, this is the approximate
10 losses relative to the 2013/'14 base equity level.

11 MR. BYRON WILLIAMS: So just so I
12 understand it, sir, this is not a recasting of your
13 decline in equity scenario using post-1956 data or
14 modern data?

15 MR. LUKE JOHNSTON: Yes, that's
16 correct. I haven't made any assumptions about how the
17 losses would be recognized and -- and how they flow
18 through the statements. Again, just to -- I show a
19 approximate -- or order of magnitude.

20 MR. BYRON WILLIAMS: Could you recast
21 the decline in equities scenario using post-December-
22 1955 data, sir?

23 MR. LUKE JOHNSTON: With -- with
24 adequate time, I could recast any DCAT scenario,
25 provided I have all the necessary assumptions needed

1 for -- for that scenario.

2 MR. BYRON WILLIAMS: How long would
3 that take, sir?

4

5 (BRIEF PAUSE)

6

7 MR. LUKE JOHNSTON: We have in, at
8 least, I think, two (2) cases, recast a scenario -- I
9 know one (1) for sure -- from the Public Utilities
10 Board, a 35 percent decline. I think to -- in -- in
11 fairness to my financial modelling friends, two (2) or
12 three (3) days to -- to understand the assumptions and
13 apply them correctly, run the model, and review the
14 results would be reasonable.

15 MR. BYRON WILLIAMS: I'll ponder that.
16 Just conceptually, what you've presented on page 2 of
17 Exhibit 14 reminds me to some degree of the risk
18 analysis, leaving aside the VA -- VAR is --
19 conceptually, is that a fair statement, sir?

20 MR. LUKE JOHNSTON: I would not say
21 that. The -- the DCAT -- again -- again, we're --
22 we're discussing how to -- to model an equ -- equity
23 risk scenario. And what I'm doing here is looking at
24 some of these 1956 to present models that could be
25 built and -- and demonstrating the -- the significance

1 of the impact.

2 The delineations that are modelled are
3 being applied here to the 2013/'14 year to give you an
4 approximate estimate of the impact. However, I'm --
5 I'm definitely not doing what the operational risk
6 analysis does in looking at the historical variability
7 between actual and budget and then -- and then assuming
8 that's my model. That -- that's not what I'm doing
9 here.

10 We're still looking at equity returns
11 over time and applying it to our -- our forecast like -
12 - like the DCAT does.

13 MR. BYRON WILLIAMS: So you wouldn't
14 agree with the suggestion that you're applying a -- a
15 budget vary analy -- variance analysis, but only to one
16 -- one particular component of risk?

17 MR. LUKE JOHNSTON: The DCAT is
18 applying a equity risk scenario relative to our base
19 forecast, which is our budget. So that is what the
20 DCAT is -- is doing, and that's -- that's what this is
21 try -- trying to provide as information, recognizing
22 it's not -- there's some other assumptions required to
23 run a full scenario through our financial model.

24 MR. BYRON WILLIAMS: Okay, thank you
25 for that. For the -- the panel, I will be returning to

1 CAC Exhibit 5 around page 30, and for you, Mr.
2 Johnston, of course. And once you're done shuffling
3 that document, in terms of CAC Exhibit number 9, the
4 other thick document, you might want to have page 33
5 nearby; and finally, in reserve for about twenty (20)
6 minutes from now, CAC Exhibit 8.

7

8

(BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: My evil ploy, Mr.
11 Johnston, was to get you to shuffle as many papers.
12 Have I succeeded, sir?

13 MR. LUKE JOHNSTON: Yes, just
14 reshuffling as we appear to be changing topic areas
15 here.

16 MR. BYRON WILLIAMS: Directing your
17 attention to CAC-5 page 30, Mr. Johnston, you'll agree
18 with me this is a excerpt from the external actuary's
19 summary of policy claims liabilities as of October
20 31st, 2011?

21 MR. LUKE JOHNSTON: Yes, I agree.

22 MR. BYRON WILLIAMS: And just to orient
23 -- orient ourselves, at the bottom you'll see, "Total
24 claims liabilities."

25 Do you see that line?

1 MR. LUKE JOHNSTON: Yes, I do.

2 MR. BYRON WILLIAMS: And if we go over
3 to the -- under the heading, "Net," you'll -- I'll
4 suggest to you that the external actuary at this point
5 in time is estimating total claims liabilities in the
6 range of \$1.3 billion?

7 MR. LUKE JOHNSTON: Yes, that's
8 correct.

9 MR. BYRON WILLIAMS: And just again to
10 -- to put this in context, one (1) line -- or, one (1)
11 column to the right is the figure of 1.348 billion,
12 which would have been what was estimated by MPI -- or,
13 what it was carrying, excuse me, prior to the review?

14 MR. LUKE JOHNSTON: Yes, that's
15 correct. If all assumptions that I forecasted had
16 played out as expected, that was our -- our booked
17 value, our expectation of booked value at that point in
18 time.

19 MR. BYRON WILLIAMS: Now, I want to
20 move up on this page again. You'll see the number in
21 the top -- near the top left-hand corner, the number
22 "1" and the heading, "Incurred but not Reported Claims
23 and External Adjustment Expenses."

24 Do you see that, sir?

25 MR. LUKE JOHNSTON: Yes, I do.

1 MR. BYRON WILLIAMS: And if in the
2 future for "incurred but not reported" I use "IBNR,"
3 you'll understand that that's what I'm referring to?

4 MR. LUKE JOHNSTON: Yes, that will be
5 helpful. Thank you.

6 MR. BYRON WILLIAMS: For both of us,
7 sir. And the estimate of the actuary at this point in
8 time for the IBNR, including adjustment expenses, would
9 be \$258.7 billion -- excuse me, let's strike that --
10 \$258.7 million?

11 MR. LUKE JOHNSTON: Yes, that's
12 correct.

13 MR. BYRON WILLIAMS: And just to hone
14 you in on where we are going, if -- in terms of
15 accident better -- benefits other indexed, you'll agree
16 with me that the estimate of IBNR by the external
17 actuary was \$39.5 million, agreed?

18 MR. LUKE JOHNSTON: Agreed.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Mr. Johnston, if
23 you can turn one (1) page over, to page 31 of CAC
24 Exhibit 5. You'll agree with me that this is, again,
25 an extract from the external actuary's report of

1 October 31st, 2011, being Exhibit 4, sheet 6?

2 MR. LUKE JOHNSTON: Yes, that's
3 correct. And -- and what you're seeing here are the --
4 we -- we did speak about this a little bit last week.
5 The -- these -- these are the IBNR estimates from the
6 various different methods. We talked about the BF
7 method, using incurred versus paid. These are various
8 tools that the actuary uses to estimate the IBNR.

9 MR. BYRON WILLIAMS: And we will come
10 back to this table as it appears on Exhibit 8.

11 But just, again, to make sure that we're
12 orientated to this document, if I go to the second
13 column, "Incurred Development Method," the -- the
14 estimate of IBNR that would flow from that would be
15 roughly \$31 million, as at this -- this time of the
16 actuary's report?

17 MR. LUKE JOHNSTON: That's correct.

18 MR. BYRON WILLIAMS: And, again, if we
19 just went over a couple of lines to the paid BF method,
20 which is column 5, it would be roughly 35.5 million?

21 MR. LUKE JOHNSTON: Yes, that's
22 correct.

23 MR. BYRON WILLIAMS: And the number
24 that we saw on the -- the previous page, the 39.5
25 million, is -- appears as the selected method of the

1 external actuary under column 6?

2 MR. LUKE JOHNSTON: Yes, that's also
3 correct.

4 MR. BYRON WILLIAMS: Mr. Johnston, if I
5 can ask you to turn to page 32 of CAC Exhibit 5, that
6 somewhat intimidating sheet with all sorts of numbers
7 on it.

8 Do you have that, sir?

9 MR. LUKE JOHNSTON: Yes, I do.

10 MR. BYRON WILLIAMS: And perhaps I -- I
11 apologize if this appeared on your version, but if
12 there's the word "tail" in the bottom right-hand
13 corner, we should strike that out. I don't know if
14 that's only on my copy or not, but I -- I should -- I
15 didn't mean to do that.

16 MR. LUKE JOHNSTON: Yes, I -- I do have
17 that there. And --

18 MR. BYRON WILLIAMS: Okay.

19 MR. LUKE JOHNSTON: -- I'm sure we'll
20 discuss that, so.

21 MR. BYRON WILLIAMS: Now, Mr. Johnston,
22 again, this is -- if we look in the top-left hand
23 corner, we see this again relates to the accident
24 benefit others indexed.

25 And without going into par -- a great

1 deal of explanation right now, this is an important
2 piece of information in terms of how the incurred
3 development and the incurred BF method are -- are
4 developed, agreed?

5 MR. LUKE JOHNSTON: Yes, and just
6 briefly for the -- the benefit of the -- of the Board,
7 I talked -- I spoke last week about development over
8 time. And what you're -- what you see in the -- in the
9 top table is the insurance year. And these are --
10 these are claims that occur in those particular years.

11 And the -- this is the reported losses
12 that we have in our claims system at various points in
13 time. So just briefly, 2000/2001, you see thirty-four,
14 six forty-two (34,642) was reported after eight (8)
15 months, growing to sixty-seven million, sixty-four
16 point -- sixty-four, eight seven five (64,000,875), et
17 cetera.

18 And this is what -- what I mean by
19 development. Especially in the early years, we don't
20 know the full details of our claims. They -- and --
21 and typically, there is some upward development. But
22 as you also see here, after a certain period of time,
23 the -- the development stabilizes and it can be up or
24 down.

25 MR. BYRON WILLIAMS: Mr. Johnston,

1 thank you. And we will go, in -- in a couple of
2 moments, in a bit more detail at some of those numbers.
3 But perhaps for -- and My Friend, Ms. Grammond, did
4 this last week, but just -- just to remind us, because
5 I often forget.

6 When we use the word "incurred", in
7 terms of the development, we're referring both to -- to
8 the amount that has been paid on a particular claim, as
9 well as the amount that has been set aside in case
10 reserves, agreed?

11 MR. LUKE JOHNSTON: Yes, obviously we -
12 - we know the paid, that's one component. And the case
13 reserves are the values set by the case managers, not
14 by the actuaries - by the actual case managers of those
15 claims.

16 MR. BYRON WILLIAMS: And the challenge
17 in any actuarial exercise, knowing roughly that, is --
18 is to estimate the incurred but not reported.

19 And some of the selected factors that
20 we'll get to in just a moment are an important
21 component to that analysis?

22 MR. LUKE JOHNSTON: Yes, they
23 definitely are important. We rely heavily on past
24 patterns of development to predict the future. And
25 when I spoke last week about the importance of the new

1 reserving guidelines we put in and the stability that
2 was created from -- from those reserving changes, this
3 is an example of why that's so important.

4 If we have high levels of variability,
5 it makes it a lot more difficult for us to forecast the
6 development of these claims to the extent that they're
7 more stable. It -- it helps improve our estimates.

8

9 (BRIEF PAUSE)

10

11 MR. BYRON WILLIAMS: And in terms of --
12 I'm going to suggest to you that there -- in terms of
13 predicting IBNR -- no, we'll -- we'll strike that. And
14 I will come back to it.

15 Mr. Johnston, just again focussing you
16 on the top third of the -- the document. And you gave
17 us an -- an explanation. I just want to kind of walk
18 it through a little bit more. And on -- on the left-
19 hand side, under, "Insurance year," if I could direct
20 you to the '06/'07 year just for a moment, sir.

21 Do you see that?

22 MR. LUKE JOHNSTON: Yes, I do.

23 MR. BYRON WILLIAMS: And you'll also
24 see the first line is eight (8). And I'll suggest to
25 you that for the '06/'07 year, the figure of 37.75

1 million is incurred development for that insurance year
2 at eight (8) months?

3 MR. LUKE JOHNSTON: That's fair.
4 That's the -- the paid and ca -- and case reserves at
5 that point in time. That would be that particular
6 accident year as of -- what we know as of October 31st.

7 MR. BYRON WILLIAMS: And if I went
8 twelve (12) -- to -- just one (1) column, over under
9 the -- the number "12" and show -- for that same year,
10 '06/'07, and showed you the figure of \$55.1 million,
11 that would be the incurred development at twelve (12)
12 months for that particular insurance year?

13 MR. LUKE JOHNSTON: Yes. So that would
14 be for all accidents that occurred in that particular
15 insurance year, those are the -- the paid plus reserves
16 that we know as of the end of that year. Of course we
17 have a lot more to learn about some of these claims
18 that are still open, but that's what we know as of that
19 day.

20 MR. LUKE JOHNSTON: And if I wanted to
21 determine the de -- development from eight (8) months
22 to twelve (12) months, I would -- for the '06/'07 year,
23 I would take that figure of 55.1 million under the --
24 under the twelve (12) and divide it by the 37.75 figure
25 under the eight (8).

1 And I would suggest to you it would
2 yield one point four-seven-one-zero (1.4710), sir?

3 MR. LUKE JOHNSTON: That's correct.
4 It's -- it's simply the ratio between those two (2)
5 numbers. And -- and if you go to the table below, that
6 basically is a collection of all the ratios at the
7 various stages of development. So you'll see an
8 '06/'07, that there's one point four-seven-one-o
9 (1.4710), as you -- as you stated.

10 MR. BYRON WILLIAMS: And therein lies
11 the explanation for the -- the numbers in -- in the
12 middle.

13 I'll suggest to you, Mr. Johnston, that
14 they're a reflection of the -- the ratio between
15 development at -- at particular periods of time set out
16 above?

17 MR. LUKE JOHNSTON: That's fair.

18 MR. BYRON WILLIAMS: And without doing
19 the math but just going up one (1) line, again, in the
20 middle under '05/'06 we see, under eight (8) months,
21 one point six-five-seven-two (1.6572).

22 And that's simply the calculation of the
23 -- for the '05/'06 year of the development -- incurred
24 development at twelve (12) months, divided by the
25 incurred development at eight (8) months, agreed?

1 MR. LUKE JOHNSTON: Agreed. And that's
2 a -- that's a good example, actually, of how -- how
3 variable the development is in the very early stages of
4 a claim. So you just saw one point four-seven (1.47),
5 and -- and now you see one point six-five (1.65),
6 basically two (2) years apart, the same -- same period.

7 MR. BYRON WILLIAMS: Mr. Johnston, just
8 moving down this table -- or this -- these two (2)
9 pages, you'll see some lon -- lines such as, "Latest
10 nine (9) volume weighted," "Latest three (3) volume
11 weighted," "Simple average of four (4) of last six
12 (6)." How that's a simple average, I'll never know.

13 But do you see those lines, sir?

14 MR. LUKE JOHNSTON: Yes, I do and I
15 will note that these are -- these are standard
16 throughout the report, although not always applicable,
17 which we can get into if we go through some of these.

18 MR. BYRON WILLIAMS: And -- and, Mr.
19 Johnston, just to make sure I understand, let's --
20 let's take the -- the latest nine (9) volume weighted.
21 That would essentially be calculated by taking, again,
22 under the -- the number "8", in terms of months of
23 development, that would be calculated in -- in taking
24 the -- the latest nine (9) years of losses at a certain
25 period of development, whatever number of months it is,

1 divided by the -- the -- let me try that again.

2 For the latest nine (9) volume weighted
3 under the eight (8), I would get that by calcul --
4 dividing the last nine (9) year losses at twelve (12)
5 months by the last nine (9) year losses at eight (8)
6 months, correct?

7 MR. LUKE JOHNSTON: That's correct.
8 It's basically taking the -- the sum of the losses at
9 each period as opposed to just taking the average of
10 the ratios. That gives a little bit more weight to
11 higher years, but a -- a similar number, likely.

12 MR. BYRON WILLIAMS: And just again, so
13 I understand that point, it's not a calculation of the
14 ratios, but of the actual losses to -- and that's where
15 the weighting comes from?

16 MR. LUKE JOHNSTON: Yes, sorry. It --
17 the sum of the losses at one period divided by the sum
18 of the losses at an earlier period.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: And, Mr. Johnston,
23 right near the end of this barrage of numbers we'll see
24 a -- a line with an asterisk, the selected factors.

25 Do you see that, sir?

1 MR. LUKE JOHNSTON: Yes, I do.

2 MR. BYRON WILLIAMS: And this is the --
3 these are the factors ultimately selected by the
4 external actuary which he will use in his estimate of
5 claims liability, in terms of the incurred development
6 method?

7 MR. LUKE JOHNSTON: That's right.
8 These are the incurred development assumptions for this
9 coverage.

10 MR. BYRON WILLIAMS: And without going
11 into the BF methodology, or the incurred BF
12 methodology, in any great detail, my understanding is
13 that the -- the results from the incurred development
14 method ultimately feed into the -- in -- incurred BF,
15 leave -- leaving aside trend lines and -- and
16 everything else, agreed?

17 MR. LUKE JOHNSTON: Yes, I agree. And
18 -- and the -- the main reason for that, in particular
19 for a coverage such as this one, is we -- we believe
20 that the best information we have after three (3) to
21 five (5) years into a claim is the information provided
22 by case managers, particularly on the -- the serious
23 losses.

24 MR. BYRON WILLIAMS: And, Mr. Johnston,
25 in -- in your experience in selecting the -- the

1 factors, the selected factors, would it be fair to say
2 that the -- the actuary will -- will take a look at
3 different averages, perhaps paying particular attention
4 to more recent developments, and that the selected
5 factors will be the product of his -- his or her
6 actuarial judgment after taking that type of
7 information into account?

8 MR. LUKE JOHNSTON: I -- I think that's
9 fair. And of course, again, the -- as I mens --
10 mentioned previously, the -- of course the history has
11 to be applicable to the -- the matter at hand.

12 One issue in here, and I'm not going to
13 go through all the -- the numbers, but we did have that
14 very substantial reserving change in '05/'06 with --
15 that trickled a little bit into the following year.
16 That's an example where there's a huge effect on the
17 development assumptions that we had that wouldn't --
18 you wouldn't expect that to be reflective of the future
19 in any way.

20 MR. BYRON WILLIAMS: Thank you, Mr.
21 John -- Johnston, for that. Now, there's one other
22 thing that we haven't chatted about, which is the tail
23 factor. And -- and I'd like you to run along with me,
24 the bottom line, "Selected Ultimate," out to under --
25 hopefully it's circled -- under one hundred and twenty-

1 eight (128) months, you should see circled the figure
2 of one point zero-three-four-five (1.0345).

3 Do you see that, Mr. Johnston?

4 MR. LUKE JOHNSTON: Yes, I do. And
5 essentially what that is saying, that from that period
6 forward for any acc -- applicable accident year we're
7 assuming a further development of 3.45 percent above
8 the -- the current reported amounts.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: Mr. Johnston, I'm
13 going to just present you something from the external
14 actuary's report, mostly to just kind of -- if you're
15 looking for it, it's probably at page 26 -- excuse me,
16 32 of CAC-9, just if you've got it.

17 And I'm -- I'm -- because it's
18 complicated, I'm going to read it to you, and then I'll
19 let you elaborate on it, if -- if you feel the need.
20 And in terms of the incurred tail factor, Mr. Johnston,
21 I'll -- I'll suggest to you that it was initially
22 selected as one point zero-zero-two-three (1.0023) to
23 ultimate.

24 Incurred will grow annually by zero
25 point two-three (0.23) of twen -- for twenty-five (25)

1 more years beyond the first ten (10) years, and that
2 that growth factor of zero point two-three (0.23) was
3 judgmentally selected so that initial incurred tail
4 factor would equal one point zero-six (1.06).

5 I'll suggest to you, as well, that loss
6 development factors after one hundred and sixteen (116)
7 months were then revised to reflect the recent
8 experience if there were at least five (5) observed
9 factors, resulting in a final incurred tail factor of
10 one point zero-three-four-five (1.0345).

11 I didn't read it verbatim, Mr. Johnston,
12 but did I get it?

13 MR. LUKE JOHNSTON: That's a accurate
14 description of -- of what was done.

15 MR. BYRON WILLIAMS: And in terms of
16 those -- in terms of the adjustments for recent
17 experience, if I go directly above the one point zero-
18 three-four-five (1.0345) at -- at one twenty-eight
19 (128) months, will -- will that be the -- the three (3)
20 numbers being one point zero-zero-five-zero (1.0050);
21 moving to the right, zero point nine-nine (0.99); and
22 then moving to the right, zero point nine-nine (0.99)?

23 Is that what that's referring to, sir?

24 MR. LUKE JOHNSTON: Yes, we've -- our -
25 - our methodology for recognizing actual experience,

1 once we have five (5) years of data, we take the growth
2 adjustment that you've discussed in -- in your last
3 comments, and we -- we changed that to reflect actual
4 experience, positive or negative.

5 MR. BYRON WILLIAMS: And in terms of
6 this one point zero-three-four-five (1.0345) -- and if
7 you want to flip over to page 33 of CAC-9, really
8 focussing you on the middle of that page -- I
9 understand that it was based upon a -- a review of
10 claims more than -- than ten (10) years old.

11 Would that be fair, sir?

12 MR. LUKE JOHNSTON: Yes, that's fair.

13 MR. BYRON WILLIAMS: And without going
14 into the -- the details of the review, I -- I'd ask --
15 I want to ask -- I would ask you to agree that in -- in
16 terms of that number, that -- that load of 3.45
17 percent, even after that review, it's difficult to
18 assess the likelihood and magnitude of -- of the impact
19 of the assumptions in that review.

20 Would that be fair?

21 MR. LUKE JOHNSTON: Yes, that's --
22 that's definitely fair. We're -- we're talking about a
23 period where the Corporation has no information. And
24 the -- the -- we have had debate at the hearings about
25 what -- what's an appropriate load to put on for

1 relapse of claims or increasing cost of claim --
2 claimants as they age.

3 And the -- the purpose of -- of the
4 review was to get a better understanding of the
5 underlying claims that -- that this assumption is being
6 applied to and try to make the estimate as -- as
7 credible as possible and ensure that we actually do
8 need a tail load.

9 MR. BYRON WILLIAMS: In terms of that
10 3.45 percent load, it would be fair to suggest to you
11 that, given the -- the limited data, you don't have
12 particular confidence that that's the right number?

13

14 (BRIEF PAUSE)

15

16 MR. LUKE JOHNSTON: On page 33 of CAC
17 Exhibit 9, we -- we talk about the -- the study that
18 was done and why we have concern that there -- there
19 may be an adverse development in the future.

20 Just to touch on a few of those points,
21 of these long-term claims, only about 27 percent of
22 them have personal care reserves right now. I believe
23 it's reasonable to assume that, as claimants age and
24 their situations change, that it's possible that that
25 number could increase. And when I say possible, I

1 don't mean hypothetical extreme scenarios; I mean on a
2 best-estimate basis.

3 Similarly, a second point, again the
4 average claimant today that -- that is receiving
5 personal care benefits is only getting about 39 percent
6 of the maximum that they could be receiving. So that -
7 - that's another reason why we see a need for load.

8 Returning to your question, you're --
9 you're correct that the actual amount of the load is
10 very difficult to predict. I -- I believe that we need
11 a load for this coverage on a best estimate basis. And
12 what we've done here is try to take the existing tail
13 load that we have and find a way to move that -- that
14 tail load gradually towards where the data is -- is
15 taking us.

16 But, of course, I won't ultimately find
17 that out till forty (40), fifty (50) years in the
18 future, but nonetheless I need -- I believe something
19 is needed here. And -- but I -- I agree, it's very
20 difficult to estimate.

21 MR. BYRON WILLIAMS: And where the --
22 the data is taking you, sir, at least those -- those
23 three (3) mos -- most recent years, in -- out to one
24 twenty-eight (128) it -- it was slightly positive, out
25 to one (1) -- one forty (140) it was a negative

1 development, and out to one fifty-two (152)?

2 MR. LUKE JOHNSTON: I'm going to assume
3 that you're -- you're looking at the averages below,
4 and -- and --

5 MR. BYRON WILLIAMS: Fair enough, sir.

6 MR. LUKE JOHNSTON: -- that's -- that's
7 reasonable to do. In -- you will see that, of course,
8 we -- we have some concern with the -- the latest
9 observations. In particular, running from the column
10 titled, "One twenty-eight (128) to one forty (140)," we
11 -- we see positive development of one point-o-one eight
12 four (1.0184). Moving along, also positive
13 development, one point-o-o-four one (1.0041.), et
14 cetera.

15 So clearly there's -- if we look at the
16 averages, I -- I would agree that there's some averages
17 above one (1) and some below. But we're -- we're
18 committed to -- to recognizing that experience as it
19 becomes available.

20 MR. BYRON WILLIAMS: Recognizing the in
21 -- uncertainty, would you be prepared to characterize
22 the one point zero three four five (1.0345) as slightly
23 conservative?

24 MR. LUKE JOHNSTON: I don't know I
25 would come to that characterization at all. To be

1 honest, I'm -- I'm very concerned about the risks in
2 this coverage, and I think we should definitely be
3 cautious of the assumptions that we select. I -- I
4 went through just a few points in that study that we --
5 we did on the serious claimants, and I -- I see some
6 legitimate risk of positive development. In my
7 professional opinion, this is as good of a best
8 estimate as I can come up with for this coverage.

9 We did not talk about weekly indemnity.
10 But we did a similar analysis for that line and -- and
11 I concluded that it wasn't reasonable to have a tail
12 based on how we reserve claims. So I don't think by
13 any means I'm -- I'm being conservative here.

14 MR. BYRON WILLIAMS: Just to finish off
15 this point, Mr. Johnston, and we had a bit of this
16 discussion yesterday, apart from some limited
17 discussions with SGI, you haven't sought out any
18 analogous or comparable information, whether from
19 worker's compensation systems, or from -- from the --
20 from Quebec, the SAAQ?

21 MR. LUKE JOHNSTON: No, I have not.

22 MR. BYRON WILLIAMS: Now, back in 2005
23 there was a special analysis conducted. Do you recall
24 that, sir?

25 MR. LUKE JOHNSTON: I believe you're

1 referencing the analysis done by our appointed actuary
2 to justify a tail factor of 6 percent.

3 MR. BYRON WILLIAMS: Yes, I am. Now,
4 since then, has a new study of -- of that type been
5 completed?

6 MR. LUKE JOHNSTON: No, it hasn't. We
7 are basing our projections now on the information that
8 we have in this tail period along with the -- the study
9 that you see that we just discussed in -- on page 33 of
10 CAC Exhibit 9, along with any other relevant
11 information that we have. We don't...

12

13 (BRIEF PAUSE)

14

15 MR. LUKE JOHNSTON: I'll leave it at
16 that.

17 MR. BYRON WILLIAMS: I was hoping for
18 more, sir. Just teasing you.

19 If we could to -- turn to CAC Exhibit
20 number 8, and I believe we can put CAC-5 away for good.
21 I shouldn't say that, but that's my -- my best
22 estimate, Mr. Johnston.

23 In terms of CAC-8, just -- it -- it
24 should be a one (1) page sheet and -- and in the top
25 left in a small headline you should see "accident

1 benefits other indexed." Do you have that, Mr.
2 Johnston?

3 MR. LUKE JOHNSTON: Yes, I do.

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: And we've already
8 had a bit of a discussion about this, the top of this
9 document, but you'll agree with me that apart from the
10 shading in grey, that this is pulled directly from the
11 external actuary's report of claims liabilities as of
12 October 31st, Exhibit 4, sheet 6?

13 MR. LUKE JOHNSTON: Yes, I reviewed
14 these numbers and they're accurate.

15 MR. BYRON WILLIAMS: And before, Mr.
16 Johnston, when we briefly discussed this table, we
17 agreed that essentially it provides the estimate of
18 IBNR for "accident benefit other indexed" that would be
19 achieved through four (4) different methodologies,
20 being the incurred development, the incurred BF, the
21 paid development, and the paid Bornheutter -- I don't
22 want to even say that, the paid BF method.

23 Agreed?

24 MR. LUKE JOHNSTON: Agreed.

25 MR. BYRON WILLIAMS: And under these

1 methods you can see that the range of estimate achieved
2 at the low end flows from -- on the left-hand side the
3 incurred development method.

4 And you'll agree that it is around 31
5 million?

6 MR. LUKE JOHNSTON: Agreed.

7 MR. BYRON WILLIAMS: At the high end of
8 the -- the range of the -- through the various methods
9 is the paid BF. And -- and you'll see that it -- it is
10 around 35.5 million.

11 MR. LUKE JOHNSTON: Correct.

12 MR. BYRON WILLIAMS: And if one wanted
13 to understand where the selected figure on the extreme
14 right of 39.5 million was garnered, you can see that
15 MPI has incorporated some of the estimates from the
16 incurred BF which are shaded, as well as two (2) of the
17 estimates from the paid BF, which is -- which are
18 shaded.

19 Agreed?

20 MR. LUKE JOHNSTON: Agreed.

21 MR. BYRON WILLIAMS: So essentially,
22 the selected methodology and the estimate of thirty
23 point five (30.5) incorporates the incurred BF for the
24 years '94/'95 through '08/'09, the paid BF for the
25 years '09/'10 and '10/'11, and the incurred BF for the

1 year '11/'12?

2 MR. LUKE JOHNSTON: That's correct.

3 And if I could expand on that a little bit. The --
4 there is a very specific rationale for -- for these
5 selections. Serious claims are very difficult -- it's
6 very difficult to estimate our liability for -- for
7 these claims in the first several years. As case
8 managers assess the details of the claim and the
9 expected payments for the various benefits, they can --
10 they have a better estimate of the -- the true costs by
11 about the two (2) to three (3) year timeframe on the --
12 on large claims.

13 After three (3) -- three (3) years, we
14 assume that our most accurate information is from the
15 incurred BF method, because this -- this is what case
16 managers are telling us and we assume that they're
17 reserving the claims accurately at that point.

18 Prior to that period, the data is fairly
19 unstable, not so much on paid but on -- on curred -- in
20 -- on incurred for sure. What we do for the first
21 three (3) years is we use a higher-of method, the
22 higher of either the paid BF method or the incurred BF
23 method.

24 And on the face of it that might sound
25 conservative, but the -- the reason we do it is as

1 follows. As I mentioned, paid has a lot more
2 stability. If we have paid data telling us that we
3 need a higher IBNR than the incurred method shows that
4 -- that early on, we believe it's important to
5 recognize that estimate.

6 On the other hand, if we have case
7 managers putting in very significant dollars into
8 claims, perhaps signalling to us that we have a lot of
9 serious losses in this particular year, it's also
10 important that we recognize a potential for a higher
11 ultimate from that method.

12 So that's what we do in the first --
13 that's the reason we do the higher-of method in the
14 first three (3) years. Of course, we have no
15 justification to do that higher-of once we've assumed
16 hat case managers have accurately reserved these claims
17 after about three (3) years.

18 MR. BYRON WILLIAMS: Thank you, Mr.
19 Johnston. In terms of the ultimate estimate, we can
20 agree that it's higher than the estimate achieved by
21 any of the alternative -- or, excuse me -- any of the
22 methodologies?

23 MR. LUKE JOHNSTON: That's true, and
24 that's largely due to the -- that higher-of methodology
25 that I just spoke of.

1 MR. BYRON WILLIAMS: And indeed it's \$4
2 million higher even than it's closest competitor, the
3 paid BF?

4 MR. LUKE JOHNSTON: That's true, and I
5 believe I just gave the rationale for why that's the
6 case.

7 MR. BYRON WILLIAMS: So the most I'm
8 going to get out of you is that while it looks
9 conservative, in your view, it's not.

10 MR. LUKE JOHNSTON: Again, I -- I think
11 I ran through that fairly clearly, I hope. I -- you
12 know, we can look at other methods farther down the
13 history. And -- and I've -- I've given, I think, a
14 fairly clear rationale on why we use the incurred after
15 three (3) years.

16 If you look at the other methods, they
17 may have higher indications in the history, such as the
18 paid method is often much higher than the incurred
19 method in -- in older accident years. I don't pick
20 those numbers, because again I -- I assume that case --
21 case reserves are set properly after three (3) years.

22 MR. BYRON WILLIAMS: Now, Mr. Johnston,
23 if we move to the -- the second half of this
24 discussion, it doesn't really have a title. Perhaps we
25 should call it, "Sensitivity Analysis."

1 You'll agree with me that in terms of
2 the methodology selected by Manitoba Public Insurance
3 in the top part of the -- the -- the table at the top,
4 the analysis presented in the second table duplicates -
5 - duplicates that methodology in that it uses the
6 incurred BF method for years '94/'95 through '08/'09,
7 the paid BF method for '09/'10 and '10/'11, and then
8 the incurred BF for '11/'12, agreed?

9 MR. LUKE JOHNSTON: Yes, we reviewed
10 these and got approximately the results you're showing
11 in the table.

12 MR. BYRON WILLIAMS: And on that point,
13 directionally and in order of magnitude, you're
14 satisfied with -- with the calculations here, and you
15 will notify us of any material differences?

16 MR. LUKE JOHNSTON: Yes, that's fair.

17 MR. BYRON WILLIAMS: So if we're trying
18 to determine -- compare the results of the bottom
19 estimates versus the selected method and the -- its
20 conclusions of thirty (30) -- 39.5 million in IBNR, we
21 can agree that the methodology employed in both MPI's
22 selected method and the results at the bottom is the
23 same.

24 What has changed is the loss development
25 factors, agreed?

1 MR. LUKE JOHNSTON: Agreed.

2 MR. BYRON WILLIAMS: Well, sir, let's -
3 - let's take the -- in the -- the middle of this second
4 table in Exhib -- CAC Exhibit 8, you'll see the column
5 labelled, "Latest Three (3) Volume Weighted Selected
6 Out to One Hundred and Sixteen (116) to a Hundred and
7 Twenty-eight (128) Development."

8 Do you see that, sir?

9 MR. LUKE JOHNSTON: Yes, I do.

10 MR. BYRON WILLIAMS: So in this
11 analysis it leaves the tail factor, the 3.5 percent
12 load, unchanged, agreed?

13 MR. LUKE JOHNSTON: Agreed.

14 MR. BYRON WILLIAMS: So that element of
15 caution -- not to say conservatism -- is maintained.
16 And essentially what -- what has been produced here is,
17 just looking at the latest three (3) volume -- the loss
18 development factors based upon the latest three (3)
19 volume weighted, agreed?

20 MR. LUKE JOHNSTON: That's true. And I
21 -- I don't want to go into too much of this, but we
22 talked a little bit about the importance of recognizing
23 the latest experience. And I provided some examples of
24 -- of how some of the more recent experience has been a
25 little more adverse. What -- what you can make of that

1 summary there is that, on average, we appear to be
2 putting more weight to the latest information.

3 In regards to -- and I know you didn't
4 address these, but there's a -- a latest nine (9)
5 volume and a latest six (6) volume. The latest nine
6 (9) volume weighted, we -- we simply can't use because
7 it includes previous averages under a different
8 reserving structure. And the vol -- the latest six (6)
9 also includes some runoff from that, but I -- I know
10 you did not go to that, but I just wanted to make it
11 clear.

12 MR. BYRON WILLIAMS: So if we just look
13 at the last three (3) years' experience using the same
14 selected methodology, the results -- the estimate would
15 be about \$2.7 million less, agreed?

16 MR. LUKE JOHNSTON: Just a pure
17 application of three (3) year averages, you'd get that
18 -- that number you stated, yes.

19 MR. BYRON WILLIAMS: And that's leaving
20 the tail factor from one twenty-eight (128) to ultimate
21 unchanged?

22 MR. LUKE JOHNSTON: Sorry, pure
23 application of the averages and the assumed tail factor
24 applied to that.

25 MR. BYRON WILLIAMS: If we go over

1 another two (2) lines and take a -- a simple average of
2 the middle three (3) of the last five (5), selected out
3 to one sixteen (116) to one twenty-eight (128), and
4 again leave that cautious three point four-five (3.45)
5 tail unchanged, the result we would get, you would
6 agree, is 22.4 million, or roughly 17 million less than
7 the IBNR of MPI?

8 MR. LUKE JOHNSTON: Yes. And of
9 course, given there's so many factors, I -- I can't
10 characterize why -- why specifically that is the case,
11 other -- other than to say there has been more weight
12 given to more recent observations.

13 And without having to go through every
14 single loss development assumption and deciding whether
15 it's a best estimate or not, I -- I will say that I,
16 you know, I have selected my LDFs on -- on the best-
17 estimate basis. And this is how the results turn out
18 relative to those selections.

19 MR. BYRON WILLIAMS: And just for a
20 moment, directing your attention to the -- the last
21 column, which removes the tail factor from one twenty-
22 eight (128) to -- to ultimate for both incurred and
23 paid, first of all, method.

24 You'll agree with -- that's what we've
25 done -- done there, sir?

1 MR. LUKE JOHNSTON: Agreed.

2 MR. BYRON WILLIAMS: And without asking
3 you to com -- comment on the reasonableness of removing
4 the entire tail factor, Mr. Johnston, does this
5 demonstrate the sensitivity of -- of these estimates to
6 a tail factor?

7 MR. LUKE JOHNSTON: That's fair.

8

9 (BRIEF PAUSE)

10

11 MR. LUKE JOHNSTON: In particular, a
12 tail factor of 3.45 percent.

13 MR. BYRON WILLIAMS: Could you ballpark
14 an estimated tail factor of 2 percent, Mr. Johnston, or
15 is that -- that asking too much?

16

17 (BRIEF PAUSE)

18

19 MR. BYRON WILLIAMS: Mr. Johnston, you
20 could do it at the break, too, if it's...

21 MR. LUKE JOHNSTON: I just wanted to
22 make sure that I was correct and just kind of pro --
23 taking a proportion of that -- that number and didn't
24 want to just assume that. My -- again, not performing
25 the calculations, but I would assume approximately if

1 you had a factor -- a tail factor of 2 percent versus
2 3.45, that number would likely fall to about 30 to \$35
3 million, in terms of impact, negative. We --

4 MR. BYRON WILLIAMS: Mr. --

5 MR. LUKE JOHNSTON: When we go back to
6 the office, we can actually put those numbers in.

7 MR. BYRON WILLIAMS: Mr. Johnston, just
8 I want to make sure I understand what you -- you're
9 saying. When you say -- I think I heard minus thirty-
10 five (35), you're -- you're referring to the bottom
11 number as compared to the minus. Excuse me.

12 Perhaps you could articulate what the --
13 the number is rather than letting me stumble through
14 it.

15 MR. LUKE JOHNSTON: Yeah, I was just
16 saying that my expectation on an approximate basis
17 would be if a 3.45 percent tail generates a \$57 million
18 negative difference, I would assume that a 2 percent
19 tail, just taking the proportion of two (2) versus
20 three point four five (3.45) would give you about a 30
21 to \$35 million difference there, negative.

22 MR. BYRON WILLIAMS: And, essentially,
23 if I wanted to take that difference, let's say the --
24 the high end of 35 million, what you mean is that
25 instead of an IBNR of 39.5 million for accident benefit

1 other, it would be around 4.5 million, taking that
2 higher range.

3 Is that what you meant, Mr. Johnston?

4 MR. LUKE JOHNSTON: Again, on a
5 approximate magnitude basis, that's in the ballpark.

6 MR. BYRON WILLIAMS: Mr. Chairman, I
7 have, I anticipate, half an hour of questions to go. I
8 saw that there was an undertaking filed by MPI in terms
9 of what Mr. Parkinson (phonetic) -- not Mr. Parkinson
10 of Manitoba Hydro, but Mr. Parkinson on behalf of MPI -
11 - that I -- I might like a chance to look at.

12 And it's -- it's -- I'm totally at the
13 pleasure of the panel, but if we could take a fifteen
14 (15) minute break on that. And then that would leave
15 me done, with the exception of the exhibits, MPI 13 and
16 14, which were filed this morning, which our experts
17 haven't had a chance to look at.

18 THE CHAIRPERSON: So let's take a break
19 of fifteen (15) minutes. And back in this room at,
20 say, twenty-five (25) after 2:00.

21

22 --- Upon recessing at 2:12 p.m.

23 --- Upon resuming at 2:26 p.m.

24

25 MR. BYRON WILLIAMS: Thank you, Mr.

1 Chair, and, members of the panel.

2

3 CONTINUED BY MR. BYRON WILLIAMS:

4 MR. BYRON WILLIAMS: Ms. McLaren, I
5 think this goes to you. I'd like to have a -- just a
6 very brief discussion about productivity indicators and
7 benchmarks. And as we embark upon the discussion, when
8 I ask some of these questions I'd like you to keep in
9 mind a distinction between benchmarks comparing you to
10 other organizations in different jurisdictions and then
11 internal benchmarks or productivity indicators. Okay?

12 MS. MARILYN MCLAREN: Sure.

13 MR. BYRON WILLIAMS: Now, in terms of -
14 - in -- in terms of the -- a conversation I believe you
15 -- you held with My Friend Ms. Grammond, I can't even
16 remember what day or which week it was, Ms. McLaren,
17 but you had some discussion with her in terms of
18 productivity. And I -- I -- my understanding was that
19 you were expressing some appreciation for the Gartner
20 Group in terms of the assistance it had -- it had
21 provided to you in terms of information technology and
22 benchmark analysis?

23 MS. MARILYN MCLAREN: Yes, that's fair.

24 MR. BYRON WILLIAMS: And keeping in
25 mind that distinction between comparisons with others

1 and -- and internal benchmarks, let's start with --
2 with the Gartner Group. I take it that you found some
3 value in their benchmarking exercise with -- with other
4 jurisdictions?

5 MS. MARILYN MCLAREN: Yes.

6 MR. BYRON WILLIAMS: And apart from the
7 Gartner Group as an external consultant to assist you
8 with benchmarking compared to others in terms of
9 information technology, has the Corporation retained
10 any other external assistance to -- to assist it in
11 that external comparison to others exercise?

12 MS. MARILYN MCLAREN: We've dabbled a
13 little bit, but nothing that we've really latched onto
14 and that we're serious with.

15 MR. BYRON WILLIAMS: Again, looking at
16 external comparators, first of all, Ms. McLaren, in
17 your view is there something inherently unique about
18 information technology that allows you to look at
19 external comparators, or are there other areas where --
20 where that might be fruitful?

21 MS. MARILYN MCLAREN: No, I -- I think
22 there are likely some others. There's an organization,
23 I believe, the Forrester Group does a lot of work with
24 call centres and metrics for call centres. We've had
25 some information from them, but not -- the -- you know,

1 we -- the information -- the study that we have now
2 done with Gartner for two (2) years was really part of
3 a larger use of Gartner resources. So we did not go
4 looking for IT benchmarks and landed on Gartner. It
5 really happened the other way around.

6 MR. BYRON WILLIAMS: And so there --
7 there may be some opportunities in external comparisons
8 in -- in metrics relating to call centres. Again,
9 focussing on the external, are there any others like
10 that?

11 MS. MARILYN MCLAREN: There -- there
12 may very well be; nothing that I would hold out any
13 sort of commitment to this group at this time.

14 MR. BYRON WILLIAMS: Recognizing the
15 value of the Gartner Group in assisting you to compare
16 yourself to others, can you identify what, if any,
17 assistance you ref -- rec -- rac -- received from them
18 in terms of internal productivity exercises, or
19 metrics, or do you consider them one and the same?

20 MS. MARILYN MCLAREN: For the most part
21 I think they're one and the same.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: Now, in your

1 discussion with Ms. Grammond you also mentioned looking
2 at establishing some key metrics in terms of the
3 average number of files handled by employees.

4 Do you remember making a statement to
5 that effect?

6 MS. MARILYN MCLAREN: The context being
7 claims files, both injury and physical damage, I
8 believe.

9 MR. BYRON WILLIAMS: And in terms of
10 that vision of -- of establishing key metrics, how far
11 down the path is MPI in terms of this specific average
12 number of files handled by -- in terms of emp -- by
13 employees?

14 MS. MARILYN MCLAREN: I would say at
15 this point closer on the injury side of things because
16 we have completed the bodily injury improvement
17 initiative, we have -- everything has been re-
18 engineered on that piece of the business, so I think it
19 would take -- we -- we are closer to having a good
20 sense as to work-load expectations per work group and
21 per employee in that area. Potentially, within the
22 year.

23 MR. BYRON WILLIAMS: And on the other
24 side?

25 MS. MARILYN MCLAREN: That -- I'm --

1 I'm not sure that that would make sense to really
2 aggressively pursue that as we are likely to embark on
3 a major re-engineering effort on the physical damage
4 side of things. I might prove wrong on that, but my
5 thinking at this point is it would likely follow what
6 we've done on the injury side of things, in terms of
7 re-engineering it, getting your staff in a position
8 where you're truly confident they have the tools and
9 the knowledge and the supports to do the job well, and
10 then you're in a better position to set benchmarks.

11 MR. BYRON WILLIAMS: We'll come back to
12 the injury side in just one (1) second, Ms. McLaren.

13 In terms of the, "re-engineering," in
14 quotation marks, on the physical damage side, is that
15 an information systems re-engineering? Is it a
16 structure engineering? What -- what do you mean by
17 that?

18 MS. MARILYN MCLAREN: Top to bottom,
19 side to side, much as we did with the bodily injury re-
20 engineering exercise. We would likely have to
21 fundamentally re-engineer key claims handling and
22 claims filing process, both that affect customers, that
23 affect body shops, that effect MPI, and falling from
24 that there would be significant changes to job
25 responsibilities, job descriptions, potentially

1 organization, organizational units, and it would really
2 touch all of those things. It would be a significant
3 IT component, absolutely, but it would also be much
4 more in terms of organizational change, and actual
5 customer/MPI, and customer/body shop, and body shop/MPI
6 process and -- and relational changes, as well.

7 MR. BYRON WILLIAMS: Given the
8 magnitude of that restructuring that you appear to be
9 contemplating, is it your view that the forward looking
10 forecasts of the Corporation can -- in terms of your
11 outlooks -- can -- can accommodate that? Is there
12 enough -- is the money in there already for the re-
13 engineering?

14 MS. MARILYN MCLAREN: We talked in the
15 capital there's -- there's an \$8 million provision in
16 the next two (2) years for the road service and PD, and
17 the road safety visioning, and I would expect a good
18 piece of the \$20 million provision would -- would
19 likely go towards that, as well. That is there because
20 we don't have a specific clear sense.

21 I would also expect that as with the
22 bodily injury initiative the capital cost of the
23 project is returned in lower expenses and lower claims
24 incurred. So my expectation for a physical damage re-
25 engineering would be that it would follow that similar

1 model. That, you know, regardless of whether every
2 dollar of capital is really in the outlook, it would
3 need to have a very strong business case to -- to
4 proceed.

5 MR. BYRON WILLIAMS: And recognizing
6 that I did miss an hour or two (2) of this Hearing,
7 although I read the notes, is that -- has that business
8 case been finalized or presented to the Board?

9 MS. MARILYN MCLAREN: No, and that's
10 why, you know, a good chunk of money is in the
11 unallocated \$20 million provision.

12 MR. BYRON WILLIAMS: Let's go back to
13 the metrics, in terms of the average number of files
14 handled on the injury side.

15 What, if any, external assistance is MPI
16 seeking in that regard?

17 MS. MARILYN MCLAREN: As -- as one of
18 the benefits that we have, one of the opportunities
19 that we've had as a user of the FINEOS claims
20 management software system -- excuse me -- we are a
21 member of both a North American user group and also a
22 public-sector user group. I believe we've talked about
23 this here before.

24 But there are automobile injury
25 compensation systems in Australia that are very similar

1 to ours and to Quebec's and to Saskatchewan's. And
2 that Australia organization uses FINEOS as well. In
3 New Zealand, they have a -- a broader system that is a
4 broader accident compensation system, administered by
5 the Accident Compensation Corporation of New Zealand.
6 They also use FINEOS and they are part of this user
7 group.

8 So we have had new opportunities, which
9 we're really trying to make as -- as much use of as
10 possible to use them to learn. They have been FINEOS
11 users longer and, in some cases, have been in the no-
12 fault injury compensation administration business
13 longer. So we are learning from them, primarily.

14 In addition, we can get a little bit of
15 information in that regard from FINEOS. We have
16 regular meetings with ICBC, SGI, and -- and the SAAQ on
17 the injury side of the business. We learn from them as
18 well. And there's some dialogue, as well, with the
19 local Workers' Compensation Board of Manitoba.

20 MR. BYRON WILLIAMS: The -- there was a
21 recent review of the personal injury protection plan by
22 the Office of the Auditor General of Manitoba.

23 Is that correct?

24 MS. MARILYN MCLAREN: Yes, there was.

25 MR. BYRON WILLIAMS: And am I correct

1 in -- in understanding that one of the areas -- let me
2 back up.

3 And I guess we should acknowledge right
4 off the bat that the -- it sounds like the audit was
5 going on at the same time as the business process
6 review was taking place as well, agreed?

7 MS. MARILYN MCLAREN: It was. Yes, it
8 was.

9 MR. BYRON WILLIAMS: So taking those --
10 taking that into context, there was a -- a comment I'll
11 ask from -- I'll ask you to agree -- from the Auditor
12 General suggesting that MPI needs to improve its
13 performance information with regard to PIPP.

14 Do you recall that -- that type of
15 statement?

16 MS. MARILYN MCLAREN: In a general
17 sense, yes.

18 MR. BYRON WILLIAMS: And what did
19 Manitoba Public Insurance understand that
20 recommendation to mean?

21 MS. MARILYN MCLAREN: You know, to --
22 for the most part, we understand that we have met that
23 obligation to improve through the new injury management
24 system. And that was the response to many of the
25 recommendations.

1 If you would like me to be more
2 specific, what I would do is, I would just give this
3 group the reference to the public accounts committee,
4 where the Auditor General and I spoke. She spoke about
5 the recommendations, I spoke about the Corporation's
6 response to the recommendations. It was all there at
7 the public accounts committee of the legislature.

8 MR. BYRON WILLIAMS: Certainly. I
9 think there was a link in one of the Information
10 Responses, so I've reviewed it. So I'm not going to
11 ask for it. If the panel wishes for it, I'll leave
12 that -- that up to them.

13 And -- and -- but on the specific issue
14 of measuring and reporting on PIPP performance, is it
15 your view that you have already satisfied the -- the
16 thrust of the Auditor General's recommendation?

17 MS. MARILYN MCLAREN: In terms of
18 positioning ourselves to do so, yes. As of about the
19 middle of September, two (2) weeks ago, we would have
20 hit, I think, the two (2) year mark in having
21 implemented that system. So there's not as much data
22 and reporting mechanisms there as there will be as we
23 continue to move forward through time.

24 But absolutely, the -- the system has
25 delivered what we believed we needed, in terms of

1 better ability to have digital information, information
2 in computer systems, not in paper files. And -- and we
3 are better positioned to deal with that.

4

5

(BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: So recognizing an
8 intent to move forward in a metrics related to call
9 centre performance, the average number of files handled
10 by employees, particularly on the injury side, what, if
11 any, other key metrics moving forward, with regard to
12 productivity, does the Corporation contemplate?

13 MS. MARILYN MCLAREN: In terms of the
14 key staffing areas, you know, and if you look at
15 physical damage claim staff, injury claim staff, call
16 centre staff, that -- that's really the -- a
17 significant majority of the people that work at MPI.
18 So that really covers a fairly critical mass of
19 employees.

20 Because so much of our work is handled
21 through brokers on the front end of the system, we
22 don't have the same opportunities on the front end. We
23 don't, you know, renew policies, for the most part,
24 with our own staff, things like that. So the ones that
25 I spoke to already are the ones that immediately come

1 to mind; and -- and, again, as -- as we've talked
2 about, IT most certainly.

3 MR. BYRON WILLIAMS: Now, I think
4 probably the next question goes to Ms. Reichert, but
5 certainly the next few are probably either for Ms.
6 Reichert or Ms. McLaren. So, Mr. Johnston, you and I
7 have talked enough, in my view, and I'm sure yours, for
8 a while.

9 Ms. Reichert, in terms of CAC Exhibit
10 number 9, I wonder if you can turn to page 35, please.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: And certainly, Mr.
15 Reichert, you or Ms. McLaren, you'll agree with me,
16 first of all, that -- that the excerpt here is Chart 1
17 from the response to CAC/MPI-1-148?

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

19 MR. BYRON WILLIAMS: And on the chart
20 I'll suggest to you that we see three (3) different
21 lines: one (1) representing CPI, one (1) representing
22 net claims incurred per vehicle, and one (1)
23 representing claims expense per vehicle.

24 Do you see those three (3) lines, Ms.
25 Reichert?

1 MS. HEATHER REICHERT: Yes, I do.

2 MR. BYRON WILLIAMS: And if we were to
3 try and visually describe how these lines progress over
4 time from 1993 through to 2012, could we agree that the
5 CPI -- that there is a fairly close relationship
6 between the CPI line and the net claims incurred per
7 vehicle line?

8 MS. HEATHER REICHERT: Yes, that
9 appears to be the case.

10 MR. BYRON WILLIAMS: And could we also
11 agree that in terms of claims expense per vehicle,
12 starting on or about 1999, there appears to be a
13 divergence from the other two (2) lines, with that
14 rising at a steeper angle?

15 MS. HEATHER REICHERT: Yes, I would
16 agree.

17 MR. BYRON WILLIAMS: I'm not sure that
18 was statistically correct language there, but...

19 MS. MARILYN MCLAREN: Mr. --

20 MR. BYRON WILLIAMS: Williams.

21 MS. MARILYN MCLAREN: -- Williams, if I
22 could just give a little bit of context to this graph,
23 particularly in the interest of the new panel members,
24 because I find these graphs really, personally,
25 bordering on a bit frustrating. Starting with a

1 hundred dollars in 1993, first of all, claims incurred
2 is always several times larger than claims expense. So
3 when you're staring with a hundred dollars in 1993 and
4 putting them on the same point, it really just doesn't
5 work from a practicality point of view.

6 But the important point that I want to
7 make is that the Corporation works very hard to manage
8 and mitigate increases in claims incurred and it does
9 that with staff. So one example is the extent to which
10 we have staff employed at MPI to find ways in the
11 market to maximize our use of used parts in the vehicle
12 repair process.

13 So if we're successful at, you know --
14 with those staff, we hire staff to do that. And if
15 they're successful we'll pay fifty (.50) cents on the
16 dollar as opposed to an original equipment manufacturer
17 part. That dampens down the claims incurred, but it
18 makes your expenses go higher. Not nearly as -- you're
19 saving way more than you're spending, but your expenses
20 go up to manage your incurred going down.

21 The -- now in this claims expense
22 calculation, I don't know if we have included our anti-
23 theft initiatives, but that's another one, the
24 immobilizers. The -- that is a loss prevention
25 initiative that's reported in the same category

1 generally as claims expense.

2 So we spend all this money immobilizing
3 vehicles, your incurred comes down. So there's not a -
4 - there's not as much of this kind of strange
5 relationship that this graph would -- would purport to
6 show when you understand sort of the differences and
7 quantum between incurred and expense in 1993 and how
8 you can really help.

9 And that's one of the things that is
10 really an advantage of this public auto insurance
11 model. When you have the entire market here, you can
12 work really hard to keep your incurred down. But to do
13 that, it takes people and resources, and therefore you
14 have expenses.

15 MR. BYRON WILLIAMS: Well, thank you,
16 Ms. McLaren. In terms of the discussion, let's --
17 let's just take immobilizers just as -- as one example.
18 That significant expenditure would have been trailing
19 down, magnitude-wise, out of the MPI claims expense
20 budget by when?

21 MS. MARILYN MCLAREN: Maybe three (3)
22 years ago.

23 MR. BYRON WILLIAMS: And you've just
24 jumped into the discussion; so, Ms. Reichert, don't
25 feel -- feel hurt. I'm -- I'm talking to your boss.

1 I'll talk to anyone, I don't care. I love you all.

2 The -- Ms. McLaren, one -- one thing my
3 client is struggling to get our -- our head around is
4 we see this portrayal, in terms of this graph, and then
5 -- and then we think on the -- some of the very
6 intriguing things the Corporation is doing on its
7 forecasting or its DCAT, where it's assuming a
8 proportionate relationship between claims expenses and
9 claims incurred.

10 And our client and -- and their legal
11 counsel is struggling to -- to reconcile those -- those
12 two (2) divergent -- at least at first glance --
13 divergent patterns.

14 Does that help?

15 MS. MARILYN MCLAREN: That's fair.

16 MR. BYRON WILLIAMS: So help me to
17 understand, Ms. McLaren. Are we to expect, over time,
18 a continued divergence, in terms of the -- the expense
19 between net claim incurred -- net claims incurred --
20 excuse me, let me try this again.

21 Are we to expect a continued divergence
22 between the relative growth of net claims incurred and
23 claims expense per vehicle?

24 MS. MARILYN MCLAREN: It's possible, as
25 -- as demonstrated on this kind of a graph, with this,

1 you know, starting point in 1993 treating the hundred
2 dollars as if it's equal.

3 I don't know how that translates to the
4 work that Mr. Johnston does. And he can speak when I'm
5 finished if he can somehow explain the importance of
6 the different views that this uses compared to what he
7 uses in -- in DCAT and forecasting and so on.

8 But a big part of our interest in the
9 future will be focussed on things like having a more
10 robust infrastructure within MPI to really continue to
11 have a comfort level that ♦ that repairs -♦ funded
12 repairs are -- are done to a very high quality of
13 safety, high quality standard, and so on.

14 So I think it ♦- we also hope to
15 continue to do a really good job on price of parts
16 contain ♦- you know, containing the price of parts. So
17 it's ♦- it's possible that something like this graph
18 will continue along that trend. I -- I can't say more
19 specifically.

20 But one of the things that we really do
21 -- the money in this business is all in incurred, and
22 the extent to which you can manage incurred is the
23 extent to which you keep to a record of one (1) rate
24 increase in fourteen (14) years out of fifteen (15),
25 and -- and having the lowest rates across the country.

1 That -- that's where a lot of the value
2 is. So if it takes staff and other forms of claims
3 expense to manage the incurred, that really is one of
4 our highest-priority jobs.

5 MR. BYRON WILLIAMS: And we'll get to
6 you if you feel inclined, Mr. Johnston, in a second.
7 The -- the relative growth in premium hasn't hurt
8 either, in terms of keeping costs down at the -- where
9 the -- hasn't hurt at all, as well, in terms of keeping
10 the rate increases low, Ms. McLaren.

11 Not that it's on this table but my
12 simple point to you is when we are trying to understand
13 what are some of the factors that are allowing us to
14 have relatively low rate growth, a rate -- overall rate
15 increases, it's not just on the clau -- the -- the cost
16 side. There is a built-in inflationary impact on the
17 premium side.

18 MS. MARILYN MCLAREN: Sure. And
19 putting aside the significant changes we've had in our
20 view of the cost of providing the injury coverage, we
21 still have a comparable growth in our vehicle damage
22 claims every year that it tracks right along very well
23 with the growth in premiums.

24 So, you know -- and a lot of -- I'm sure
25 a lot of this dampening effect on the incurred is

1 related to, you know, the adjustment in the injury
2 claims reserves, as well.

3 MR. BYRON WILLIAMS: Now, just to be --
4 just to continue my dialogue with you for just one (1)
5 or two (2) more questions, certainly our client's
6 understanding traditionally in these proceedings is
7 that -- that claims expenses have tended to move in
8 tandem with claims incurred. And my client could
9 certainly pull up statements from Mr. Zacharias or
10 others to that effect.

11 And I'll certainly look forward to
12 hearing from Mr. Johnston, but I guess to re -- you
13 perhaps have already answered this, but are we
14 expecting that to change?

15

16 (BRIEF PAUSE)

17

18 MS. MARILYN MCLAREN: Absolutely not
19 directionally, and the conversations that we've had
20 through time would really substantiate that, and I'm
21 not taking a different view of that. But I just think
22 it's important to point out that, you know, there's
23 somehow -- there are sometimes tradeoffs that happen,
24 and -- and I'll -- I'll give you an example.

25 It's something that we've been talking

1 to the repair trade about for -- for some time. It --
2 it's publically known right now within the repair
3 industry. For many years, we -- there was a quasi-
4 independent recycling -- recycler central office that
5 administered the collection of used parts and
6 distribution to repair facilities.

7 Working with MPI, with the shops, and
8 with recycle -- recycler centre office we were able to
9 determine when a used part would be available. We
10 would therefore put it on the estimate, and the
11 recycler central office would use like a coordinating
12 function.

13 Way back when that concept was first
14 determined -- first identified as something that would
15 make sense for the Corporation to be involved in, the -
16 - the business case was put forward internally in the
17 Corporation that this is something that should be done
18 internally, that we would have the opportunity to
19 really do a better job, and to get more used parts in
20 the system, and to really better administer the entire
21 thing.

22 If the decision had been taken to do
23 that, it would have added to claims expense. And --
24 like, this was a long time ago now -- the decision was
25 made, no, let's get an organization external to the

1 Corporation to do it. Then it can be part of claims
2 incurred. And our staffing levels won't increase and
3 our -- therefore, our claims expenses won't increase by
4 adding this new program.

5 We've made the decision with the full
6 support of that industry, as well as the trade, the
7 repair trade, to now bring it in. So we are going to
8 have more staff. We're going to have a increase in
9 claims expense, but we believe we'll get about a
10 million dollars a year and more used parts on vehicles.
11 And so there's a significant offset to that.

12 So sometimes it really works that way.
13 So I think we just need to have that understanding here
14 that while we absolutely believe if there was, you
15 know, two thousand (2,000) more injury claims next
16 year, we would need more staff to handle them.

17 In the bigger picture, given the changes
18 that we've had as well with our -- our understanding of
19 the likely future cost of injury claims, I'm not sure
20 that it takes any more people, or any fewer people, to
21 administer a claim now that we think is worth \$1.2
22 million when, you know, three (3) years ago, we thought
23 it might have been \$2 million.

24 So there's not a direct, solid
25 relationship as simplistically as it may have been

1 talked about here before by Mr. Zacharias and Mr.
2 Galenzoski, but certainly the relationship does still
3 hold. But it is subject to changes in business
4 processes and changes in purposeful initiatives that
5 are almost always focussed on managing that incurred.

6 MR. LUKE JOHNSTON: Yeah, we -- we
7 talked a little bit about this relationship between
8 expenses and incurred, and -- and I indicated that I
9 struggled a little bit with what to assume in the DCAT.

10 One significant driver of this low trend
11 that you're seeing in the incurred per vehicle is -- is
12 PIPP. And if -- if you look in TI.17 and how we
13 forecast PIPP, we were essentially looking at trend
14 rates less than 1 percent, almost flat. And the -- the
15 underlying reasons for such a -- a low trend rate
16 appears to be declining frequency relative to how many
17 collisions we have but still, an absolute basis,
18 slightly more injury claims.

19 So how -- how this type of trend rate of
20 -- of 1 percent or lower relates to what we'd expect
21 the trend rate to be for staffing expenses on -- on
22 these PIPP claims isn't entirely clear. I -- I don't -
23 - I wouldn't -- I wouldn't assume that the staffing
24 costs would be in the 0.5 percent growth rate.

25 But again, as Ms. McLaren indicated, we

1 still appear to be having about the same or a little
2 bit more injury claims. And -- and whether the costs
3 of taking or handling these claims changes, whether
4 we're -- we're fortunate enough to have slightly lower-
5 severity accidents or not is, you know, isn't clear.

6 MR. BYRON WILLIAMS: With the Board's
7 per -- permission, I just want to explore this a bit
8 more. To a certain degree, we're trying to get insight
9 or comparators that give insight to what's actually
10 going on in the Corporation.

11 So whether it's to Ms. McLaren or -- or
12 to Mr. Johnston, does that suggest that -- that in
13 trying to -- to do a comparison of claims incurred
14 versus claims expenses per vehicle, one takes out PIPP
15 and looks at the trends in terms of collisions? You
16 know, you're trying to make these adjustments; you're
17 thinking it's important for your modelling exercise.

18 Let's give some advice to the -- to the
19 Public Utilities Board.

20

21 (BRIEF PAUSE)

22

23 MR. LUKE JOHNSTON: That's something we
24 could look into. We're just -- I wanted to understand
25 our -- our current ability to specifically tie the --

1 the costs of certain expenses to certain coverages.

2 And that -- that's what I'm not as clear on, but it's

3 something we can definitely investigate.

4 MR. BYRON WILLIAMS: Now I'm not sure
5 who this question goes to. But if you can turn to CAC-
6 9, Exhibit 9, page 37.

7 MS. HEATHER REICHERT: Sorry?

8 MR. BYRON WILLIAMS: CAC-9, exhibit --
9 excuse me, I'm getting fatigued. CAC Exhibit 9, page
10 37. I have a feeling this might be one of those
11 indicators that prompts Ms. McLaren to intervene. Feel
12 free.

13 Ms. Reichert, you'll -- first of all
14 let's start with -- this is a response to CAC
15 Information Request 2-76.

16 Do you see that?

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

18 MR. BYRON WILLIAMS: And just for the -
19 - your and the Board's information, this response,
20 there's actually two (2) pages of it; so there's four
21 (4) tables in -- in total. Just by -- in terms of
22 summarizing the two (2) -- first two (2) tables, which
23 I -- I think are less important, but you may disagree,
24 I'll suggest to you, Mr. Reichert, that in Tables 1 and
25 2 in -- in this Information Request, the Corporation is

1 calculating the average expense per unit both for
2 claims and operating expenses for years 2007/'08
3 through to 2016 and '17?

4 MS. HEATHER REICHERT: Correct.

5 MR. BYRON WILLIAMS: And just for those
6 trying to follow along, the Table 1 looks at Bla --
7 Basic claims expenses per Basic earned vehicle unit,
8 and Table 2 looks at Basi -- Basic operating expenses
9 excluding regulatory appeal for Basic earned vehicle
10 units.

11 Do you see that?

12 MS. HEATHER REICHERT: Yes.

13 MR. BYRON WILLIAMS: And I'll -- I'll
14 ask you to turn to page 38. And let's just work at one
15 (1) table at a time. I'll suggest to you that Table 3
16 -- and, in -- in particular, I'll ask you to look at
17 the fifth column, being CPI claims expense.

18 And I'll suggest to you that what --
19 what this analysis in -- in column 5 is doing is -- is
20 taking a base year, being 2007/'08, and calculating the
21 -- what the expense would be -- the claims expense
22 would be based upon a per unit cost if it increased by
23 CPI, agreed?

24 MS. HEATHER REICHERT: Yes.

25 MR. BYRON WILLIAMS: And Table 4,

1 column 5, does the same thing for operating expenses
2 excluding the regulatory appeal, agreed?

3 MS. HEATHER REICHERT: Yes.

4 MR. BYRON WILLIAMS: And, essentially,
5 side by side, going back up to Table 3, one (1) has a
6 comparison between what the claims expense per vehicle
7 unit would be if it grew at CPI as compared to the
8 actual growth in terms of MPI claims expense?

9 MS. HEATHER REICHERT: Yes, that's
10 correct. This table is comparing -- assuming, you
11 know, MPI were to grow at inflation, what the
12 difference is to how we are actually appearing to grow.

13 So it -- it's making an assumption
14 indirectly in this comparison that it would be
15 appropriate for MPI to grow at the rate of inflation.
16 Therefore, you know, this increase or decrease relative
17 to -- to CPI is of -- of some supposed significance.

18 I would offer that I think that the base
19 assumption that it would be appropriate for CPI's
20 expenses to -- to grow at inflation is -- if flawed in
21 that -- and Ms. McLaren has talked about this -- this
22 many times -- being a public insurer, one of our key
23 mandates is to be accessible to all Manitobans.

24 And therefore, we have significantly
25 more service centres available throughout this province

1 than would another private insurer that you might
2 expect would actually be able to manage their
3 operations within a inflationary increase.

4 Similarly, the investments that we've
5 made -- again, as Ms. McLaren has talked about -- to
6 assist with keeping our claims incurred down and
7 therefore overall rates for Manitobans down, the --
8 those investments are what you see getting reflected
9 through claims expenses and operating expenses, through
10 the depreciation and amortization of very significant
11 expenditures in the last, I guess, four (4) to five (5)
12 years.

13 So, yes, I understand what the table is
14 trying to show, but the basic premise that it would be
15 appropriate for MPI to grow at the rate of inflation
16 and do all of these things that we're doing to keep
17 claims incurred down and, therefore, the overall rates
18 for Manitobans, as low as they are, I think, is -- is
19 inaccurate.

20 MR. BYRON WILLIAMS: Well, let's try
21 and turn this discussion away from defending claims
22 growth, and let's -- let's try and turn it back to
23 potential productivity indicators to assist the Board.

24 And using the earned unit measurement
25 and whether it's inflation; or less than inflation,

1 like the -- the CRTC does with stretch factors; or
2 wheth -- whether it's inflation plus a modest amount,
3 is there some conceptual value, if we are going to look
4 at productivity indicators for this Corporation, of
5 trying to, you know, use some sort of baseline based
6 upon earned units?

7 So, Ms. -- Ms. McLaren, if you're not
8 understanding me, whether we're thinking inflation or a
9 stretch factor less than inflation or more than
10 inflation, if this regulator is looking for some
11 productivity comparisons for this Corporation, is the
12 Basic earned unit a suitable vehicle, no pun intended,
13 for that? There might have been a pun intended.

14 MS. MARILYN MCLAREN: Earned vehicle
15 units may very well be. I -- I strongly doubt that any
16 version of CPI would be the other piece of that.

17 MR. BYRON WILLIAMS: But is -- Ms.
18 McLaren, and I -- clearly, none of us know where the
19 Board wishes to go, but if -- just in terms of why they
20 might be, you know, a good starting point, when we look
21 at how rates are set for Basic insurance, if we went to
22 TI.2, that, as I understand it, is based upon that kind
23 of Basic earned vehicle unit, a starting place?

24 MS. MARILYN MCLAREN: Yes, absolutely.
25 That -- and that's -- Mr. Johnston went through that

1 back earlier in the proceedings. Calculating the cost
2 per earned vehicle, per earned unit, the risk per
3 earned vehicle, so that fundamentally the rating
4 methodology should drive no change in rates if somehow
5 there was, all of a sudden, thirty thousand (30,000)
6 more vehicles or thirty thousand (30,000) fewer
7 vehicles in the Province of Manitoba, putting aside
8 considerations of traffic density and things like that

9 But, absolutely, earned units are key,
10 and -- and I agree that in some fashion, tracking
11 against that may, I fact, be appropriate. It's the CPI
12 I'm -- I'm having an issue with.

13 MR. BYRON WILLIAMS: Well, maybe that's
14 a dialogue for another year, Ms. McLaren. This may be
15 as close as you and I come to consensus on anything for
16 some time, so -- so let -- let's move from there.

17 I do want to talk for a couple minutes
18 in terms of understanding the interrelationship between
19 the budgetary guidelines set by the Board as compared
20 to the approved budget, how that budgeting process
21 works. And we had a discussion around that, Ms.
22 McLaren, last year, but we do have a couple of new
23 Board members, and -- and also Mr. Williams has forgot
24 some of that discussion.

25 So I wonder if you could outline when

1 the budgetary guidelines are set and then when the --
2 the approved budget is set.

3 If -- if memory serves me right, I'll
4 suggest to you the budgetary guidelines are sometimes -
5 - some time in the fall, and the approved budget is
6 some -- some time early in the -- the new year.

7 MS. MARILYN MCLAREN: Yes, for a budget
8 that will begin March 1 -- and rates of course are --
9 are approved a little bit differently from that. So
10 kind of in -- right now within the Corporation we are
11 starting to put together the budget for meeting -- you
12 know, basically what we're talking about is the
13 operating and -- and claims expense budgets for the
14 year that starts March 1.

15 And it isn't finalized until later. Oft
16 -- but the important -- the important thing is really
17 separate from that cycle, in my mind, because it is
18 early in the year January when, you know, the
19 executives are trying to determine what is the
20 reasonable -- reasonable -- January/February/March,
21 locking it down in April, what is the forecast of
22 operating and claims expenses that form part of this
23 rate application.

24 So you really need to start there. So
25 we start making our best assessment as to what are the

1 expenses that will form part of this rate application
2 that's finalized in April. And then everything that
3 happens in the Corporation now, where we issue budget
4 guidelines and so on, are all predicated on the
5 assumption that we're meeting what we put in this rate
6 application.

7 And when in the past there's been some
8 variance from that, it's our job to come here with a
9 very strong case the following year as to why it
10 changed from that. But our starting position is always
11 that we will do what it takes, unless there are
12 extremely compelling other reasons to have guidelines
13 that support what we've already determined in April,
14 and underlie this application.

15 MR. BYRON WILLIAMS: And I thank you
16 for giving a better answer than the imprecise question.
17 So let's break that down into -- to three (3) steps, as
18 I understand it.

19 January through April, the Corporation
20 presents an app -- you know, does the deep thinking, in
21 terms of claims and operating expenses which is going
22 to form the basis of its presentation to the Public
23 Utilities Board. Step 1.

24 MS. MARILYN MCLAREN: Yes. A minor
25 basis, because the big part is the revenue and incurred

1 forecasting.

2 MR. BYRON WILLIAMS: Fair enough.

3 Let's -- let's focus on -- on operating claims
4 expenses. Step 2, in the fall of 2000 -- of the part -
5 - particular year, the budgetary guidelines are -- are
6 set by who?

7 MS. MARILYN MCLAREN: By the CFO and
8 her finance team, and vetted and approved by management
9 committee. Some things actually may also go to the
10 board of directors for information. I don't think
11 approval for information.

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: And just so I
16 understand, the budgetary guidelines, while they may go
17 to the board for information they're set by the -- the
18 CFO with -- or -- and/or the management committee?

19 MS. MARILYN MCLAREN: The CFO brings
20 them for vetting and agreement from the management
21 committee as a whole.

22 MR. BYRON WILLIAMS: And then the
23 actual budget for that particular year, step 3, is
24 finalized early in -- in the new year?

25 MS. MARILYN MCLAREN: Yes, either

1 January or February it -- it's formally approved and
2 adopted.

3 MR. BYRON WILLIAMS: You can take this
4 by way of undertaking if you would be prepared to.
5 Usually we ask an Information Request about this and
6 neglected to this year; hard to believe that we
7 neglected an Information Request.

8 But for the 2011/'12 year, I wonder if
9 you can provide, by way of undertaking, the budgetary
10 guideline and whether the budget that was ultimately
11 set complied with it?

12 MS. MARILYN MCLAREN: Okay, so you're
13 asking for something that was underway two (2) years
14 ago?

15 MR. BYRON WILLIAMS: We're going to get
16 to '12/'13 in a -- in a second. And, Ms. McLaren --

17 MS. MARILYN MCLAREN: We should be able
18 to do that.

19 MR. BYRON WILLIAMS: Yeah.

20 MS. MARILYN MCLAREN: We should be able
21 to do that.

22

23 --- UNDERTAKING NO. 18: MPI to provide the
24 budgetary guideline for
25 2011/2012

1 MR. BYRON WILLIAMS: And also the
2 budgetary guideline for 2012/'13, as -- as well.

3 MS. MARILYN MCLAREN: We should be able
4 to do that as well.

5

6 --- UNDERTAKING NO. 19: MPI to provide the
7 budgetary guideline for
8 2012/2013

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: Ms. McLaren, just
12 kind of a last subject for today is the subject of
13 budgeting for a -- a loss. And I want to just
14 indicate, our -- our client's interest is not this
15 particular Application in particular. It's the
16 concept. And -- and, certainly, they heard your --
17 your direct evidence, in terms of a range around 10
18 million, one way or the other, as well as the -- the
19 issue of recognizing the effect over two (2) years of
20 staggered renewals.

21 One question flowing from that though is
22 recognizing that there is more uncertainty in the
23 second year of the staggered renewal than the first
24 year, the inherent uncertainty of forecasting, whether
25 we should be giving equal weight to -- to both years

1 within that concept.

2 MS. MARILYN MCLAREN: Oh, absolutely.
3 I think it should be equal weight, because the rates
4 are in force for that full two (2) year period for the,
5 you know, for -- for the vehicle owners, right? So, I
6 mean, it's not like there's uncertainty as to what
7 we're going to charge in '14/'15.

8 Half of the customers will start to be
9 charged '14/'15 rates that are somewhat uncertain. But
10 half of them will be charged rates that will be
11 approved as part of this process right now. So that's
12 -- that is the basis of needing to look at the two (2)
13 years. And it is the extent to which the rates that
14 are approved and begin to be charged March 1 flow
15 through to fiscal periods. So that's the context and I
16 believe the way we've done it since -- since we
17 staggered in 1995, is appropriate.

18 MR. BYRON WILLIAMS: And in terms of
19 the magnitude, what's the magic in -- in that
20 particular figure? Well -- well, your -- in your
21 direct evidence, you suggested that -- that there's
22 been some consensus, in terms of a certain amount,
23 negative or positive, being essentially budgeting for -
24 - for break even. Is it 1 percent?

25 What -- what is the figure, first of

1 all, in the Corporation's mind?

2 MS. MARILYN MCLAREN: No, I -- I think
3 it's less than 1 percent. I mean, if it's a full,
4 clear 1 percent rate requirement, we would come forward
5 and look for it. We don't believe that there is any
6 value in budgeting for a loss, unless there's such a --
7 such a clear case to be made, something that has not
8 happened in -- in my experience.

9 But if, for example, for very unusual
10 and tangible reasons we expected to lose \$10 million
11 over the next two (2) years but we knew something very
12 solid and reliable was going to happen in the third
13 year that negated that loss and actually meant we
14 probably had too much money, we would probably not
15 request the rate increase based on the \$10 million.

16 But that's highly unusual. I can't
17 imagine a situation where something like that would
18 happen. We haven't been in it before. And so the
19 concept of not budgeting for a loss and seeking rate
20 requirement -- rate approval that matched the
21 requirement, I think, is certainly -- like this year it
22 was like a .3 percent change. And that's break even,
23 in our mind.

24 If it had been point six (.6) or point
25 eight (.8), we -- we may very well have come looking

1 for close to a 1 percent increase.

2 MR. BYRON WILLIAMS: Just a last
3 question. You can use kind of the current situation as
4 a hypothetical or not. But let's take a situation.
5 You're presenting a GRA for the 2013/'14 year;
6 essentially break even over the '13/'14, '14/'15 year;
7 but your -- your expectation for the '12/'13 is a loss.

8 In your view, no weight should be given
9 to the fact whether or not you're in a loss within the
10 -- the current year as compared to the GRA year?

11 MS. MARILYN MCLAREN: That's right. I
12 would say no weight should be given because
13 remembering, you know, one of the -- the first step
14 that we take in our forecasting and -- and PUB rate
15 application development process is to restate the
16 forecast for the current year, the year that we are in.
17 Back at that time, we're very, very early in the
18 '12/'13 year, but that's the first thing we do.

19 So if we go through our -- our
20 comprehensive forecasting processes and the result of
21 that is a \$5 million loss or -- or a \$50 million loss,
22 whatever the number is in '12/'13, and that we break
23 even in '13/'14 and '14/'15, that explicitly means that
24 whatever the issue was in '12/'13 and '14 -- '12 el --
25 '12/'13 is not going to carry forward to hurt the net

1 income in those years. So we shouldn't put any weight
2 on that.

3 And if we -- you know, if this Board
4 starts to see a deterioration in the year -- the
5 current year from what we said last year when we were
6 here for rate approvals and it's starting to
7 deteriorate the forecast for the year in the
8 application, that absolutely would -- would take some
9 weight.

10 But when you have the in-year result not
11 being followed on in future, the -- then it should not
12 have weight, and it -- it's explicitly part of the way
13 we do the forecast process.

14 MR. BYRON WILLIAMS: I thank you for
15 that. And I may have inadvertently misled you and the
16 Board. I do have just a few questions about road
17 safety that -- that I intended to -- to ask. And so I
18 apologize for that.

19 Ms. McLaren, yesterday we had a really
20 brief discussion about the opportunities and the -- the
21 risks associated with a more ambitious road safety
22 vision for Manitoba Public Insurance.

23 Do you recall that conversation?

24 MS. MARILYN MCLAREN: Yes.

25 MR. BYRON WILLIAMS: Not that

1 memorable, I'll admit. But what I propose to do is I'm
2 -- I'm going to suggest to you a number of potential
3 risks or opportunities associated with the vision. You
4 can tell me if you think they're credible and -- and if
5 any other additional response, you can -- you can do
6 so.

7 Is there an opportunity in this road
8 safety visioning exercise not only potentially for
9 Manitoba Public Insurance to step to the table with a
10 more assertive commitment, but to lever greater
11 commitments from -- from other key players?

12 MS. MARILYN MCLAREN: I'm not sure. I
13 think certainly there is an opportunity for more
14 synergy. One of the things that caught us a bit by
15 surprise is -- well, one of the things that didn't
16 catch us by surprise is -- is the commitment and -- and
17 level of interest in the people working in this area.

18 But it did catch us a bit by surprise
19 that they are not well connected and -- and sharing
20 information and ideas with each other. So I'm not sure
21 that -- that we would necessarily help to leverage more
22 commitment, but certainly more effective use of maybe
23 even the existing commitment. I'm not sure.

24 MR. BYRON WILLIAMS: Is there a risk if
25 Manitoba Public Insurance comes to the table with,

1 let's say, a bit more money, that it may provide an
2 excuse to others to -- to not -- to derogate their
3 responsibilities?

4 And if you wanted me to ten (10) second
5 clip that, instead of increasing the pie of investment,
6 you just re-shift it.

7 MS. MARILYN MCLAREN: I think that's
8 always a risk. I think, you know, we've talked about
9 that here before, when, you know, some people think we
10 should be buying and staffing and using sanding --
11 sanding trucks in the City of Winnipeg in the
12 wintertime, right, because we'll save the money.

13 I mean, you can point to MPI and as --
14 as the beneficiary of any road safety expenditure. So
15 it's absolutely a risk that we have to find a way to
16 work -- work with.

17 MR. BYRON WILLIAMS: Is -- following up
18 on that, is there some sort of baseline or survey of
19 who's doing what and how much they're investing today?

20 MS. MARILYN MCLAREN: Not to my
21 knowledge.

22 MR. BYRON WILLIAMS: From the
23 Corporation's perspective, might that be a good issue
24 to examine, to set some sort of baseline?

25 MS. MARILYN MCLAREN: Anything's

1 possible. I -- I don't know that -- I mean, there --
2 there's no real context or framework for that to
3 happen. I mean, it's not -- we don't have sort of a
4 cohesive group that has agreed to come to the table and
5 share information about what they're spending and --
6 and so on and so forth.

7 I mean, it's not something we would be
8 doing on our own. I think the concept is certainly --
9 has value, but I don't know that we have any existing
10 mechanism to really start pulling some of that together
11 with the support of the groups that are -- that are
12 involved.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: Is there a risk
17 that if MPI is expressing a -- a willingness to come to
18 the table with more resources, that the -- that the
19 utilization of those resources could be, in quotation
20 marks, "politicized" and -- and that those additional
21 resources could be wasted?

22 MS. MARILYN MCLAREN: Sure. I think,
23 you know, this is an area of public discussion that --
24 that can be quite easily, small 'P', politica --
25 politicized, for sure. You know, I mean, it's -- it's

1 not -- it's not simple. That's certainly a valid risk.

2 MR. BYRON WILLIAMS: In your survey
3 provided -- and I -- I can't remember which of the two
4 (2) documents it -- it was, whether the -- the one in
5 the AIs or -- or the one on the public website -- but
6 MPI indicated that stakeholder groups frequently spoke
7 about the importance of program evaluation and
8 requested greater clarity -- clarity on how the
9 Corporation measures the effectiveness of its
10 programming.

11 Do you recall a statement to that
12 effect?

13 MS. MARILYN MCLAREN: I do.

14 MR. BYRON WILLIAMS: How, if at all,
15 does the Corporation expect to provide that greater
16 clarity?

17 MS. MARILYN MCLAREN: I expect that at
18 least one (1) of the things we might do would be to
19 share some of the information that's been shared here.
20 Probably not for a few years now, but we used to file,
21 largely I think at CAC's request in terms of when you
22 run program 'X', how do you now you're getting the
23 value you expected to get from it.

24 And we talked about here that that is
25 the methodology we use, what are the objectives, and

1 did we meet the objectives. So we have that for a
2 number of programs. We would share some of that
3 information.

4 MR. BYRON WILLIAMS: Just one second,
5 plea -- please, Mr. Chairman.

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Mr. -- Mr.
10 Chairman, and panel members, I -- I thank you for your
11 patience in the last day and a half. Subject to any
12 outstanding undertakings, and as well in terms of an
13 opportunity for -- for our experts to review MPI
14 Exhibits 13 and 14, we'd like to close our cross-
15 examination of this panel, and to express appreciation
16 to the -- the panel and to the folks who used to be in
17 the back row for their assistance, as well. Thank you.

18

19 (BRIEF PAUSE)

20

21 THE CHAIRPERSON: I have some a few --
22 some questions in relation to the presentation that was
23 made by the cyclists at the outset of these
24 proceedings. We had a couple representatives from the
25 cycling associations advocating for modification of

1 some of the wording and signs, and so on. And -- and -
2 - now, I know that -- based on what they told us they -
3 - that they are -- that -- that you have consulted with
4 them in the past with respect to the issues that they
5 might have with respect to MPIC.

6 Now, in -- in respect of the
7 presentation that was made, are you open to looking at
8 those recommendations and -- and incorporating them
9 where possible in your materials and so on?

10 MS. MARILYN MCLAREN: Sure. And, you
11 know, the -- the language that's in the driver's
12 handbook now was vetted through and received the
13 support of Bike to the Future, in terms of how it talks
14 about sharing the lane. We will continue to work with
15 them.

16 They -- I think at the heart of the
17 issue that -- on that particular issue that they were
18 talking about, they -- they would like to see a change
19 to the HTA, and without that change they would still
20 like us to go further and describe and recommend to
21 Manitobans that they behave on the road in a way that
22 Bike to the Future would consider more of a best
23 practice.

24 The driver's handbook is about teaching
25 new drivers the law, and we feel quite constrained to

1 the extent to which we can, you know, move from that
2 advocacy of a best practice versus talking within the
3 context of what the law says. So I think there's some
4 limitations there.

5 But in general, we've done a lot more
6 work on cycling safety. We believe that MPI has a
7 vested interest in helping to reduce conflict between
8 cars and bikes, absolutely. And if -- if there were
9 more good ideas as what we could do help that we
10 would certainly be interested in it.

11 Again, I think it's prob -- you know,
12 like -- it -- it's not our job to -- to somehow be the
13 primary advocate of changing driver behaviour to better
14 respect and -- and respond to cyclists. I mean, it --
15 there -- there's a limit to what we can do --
16 reasonably do with ratepayers' dollars. But in terms
17 of the concept of understanding that its in our best
18 interest to reduce that conflict, and being willing to
19 work with groups like the two (2) that were here, we
20 have done more of that in the last year than we've ever
21 done before, and we plan to continue.

22 THE CHAIRPERSON: I thin -- unless we
23 have some other business to conduct, I believe this is
24 the end of today's proceedings.

25

1 (PANEL STANDS DOWN)

2

3 MS. CANDACE GRAMMOND: It is. I would
4 just remind everyone we're back on Tuesday the 16th,
5 9:30. We hope to hear from Gary Gibson of the
6 Department of Finance that day. Assuming that that
7 happens, then whenever his evidence is finished after
8 cross-examination, if there's time, then we would have
9 hopefully Mr. Oakes at least start his cross-
10 examination. If there isn't time on the 16th then Mr.
11 Oakes would start on the 17th, and then on the Thursday
12 of that week, the 18th, we're hearing from Professor
13 Simpson being called by CAC, and presumably he'll go
14 for the whole of that day. So those are the -- the
15 details with respect to our next steps.

16 The other piece, is I did ask Mr. Singh;
17 there won't be anything going on in this room between
18 now and the next time that we meet, so if people want
19 to leave papers and parts of their file behind they
20 certainly can.

21 THE CHAIRPERSON: Thank you. With that
22 I will adjourn today's proceedings, and we'll see each
23 other again on the 16th at 9:30 in the morning. Thank
24 you.

25

1 --- Upon adjourning at 3:36 p.m.

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6 Certified Correct,

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11 Lorraine Douglas, Ms.

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