MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)
GENERAL RATE APPLICATION FOR
2015-2016 INSURANCE YEAR

Before Board Panel:

Karen Botting - Board Chairman
Regis Gosselin - Board Member
Anita Neville - Board Member
Susan Proven - Board Member
Allan Morin - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 1208 to 1423

1 APPEARANCES

2 Candace Grammond)Board Counsel

3

4 Kathy Kalinowsky (np))Manitoba Public

5 Michael Triggs)Insurance

6

7 Byron Williams)CAC (Manitoba)

8 Meghan Menzies)

9 Landon Hermary)

10

11 Raymond Oakes)CMMG

12

13 Angele Young)CAA (Manitoba)

14 Mike Mager (np)

15

16 Irvin Frost (np))ARM

17

18 Christian Monnin (np))Bike Winnipeg

19 Jason Carter)

20 Charles Feaver (np))

21

22 Dave Schioler (np))IBAM

23

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EXHIBITS

EXHIBITS (Con't)

LIST OF UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
40	MPI to provide an indication of the representative sample size of the audit for the eGlass Program	1245
41	MPI to determine whether employees have been surveyed for satisfaction with or criticism of the PIPP's claim handling and reserving process; the collision estimating and reserving practice; the team adjusting process; the physical damage re-engineering process; and compliance with loss of use policy and expenditure guidelines for the years 2012/2013 and 2013/2014, and provide an executive summary	1267
42	MPI to indicate how many apprentices transition to journeyperson, how many received support for either the motor vehicle body repair program or the painter program apprenticeship, and tool allowance; and indicate if it tracks how many stay in Manitoba	1330

1 LIST OF UNDERTAKINGS (Con't)

--- Upon commencing at 9:07 a.m.

THE CHAIRPERSON: I'm sorry for the delay, everyone, but people have had trouble finding their way in because there's a -- I gather there's been some kind of bomb scare or something, and they've cordoned off a lot of our -- the area around here on the street, so we had trouble finding parking. None -- none of our secretaries are here yet, so we don't have anybody to record for us. I'm -- I apologize for that, but we'll -- if you don't mind waiting a few minutes.

(BRIEF PAUSE)

THE CHAIRPERSON: Good morning, and welcome back to the GRA hearings for MPI. We're going to begin this morning by hearing some exhibits being entered by MPI with Mr. Triggs.

Mr. Triggs, would you like to take the floor?

MR. MICHAEL TRIGGS: Thank you, Madam Chair. Ms. Kalinowsky is sick today and unable to attend, so therefore I've been brought to the front -- front row, and I'll be counsel for the Board today -- for the -- not the Board, the Corporation today.

1 Before we begin, I'd like to first
2 though express on the record, or -- MPI's condolences
3 to staff of the CAC. They've had a tragic loss over
4 the weekend, and we feel for them. And it puts things
5 in perspective as to what we're dealing with here.
6 We're -- it's a rate application but it's -- you know,
7 families are affected by what happened, and they have
8 our sympathy and our condolences.
9 Okay. On that, there is a number of
10 exhibits that we'd like to introduce. I believe the
11 first exhibit is MPI Exhibit 16. That is the response
12 to CAC Pre-Ask number 4.
13
14 --- EXHIBIT NO. MPI-16: Response to CAC Pre-Ask
15 number 4
16
17 MR. MICHAEL TRIGGS: The next exhibit,
18 number 17, is the response to Undertaking number 1.
19
20 --- EXHIBIT NO. MPI-17: Response to Undertaking 1
21
22 MR. MICHAEL TRIGGS: Number 18 is
23 response to Undertaking number 5.
24
25 --- EXHIBIT NO. MPI-18: Response to Undertaking 5

1 MR. MICHAEL TRIGGS: Exhibit number 19
2 is response to Undertaken -- Undertaking number 8.
3
4 --- EXHIBIT NO. MPI-19: Response to Undertaking 8
5
6 MR. MICHAEL TRIGGS: Exhibit 20 is
7 response to Undertaking number 11.
8
9 --- EXHIBIT NO. MPI-20: Response to Undertaking 11
10
11 THE CHAIRPERSON: We're locating them.
12 MR. MICHAEL TRIGGS: Okay. Just for
13 the panel members assistance, the -- the documents were
14 provided basically in three (3) packages. The first
15 package had the CAC Pre-Ask number 4 on top. The
16 second package had CAC Pre-Ask number 5 on top. And
17 then the last one is a document just entitled, "Subject
18 Input of MPI DCAT Document." So I'm going through the
19 first package now; I'll probably be about halfway
20 through that.
21 Okay. Exhibit number 21 is response to
22 Undertaking number 13.
23
24 --- EXHIBIT NO. MPI-21: Response to Undertaking 13
25

1 MR. MICHAEL TRIGGS: Exhibit number 22
2 is response to Undertaking number 14.
3
4 --- EXHIBIT NO. MPI-22: Response to Undertaking 14
5
6 MR. MICHAEL TRIGGS: Exhibit number 23
7 is response to Undertaking number 16.
8
9 --- EXHIBIT NO. MPI-23: Response to Undertaking 16
10
11 MR. MICHAEL TRIGGS: Exhibit number 24
12 is response to Undertaking number 18.
13
14 --- EXHIBIT NO. MPI-24: Response to Undertaking 18
15
16 MR. MICHAEL TRIGGS: Exhibit number 25
17 is response to Undertaking 19.
18
19 --- EXHIBIT NO. MPI-25: Response to Undertaking 19
20
21 MR. MICHAEL TRIGGS: Exhibit number 26
22 is response to Undertaking number 20
23
24 --- EXHIBIT NO. MPI-26: Response to Undertaking 20
25

1 MR. MICHAEL TRIGGS: Exhibit number 27
2 is response to Undertaking number 21.
3
4 --- EXHIBIT NO. MPI-27: Response to Undertaking 21
5
6 MR. MICHAEL TRIGGS: Exhibit number 28
7 is response to Undertaking number 22.
8
9 --- EXHIBIT NO. MPI-28: Response to Undertaking 22
10
11 MR. MICHAEL TRIGGS: Exhibit number 29
12 is response to Undertaking number 24.
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14 --- EXHIBIT NO. MPI-29: Response to Undertaking 24
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16 MR. MICHAEL TRIGGS: Exhibit number 30
17 is response to Undertaking number 29.
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19 --- EXHIBIT NO. MPI-30: Response to Undertaking 29
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21 MR. MICHAEL TRIGGS: Exhibit number 31
22 is response to Undertaking number 32.
23
24 --- EXHIBIT NO. MPI-31: Response to Undertaking 32
25

1 MR. MICHAEL TRIGGS: Exhibit number 32
2 is response to Undertaking number 33.
3
4 --- EXHIBIT NO. MPI-32: Response to Undertaking 33
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6 MR. MICHAEL TRIGGS: Exhibit number 33
7 is response to Undertaking number 36.
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9 --- EXHIBIT NO. MPI-33: Response to Undertaking 36
10
11 MR. MICHAEL TRIGGS: Exhibit number 34
12 is response to Undertaking number 37.
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14 --- EXHIBIT NO. MPI-34: Response to Undertaking 37
15
16 MR. MICHAEL TRIGGS: Exhibit number 35
17 is response to Undertaking number 38.
18
19 --- EXHIBIT NO. MPI-35: Response to Undertaking 38
20
21 MR. MICHAEL TRIGGS: Exhibit number 36
22 is response to CAC Pre-Ask 5.
23
24 --- EXHIBIT NO. MPI-36: Response to CAC Pre-Ask 5
25

1 MR. MICHAEL TRIGGS: Exhibit number 37
2 is response to Undertaking number 7.
3
4 --- EXHIBIT NO. MPI-37: Response to Undertaking 7
5
6 MR. MICHAEL TRIGGS: Exhibit number 38
7 is response to Undertaking number 25.
8
9 --- EXHIBIT NO. MPI-38: Response to Undertaking 25
10
11 MR. MICHAEL TRIGGS: Exhibit number 39
12 is response to Undertaking number 31.
13
14 --- EXHIBIT NO. MPI-39: Response to Undertaking 31
15
16 MR. MICHAEL TRIGGS: And finally
17 Exhibit number 40, this is the response to the document
18 -- I guess it was referred to as kind of a draft
19 undertaking that the PUB had asked us to undertake with
20 regard to the DCAT document.
21
22 --- EXHIBIT NO. MPI-40: Draft undertaking with
23 regard to DCAT document
24
25 MR. MICHAEL TRIGGS: We would like to -

1 - in addition to just filing this document at this
2 point in time, we'd like to have Mr. Johnston provide
3 some direct evidence explaining the document, if that's
4 fine with the -- the Chair.
5
6 (BRIEF PAUSE)
7
8 THE CHAIRPERSON: Thank you, Mr.
9 Triggs. And I think also the Board would like to
10 express their condolences to Mr. Williams in regard to
11 his partner at CAC. Mr. Luke, if you're ready. Thank
12 you. Mr. Johnston, I apologize.
13
14 MPI PANEL 2 CONTINUED:
15 DAN GUIMOND, Previously Sworn
16 LUKE JOHNSTON, Previously Sworn
17 HEATHER REICHERT, Previously Sworn
18
19 MR. LUKE JOHNSTON: I was guessing Mr.
20 Luke was me. That's okay. So we've -- we've gone
21 through the dra -- recognizing it's a draft, we've gone
22 through the requests in here. And I'll just talk to
23 each of them briefly. And we're definitely, again,
24 interested in moving the DCAT forward and want to work
25 with all the parties as much as possible to do that.

1 And a lot of these requests, just at a
2 high level, in our view, are not necessary to approve
3 this year's DCAT. It doesn't mean that the requests
4 are not appropriate or relevant. But in terms of this
5 year's DCAT, we don't -- a lot of them we don't believe
6 are required. But I'll go through them one (1) by one
7 (1).
8 If you go to page 2, the first request
9 is asking to summarize all the scenarios to include the
10 OSFI 2015 MCT guideline, if not now, then in the near
11 future. I'm told that the guideline -- the final
12 guideline just came out on September 24th, 2014, so the
13 DCAT report as prepared would not have had this
14 information.
15 Further, due to the timing of MPI's
16 fiscal year, it's also my understanding that we
17 wouldn't even start using this new guideline until
18 fiscal year-end 2016. So while I understand that the
19 guideline may, you know, result in minor changes to
20 MPI's MCT score or capital requirements, our view is
21 that this is not relevant to the existing DCAT. But,
22 of course, MPI will continue to update their MCT based
23 on the latest guideline that -- that we have.
24 Some initial research from -- that was
25 done on the new guideline, I believe the intent is to

1 make the guideline relatively capital neutral for --
2 for companies. But there has some -- been some
3 research that we could see changes in the kind of 3 to
4 4 percent range in terms of the capital requirements,
5 but that's -- that could be very different for -- for
6 MPI. So we think this is probably premature to request
7 this information right now.
8 The second request on the bottom of page
9 2 talks about:
10 "For all adverse scenarios, please
11 augment what is already shown to
12 include results at the one (1) in two
13 hundred (200) year level."
14 The -- can we do this? Yes, we can. We
15 have -- you know, staff will have to get this
16 information, prepare and -- and update exhibits. I --
17 the issue I had with this is, is that really never in
18 the last several years that we've been talking about
19 the DCAT has this idea of one (1) in two hundred (200)
20 been brought up. And from my perspective, I didn't
21 think that a one (1) in two hundred (200) was relevant
22 to the Board's setting of capital targets at all.
23 So I'm a little bit perplexed to
24 understand why this information is needed. I'm -- I'm
25 guessing for the -- possibly for the up -- upper

1 target. But we will work to provide that and -- and do
2 that as soon as possible.
3 Similarly, for the next request on the
4 top of page 3, we filed the DCAT information not on the
5 expectation that this -- these really high percentile
6 levels were required for the Board. But we'll work to
7 provide that information if -- if the Board needs it
8 for decision-making purposes.
9 The second bullet on page 3, equity
10 decline scenario, there's a little bit of confusion
11 around this, and I'm sure I'll get some questions from
12 Mr. Williams on this. But it says:
13 "Please change the modelling approach
14 to include a historically based post-
15 decline recovery effect based on the
16 shortened history of the SMP
17 composite total return."
18 Et cetera. We -- we do this already in
19 the DCAT. And what -- one (1) thing that's a little
20 bit confusing, I think, is that as the actuary, I need
21 to show the Corporation's most adverse scenario at each
22 time period. What's the worst thing that could happen
23 at the end of year 1? What's the worst that could --
24 at the end of year 2, 3? So is there a recovery --
25 typically a recovery after a big stock market decline?

1 Yes.
2 But at the end of year 1, if a stock
3 market decline were -- was to occur, I need to show in
4 this report what MPI's financial condition would be at
5 that point in time. So we -- that's the reason this
6 was requested a few years ago by our external actuary.
7 I need to tell the Corporation that there could be a
8 stock market crash, and at the end of year 1 we
9 wouldn't have enough funds to cover that. And that's
10 just for information. And we make that pretty clear in
11 the DCAT report that beyond the one (1) year scenario,
12 you shouldn't look at those results. You should just
13 focus on the one (1) year.
14 Similarly, for the two (2) year what we
15 do is, we look at all the two (2) year history on the
16 stock market. And that would include that recovery
17 that you see. And there is definitely evidence of
18 recovery in the -- in the TSX history. So the act --
19 actually, the two (2) year decline is actually less
20 than the one (1) year. So we modelled all two (2) year
21 scenarios and there's recovery built in.
22 Similarly with three (3) years and four
23 (4) years. By the time you run a four (4) year
24 scenario, the -- the effects of a big stock market
25 crash are -- are neutralized to a large extent. But

1 again, that's shown in the DCAT. So we are using the
2 actual return history over one (1), two (2), three (3),
3 and four (4) year periods to model. So any recovery
4 that has happened historically is in our modelling. So
5 maybe there'll be more questions about that, but our
6 understanding is we already do it.
7 The -- the third bullet on page 3,
8 interest rate decline scenario. So the request is to
9 change the modelling approach from an absolute change
10 in interest rates basis. So if interest rates change
11 from 3 to 2 percent, that would be an absolute change
12 of one (1). To -- the request is to a percentage
13 basis. So if they decline from three (3) to two (2),
14 we'd be talking about a 33 percent decline.
15 And then further, a request to exclude -
16 - to do this excluding the stagflation period.
17 So as the Corporation notes here, I do
18 think this is a -- a legitimate request in terms of,
19 you know, what we intended when we were collab -- you
20 know, started this collaborative process. And I'm
21 definitely willing to work with the parties to -- to --
22 you know, to look at this approach.
23 We -- we're preparing an exhibit that
24 shows the differences that would arrive from using this
25 approach, taking out stagflation, et cetera. The --

1 the key message we have here, though, is that right now
2 whether we do percentage change, absolute change, with
3 or without stagflation, the DCAT really can't get any
4 better or worse because we're already at, like, the --
5 almost the lowest interest rates we've ever seen.
6 So right now what we do in our modelling
7 is we put a floor on interest rates that say they can't
8 go lower than this 1.68 or 1.69 percent, I believe.
9 But we're only thirty-seven (37) basis points above
10 that right now. So no matter what we model here, even
11 a scenario that just said interest rates will stay the
12 same, which is actually a -- a undertaking from the
13 Board. Just staying the same is like a two hundred
14 (200) plus million dollar impact to our bottom line
15 relative to our -- our base forecast.
16 So while I definitely appreciate what's
17 being requested in here, in this DCAT it's not going to
18 change the results. And I think we'll talk about that
19 more. Page 3, the last bullet talks about an
20 inflation scenario. And I'll read maybe the first
21 sentence:
22 "Please change the modelling approach
23 to include upfront recognition of the
24 full estimated impact of inflation on
25 future claims and expense payments."

1 We -- I've been asked about this, and
2 we've talked about this, and I've been asked -- sorry,
3 I've been asked about this at the hearings, and we've
4 talked about this in the technical conferences. My
5 issue with this approach is it's not -- it's not
6 realistic to MPI's situation.
7 If -- if -- let's say we want to model 3
8 percent inflation instead of two (2). In reality, I'm
9 not going to know that inflation is going to be 3
10 percent all up front right at the beginning of the
11 period, and -- and we're not going to put the full
12 impact of inflation as -- as suggested here in year 1.
13 We would never do that in -- in reality,
14 so I don't -- I don't understand the approach, why that
15 makes sense in our DCAT. I think I've said that at
16 previous hearings. It may be a method that's used by
17 other actuaries. But the -- the push here with the
18 collaboration has always been, Let's get the scenarios
19 as realistic as possible to how MPI would really react
20 if we got 3 percent inflation. And that's how we did
21 the modelling. And we do have information in the DCAT
22 report in -- near the end that talks about how we model
23 inflation, and why it wasn't a top three (3) risk.
24 Page 4, mis-estimation scenario. This
25 would be our -- our appointed actuary's report on our

1 claim liabilities. And no doubt there is -- those
2 figures are very sensitive to assumption changes. A
3 lot of this risk though we already have modelled in --
4 in our scenarios, so the risk of interest rates going
5 up or down is going to drastically change the present
6 value of the liabilities.
7 The risks that are forecast will vary
8 from what we expected on a go-forward basis is included
9 in the DCAT. What this is talking about more so is
10 when we looked at those tables the other day with the
11 development of claims and how they grow over time
12 between today and their ultimate value.
13 We do model this, and we -- when we
14 model it, we don't see it as a top scenario. But
15 again, these changes will typically happen
16 incrementally, right. We'll start seeing changes in
17 our assumptions, and we'll gradually update them. It
18 won't be something generally that just hits and creates
19 a massive loss or something. So again, we talk about
20 that in the DCAT report.
21 I've also talked at technical
22 conferences about why MPI is different than
23 Saskatchewan Government Insurance. The other -- last
24 week, I believe, we talked about how our reserving
25 guidelines require to put lifetime reserves in for all

1 claimants after they've been -- after the claim's been
2 open for a couple years. So we're -- you know, it's
3 not like we're just leaving, you know, case reserves on
4 the file and -- and getting surprised ten (10) years
5 later when the claim is still open. We're putting
6 these reserves for life.
7 We have -- we have risk loads already in
8 the report. We match our claims to our bond portfolio,
9 which is considered low risk. So there's a lot of
10 differences, and I won't get in -- into them all, but
11 we're -- we're different than SGI in that regard.
12 The second bullet on page 4 -- what do
13 we got here -- there's -- I -- I think the -- one (1)
14 of the main lines here is that there's a belief that
15 some of the results are counterintuitive. They're not,
16 and it's just an interpretation issue. I can -- I can
17 explain that further. It's just how we sort the
18 scenarios, and I can even talk to Mr. Pelly offline, if
19 that -- if that aids his understanding.
20 Any change that requires us to rerun the
21 entire DCAT report -- so for example, if there is a
22 desire to change the interest rate decline scenario --
23 we don't believe that it's realistic to think that I
24 could go rerun all the adverse scenarios, reproduce the
25 entire DCAT report, have the Board and everyone

1 involved have time to review that evidence during this
2 hearing. I don't think that's realistic.
3 But per my previous comments, we don't
4 believe there's any issues with the equity decline
5 scenario. And we also don't believe that whatever
6 interest rate model we use, that's going to produce
7 much of a different result than already in the DCAT.
8 The last bullet on page 4 talks about
9 providing results, showing the impact of cashflow
10 matching. We believe this result is -- or the request
11 is premature, given that we're doing an ALM study right
12 now. There is no guarantee that the final
13 recommendation is going to be to cashflow match
14 perfectly and -- and -- or even what that's going to
15 look like.
16 So we understand the Board might want to
17 re -- request some different scenarios. Like, you
18 know, if you change the duration to this or whatever,
19 we -- we understand that. But I believe it's premature
20 to just assume in the DCAT that that's going to be the
21 case. I'm -- my DCAT's operating on the Corporation's
22 current business plan, and that's also what this GRA is
23 being presented based on.
24 Page 5. The request asked for MPI's
25 recommendations generally about the -- whether we want

1 to use -- well, the first one (1) is whether we should
2 use RSR or total equity. The Corporation recommends to
3 use total equity.
4 The second, what is the appropriate
5 capital target range lower limit. Again, we're --
6 we're recommending one (1) in forty (40). Our past
7 discussions -- I don't have -- I don't have the Board's
8 selected risk tolerance, but in my opinion, one (1) in
9 forty (40) was seen as a more reasonable number. We --
10 we had used one (1) in a hundred in previous DCATs. So
11 this was -- this was a movement on my part to -- to try
12 to get a risk tolerance that was possibly more
13 acceptable in this form.
14 Number 3, upper range. Again, MPI has
15 proposed 100 percent MCT, so that's our proposal.
16 And then number 4, it says:
17 "The time horizon over which it is
18 reasonable to require adverse
19 scenario capital levels at or above
20 zero for capital target level setting
21 purposes."
22 We're not -- we weren't totally sure
23 what this means. Our interpretation was that it had to
24 do with the time frame over which RSR rebuilding will
25 occur. I could be wrong with that. But we do believe

that this is situation specific. And we would come to the GRA and make a proposal based on our situation.

What the DCAT does is assumes that we'll always apply for break-even rates and that we wouldn't apply for anything more than a 5 percent total increase in rates in a given year. And that's just a general assumption that we use for management action.

Sorry, there's a lot of pages in here. Going on to this Phase 2, page 6. The top request sug -- asks to create management action to be dynamic. So when we model these tens of thousands of scenarios, the assumed management and regulatory action would occur automatically in the -- in the computer models.

This isn't something that we're going to do at this hearing, first of all. Like, that's a big deal. We're not -- it's -- it's my belief that it's probably not going to be appropriate to just automate this. My preference would be to say: Okay, well, here's the scenario. How would we really respond to each point in time here? And it might not be something that lends itself to automation, but we'll look into this.

I don't see how this impacts the Corporation's current DCAT in any way. Again, we look at the most adverse scenarios, and we -- we state

1 clearly how we -- what we assume for management and
2 regulatory action. So it -- automating doesn't change
3 the target.
4 What's the next one here?
5 The second one (1), again, asks for
6 MPI's recommended upper/lower target criteria. And --
7 and the Corporation's response is that we've already
8 provided our recommendation.
9 The third bullet is in reference to
10 modelling based on PUB-selected criteria. I know,
11 again, this is Phase 2, so it's not expected that we
12 have this today. But we just state that we don't have
13 that criteria right now. But we will, through this
14 hearing hopefully, try to provord -- provide the Board
15 the information it needs to approve this DCAT.
16 The last bullet on page 6 is talking
17 about inflating, basically during our modelling and
18 then kind of inflating it to current-day levels. And I
19 don't -- I think I already answered this in a -- in --
20 in cross, but I don't understand why this is needed,
21 because our adverse scenarios are already run on the
22 2015/'16 and after year, which includes all business
23 growth and all other assumptions in our model.
24 So it's -- I'm a little confused by that
25 one, but I think we already do it. That's -- that's my

1 opinion. And that's the same -- the same response for
2 the -- the second -- or the request in the middle of
3 the page on page 7. And just one (1) second, please.
4
5 (BRIEF PAUSE)
6
7 MR. LUKE JOHNSTON: Thanks. I just
8 wanted to make sure Ms. Reichert didn't have anything
9 to add. If there's any questions on anything I've just
10 said, feel free to -- to ask.
11
12 (BRIEF PAUSE)
13
14 MR. REGIS GOSSELIN: Mr. Johnston, I
15 guess I reserve the right to ask some more questions.
16 MR. LUKE JOHNSTON: Sorry.
17 MR. REGIS GOSSELIN: It's a lot of
18 material to read.
19 MR. LUKE JOHNSTON: Yeah, I thought
20 about that after.
21 MR. REGIS GOSSELIN: And I think -- it
22 strikes me that what was missing in the request,
23 perhaps from PUB, would be a more high level
24 explanation of why -- why these scenarios were being
25 provided to MPI. In other words, to sort of say are we

1 looking to determine the stability of the DCAT values
2 and how -- how robust it is in the face of different
3 scenarios and so on. So -- so I think we owe you an
4 explanation of what we were trying to achieve here.
5 So I think maybe that's something we
6 should be providing. And I'll ask the -- the advisors
7 to put that together so that you have an un --
8 understanding of the background for these requests.
9 And so with your permission, I'll maybe asking some
10 more questions after I've had a chance to read it in
11 some more detail.
12 MR. LUKE JOHNSTON: Thank you.
13 THE CHAIRPERSON: Thank you, Mr.
14 Gosselin. Now, I think we are turning the mic over to
15 Mr. Williams from CAC to begin his cross-examination.
16
17 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:
18 MR. BYRON WILLIAMS: Yes, thank you,
19 members of the panel, and thank you for the kind words
20 from MPI and the panel. I'll caution you today. You
21 know, you're -- it's always open to the panel to draw
22 adverse inferences from behaviour in the room. If you
23 catch me weeping today, it may be because Ms. -- MPI
24 has had a spectacularly good answer, or there may be
25 other causes today. So I'll caution you about that.

1 We'll -- we will have some exhibits of
2 our own, but I think we'll wra -- wait till after the
3 coffee break to introduce them.
4 Mr. Johnston, just a couple of follow-up
5 questions for you, just in terms of the exhibits that
6 were filed this morning just for clarification
7 purposes. In -- in your discussion of the MPI Exhibit
8 40, the draft undertaking of -- of the -- the PUB draft
9 -- proposed draft -- proposed undertaking, you -- you
10 spoke of a new exhibit that was being prepared by
11 Manitoba Public Insurance.
12 And for purposes of clarity, is that the
13 response to Undertaking 23, or is it a -- is it a
14 different information response?
15 MR. LUKE JOHNSTON: We -- when we got
16 this request, there was -- we knew that there was going
17 to be a discussion about stagflation. Like there's
18 some -- there's -- there's information on the record.
19 But in this document there's also this discus --
20 discussion about changing the modelling. And my
21 thinking was that no matter what we do, the -- the risk
22 level is going to be basically the same right now
23 because we're in such a unique environment.
24 So we have tried to prepare updated
25 modelling using the -- the current method we use, and -

1 - and then excluding the stagflation period from that;
2 and the PUB, I'm assuming Brian Pelly, recommended
3 method; and then also with and without stagflation.
4 And there's definitely an impact. And so we just
5 wanted to show that.
6 And we also wanted to communicate that
7 we don't think that the recommendations from PUB or
8 what I -- I think we'll hear from CAC are unreasonable,
9 in terms of the stagflation issue. And we just wanted
10 to show what that would look like if we did that. So
11 that will be coming as another exhibit.
12 MR. BYRON WILLIAMS: Okay. And as I
13 wait in -- with bated breath, are we expecting it this
14 morning, Mr. Johnston, or when would you anticipate it?
15
16 (BRIEF PAUSE)
17
18 MR. LUKE JOHNSTON: Sorry, I'm -- I'm
19 reminded that we had a lot of undertakings due this
20 morning. They are -- they are working on it right now.
21 It's -- it's complete, it's just being prepared. So as
22 -- as soon as possible.
23 MR. BYRON WILLIAMS: And in the
24 response to MPI Exhibit 35, which is Undertaking 38,
25 scrolling down, there's a reference to Undertaking 23.

1 And to the Corporation's knowledge, has
2 that been filed yet?
3
4 (BRIEF PAUSE)
5
6 MR. LUKE JOHNSTON: It has not been
7 filed, and my apologies. So we're referencing an
8 undertaking in this response that hasn't been filed.
9 It's -- again, it's just -- it's being prepared. It
10 was a larger response, and it just hadn't got all the
11 formatting work and et cetera done this morning. But
12 it'll be filed, I'm assuming, this morning.
13 MR. BYRON WILLIAMS: Okay. Thank you.
14 To the MPI panel, I will try and direct my questions to
15 a specific panel member. I'm not guaranteeing I'll get
16 the right panel member. But as always, feel free to --
17 to chip in, A) if I've got the wrong panel member, or
18 B) if you -- if you feel you have something to add.
19 Ms. Reichert, you -- you've not been
20 with the Corporation that many years. How many years
21 has it been?
22 MS. HEATHER REICHERT: I have been with
23 MPI, it'll be three (3) years this coming January.
24 MR. BYRON WILLIAMS: Do you recall the
25 time when there was a vice president of claims?

1 MS. HEATHER REICHERT: Yes, I do recall
2 when there was a vice president of claims for a short
3 period when I first started with MPI.
4 MR. BYRON WILLIAMS: Ms. Reichert, am I
5 correct in assuming that you're the closest thing I
6 have to a vice president of claims here? Are you the
7 person to ask about the service centres, and the
8 estimators and adjusters?
9 MS. HEATHER REICHERT: You can
10 definitely ask me whatever questions in that regard,
11 and I will do my best to answer them.
12 MR. BYRON WILLIAMS: And, Ms. Reichert,
13 without asking you to comment in any detail, I'll just
14 ask you to recall and to confirm that over the first
15 few days of the hearing there was a fair bit of
16 commentary regarding the costs and efficiency of
17 collision claims handling from organisations such as
18 ARM, A-R-M, the ATA, A-T-A, and the MMDA.
19 Do you recall that conversation?
20 MS. HEATHER REICHERT: Yes, I do.
21 MR. BYRON WILLIAMS: And before getting
22 into the merits of that conversation, I'd just like to
23 get your assistant (sic) in understanding the -- the
24 path the consumer takes in navigating the system.
25 And am -- would it be correct to suggest

1 to you that the first step that a consumer takes in
2 reporting a collision damage other than glass would be
3 to phone the MPI contact centre?
4 MS. HEATHER REICHERT: Yes, that is my
5 understanding.
6 MR. BYRON WILLIAMS: Glad to hear it.
7 And if one is claiming damages, alleging damages, a
8 representative will take a preliminary report from you
9 at that point in time?
10 MS. HEATHER REICHERT: Yes. The -- the
11 claims individual on the phone will take the first
12 notice of loss information and provide a claim number
13 to -- to the customer.
14 MR. BYRON WILLIAMS: Okay. And at that
15 same time, assuming that there's a claim of damage, the
16 representative will make an estimate appointment for
17 the -- the caller if they so wish, correct?
18 MS. HEATHER REICHERT: Correct.
19 MR. BYRON WILLIAMS: Is it fair to say
20 that once an individual makes that call they're in the
21 computer system and that their claim is registered?
22 MS. HEATHER REICHERT: Yes, that is my
23 understanding, that once they have a claim number they
24 are in our system.
25 MR. BYRON WILLIAMS: Okay. They're

1 considered to be -- this is considered at this point in
2 time to be a reported claim, agreed?
3 MS. HEATHER REICHERT: Yes.
4 MR. BYRON WILLIAMS: Now, we'll come
5 back to the visit to the estimator in just a second.
6 But just to understand, in the case of glass ca --
7 claim, the consumer can -- can skip the step of calling
8 the MPI contact centre and call or go directly to the
9 participating glass shop of -- of their choice to
10 report their glass claim.
11 Is that correct?
12 MS. HEATHER REICHERT: Yes, it is.
13 MR. BYRON WILLIAMS: And in that
14 circumstance, when we hear the term "eGlass", an
15 eGlassClaim is a web-based application for glass repair
16 shops, correct?
17 MS. HEATHER REICHERT: Yes, it is.
18 MR. BYRON WILLIAMS: And using
19 eGlassClaim, participating glass repair shops can link
20 into MPI's insurance system and register a claim for
21 the individual, agreed?
22 MS. HEATHER REICHERT: Yes.
23 MR. BYRON WILLIAMS: That means the
24 claim is reported, correct?
25 MS. HEATHER REICHERT: Yes. That would

be a reported claim at that point.

MR. BYRON WILLIAMS: Yeah. And wha -- the individual would get a claim number, correct?

MS. HEATHER REICHERT: Yes, they would.

MR. BYRON WILLIAMS: And presumably at that time, the consumer can also schedule their glass work, agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: So by participating in the -- in the eGlass program, consumer can step -- can skip one (1) step, i.e., the calling of the contact centre, agreed?

MS. HEATHER REICHERT: Yes. It's a more streamlined process.

MR. BYRON WILLIAMS: And is that estimate reviewed by MPI before it's approved?

MS. HEATHER REICHERT: It's not reviewed by MPI before it is approved. There is an audit process that occurs after class (sic) claims are completed and -- and the work is done. There are audits done to ensure that -- that the work was done as described and the cost is a reasonable cost.

MR. BYRON WILLIAMS: And so each -- each claim would be audited?

MS. HEATHER REICHERT: No, each claim

1 would not be audited. It's -- it would be done on a --
2 on a random -- random basis to have con -- confidence
3 that overall the system is working as intended.
4 MR. BYRON WILLIAMS: Okay. So there is
5 no approval by MPI in advance, and there is a random
6 sampling audit process that goes afterwards, agreed?
7 MS. HEATHER REICHERT: Yes.
8 MR. BYRON WILLIAMS: And -- and how
9 many -- how large would the sample size of that audit
10 be, Ms. Reichert?
11 MS. HEATHER REICHERT: I don't have
12 that information at hand. Something less than a
13 hundred percent.
14 MR. BYRON WILLIAMS: That's not
15 particularly helpful, though I appreciate the effort.
16 Ms. Reichert, I suspect this is a simple undertaking.
17 Would you undertake to give a sense of
18 the sample size for the audit --
19 MS. HEATHER REICHERT: Yes, I -- I will
20 undertake to get an indication of the representative
21 sample size of the audit for the eGlass Program.
22
23 --- UNDERTAKING NO. 40: MPI to provide an
24 indication of the
25 representative sample size

of the audit for the eGlass Program

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you. And, Diana, I wonder if you could pull up the 'Repairing Your Vehicle' brochure from the MPI website.

Ms. Reichert, in this adventure we're going -- we're going back to the -- the service centre. And, Diana, we can probably go to page 2; it's a little big. I'm not sure if you can -- thank you. Super.

And, Ms. Reichert, the -- after reporting the damage to the vehicle, the consumer then can go to the service centre to get an estimate, correct?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And the estimator examines the damage to the vehicle and lists what needs to be repaired or replaced, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And the consumer is given a repair estimate and fax cover sheet that they can bring when taking the vehicle to a repair shop.

Is that correct?

1 MS. HEATHER REICHERT: That is correct.
2 MR. BYRON WILLIAMS: And if that repair
3 shop has Mitchell estimating online, am I correct in
4 suggesting to you that they can actually retrieve the
5 claim sheet from MPI?
6 MS. HEATHER REICHERT: Yes, they can.
7 MR. BYRON WILLIAMS: In essence,
8 they're able to download your claim by simply using
9 one's claim number, correct?
10 MS. HEATHER REICHERT: Correct.
11 MR. BYRON WILLIAMS: Diana, you can
12 scroll down the page a bit, although I'm sure we
13 probably don't need it. Just going back to the
14 estimating process. As I understand it, the estimator
15 examines the vehicle and enters the details about the
16 damage into a computer program.
17 Can we agree? You'd agree to that, Ms.
18 Reichert?
19 MS. HEATHER REICHERT: Yes, I can.
20 MR. BYRON WILLIAMS: And the program
21 calculates part prices, replacement labour, overall
22 costs, and then prints an estimate, agreed?
23 MS. HEATHER REICHERT: Yes.
24 MR. BYRON WILLIAMS: And am I correct
25 in suggesting to you that the current estimating

1 program is the Mitchell WorkCenter system?
2 MS. HEATHER REICHERT: Yes, it is.
3 MR. BYRON WILLIAMS: And that was
4 installed between December 2013 and January of 2014,
5 correct?
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: Madam Chair, while
10 MPI is caucusing, I was asked whether this should be
11 introduced as an exhibit. And usually I would say yes.
12 But I would -- I -- this is just to aid the -- the
13 panel, so it's -- it's -- I -- I don't think it's a
14 contested fact. So I -- I would, in this case, not
15 recommend that it be an exhibit, subject to your
16 direction.
17 THE CHAIRPERSON: I think we're okay
18 without it being a formal exhibit.
19
20 CONTINUED BY MR. BYRON WILLIAMS:
21 MR. BYRON WILLIAMS: Okay. Sorry, Ms.
22 Reichert.
23 MS. HEATHER REICHERT: That's okay.
24 I'm just trying to get all of the dates and different
25 types of programs straight in my mind. So we've been

using the Mitchell claim estimating system for a long time, like since '94, at -- at least, I am told.

What we implemented this recent 2013 is a program called Mitchell RepairCenter. And that particular program interfaces the -- the claims estimating with the MPI WorkCenter program. So that's what was implemented. And my understanding is, implementing that RepairCenter is what we implemented with trade -- body -- body shops, I'm sorry, so that they could interface more directly with MPI on -- on the claims estimating system.

MR. BYRON WILLIAMS: And, Ms. Reichert, it was a lengthy and helpful answer. So just so -- to make sure, I'll break it into small parts.

First of all, MPI has a longstanding relationship with Mitchell Estimating Systems, dating back to 1994, agreed?

MS. HEATHER REICHERT: At least 1994.

MR. BYRON WILLIAMS: And the edition we are speaking at in what -- is Mitchell RepairCenter.

Is that what you indicated?

MS. HEATHER REICHERT: The recent program that was implemented and put into the body shops is the Mitchell RepairCenter.

MR. BYRON WILLIAMS: Okay. And the

1 Mitchell WorkCenter system, which interfaces with the
2 Mitchell RepairCenter, how long has that been in play?
3 MS. HEATHER REICHERT: That -- the
4 WorkCenter was part of that same rollout, that same
5 program rollout. So it was rolled out at the same time
6 as the RepairCenter. The RepairCenter and WorkCenter
7 are integrated.
8 MR. BYRON WILLIAMS: So we have a
9 rollout of two (2) Mitchell products. Mitchell -- one
10 (1) of which is Mitchell RepairCenter, which is located
11 physically at the auto body shops?
12 MS. HEATHER REICHERT: Yes, that's
13 correct.
14 MR. BYRON WILLIAMS: And the Mitchell
15 Work system -- WorkCenter system.
16 Is that at the estimator's location, Ms.
17 Reichert?
18 MS. HEATHER REICHERT: Yes, that would
19 be at the service centres where the estimators are
20 located.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: And these were
25 concurrently rolled out, agreed?

1 MS. HEATHER REICHERT: Yes, they --
2 yes, they were.
3 MR. BYRON WILLIAMS: And that was in
4 December of 2013 and January of 2014?
5 MS. HEATHER REICHERT: Yes, that --
6 that's the approximate time frame that they were rolled
7 out.
8
9 (BRIEF PAUSE)
10
11 MR. BYRON WILLIAMS: And you see the
12 almost rhetorical question on the -- on the -- the
13 brochure for Manitoba Public Insurance, saying:
14 "If the program does all this, why is
15 the estimator important?"
16 And you see that question, Ms. Reichert?
17 MS. HEATHER REICHERT: Yes, I do.
18 MR. BYRON WILLIAMS: And MPI's point is
19 the program is only as accurate as the information
20 that's entered into it.
21 And it is important that you have an
22 experienced estimator who knows exactly what to look
23 for and what information to input into the computer
24 program, agreed?
25 MS. HEATHER REICHERT: Yes.

1 MR. BYRON WILLIAMS: Now, with the
2 rollout of the Mitchell RepairCenter and the Mitchell
3 WorkCenter system, was there any change in the
4 guidelines for estima -- for estimation?
5 Or was this merely a techni --
6 technological rollout?
7 MS. HEATHER REICHERT: No, it was just
8 a technological implementation. They weren't changes
9 to the estimating guidelines.
10 MR. BYRON WILLIAMS: Okay. And if --
11 Diana, if we could just scroll down on this page. And
12 then you see the advice lo -- later on this page from
13 MPI to the consumer, if -- if one finds additional
14 damage related to the loss, one is -- one (1) option is
15 to discuss these damages with one's representative at
16 the repair shop and that that person may contact the
17 estimator about the damage.
18 Is that a fair characterization of one
19 (1) option that's open to consumers, Ms. Reichert?
20 MS. HEATHER REICHERT: Yes, that is,
21 but with the implementation of the RepairCenter and the
22 WorkCenter in this integration, what the enhancement
23 is, is now that the body shop is able to submit
24 electronically their -- what is called a supplement, so
25 their estimate of additional work required to complete

1 the -- to -- to complete the repair, so they're now
2 able to submit that electronically, it is still
3 reviewed by our estimators at the service centres, and
4 they review that for legitimacy and then approve that
5 electronically. So it's a much more streamlined
6 process.
7 In the past, as I understand it, there
8 were faxes going back and forth, paper that needed to
9 be reviewed, you know, scribbled on, what have you, and
10 then sent back to a -- to a body shop. So now that is
11 done within this RepairCenter program, and it's a -- a
12 much more streamlined process that is being followed.
13 MR. BYRON WILLIAMS: And just turning
14 to page 6, there's a -- a -- there's an indication that
15 if the consumer -- scroll down just a little bit,
16 Diana. Thank you. Keep scrolling. Thank you. Stop
17 there. Thank you.
18 If a consumer still takes issue with the
19 -- the repairs allowed, they have a number of options
20 including contacting the estimating supervisor, again,
21 having the repair shop contact the estimating
22 supervisor, or utilizing a quality control inspector.
23 Those are some of the options, to you
24 understanding, that are available for consumers, Ms.
25 Reichert?

1 MS. HEATHER REICHERT: Yes, it is.
2 MR. BYRON WILLIAMS: And finally,
3 Diana, if you can scroll to page 7, and just scroll
4 down a bit more. Keep scrolling. I may be on page 8.
5 In terms of where the consumer can go
6 for information, there's advice from MPI that they can
7 also go to the adjusting team.
8 Is that right?
9 MS. HEATHER REICHERT: Yes, it is.
10 MR. BYRON WILLIAMS: Now, is -- Ms.
11 Reichert, is -- the estimate -- am I correct in
12 suggesting that the estimator is not part of the
13 adjusting team?
14 MS. HEATHER REICHERT: I'm sorry. Can
15 you clarify for me what you mean by "adjusting team"?
16 MR. BYRON WILLIAMS: Okay. Well, let
17 me back up, and maybe I'll go at it -- first of all,
18 let me start with what I understand by an estimator,
19 okay? My understanding is an estimator is the initial
20 person to identify damage to the vehicle and to
21 determine what repairs it needs. And in terms of
22 education experience, the estimator would be a -- would
23 tend to be a journeyman in autobody repair.
24 Is that about right?
25 MS. HEATHER REICHERT: Yeah, that

1 sounds accurate.
2 MR. BYRON WILLIAMS: And I understand
3 from the MPI job descriptions that an adjustor is the
4 MPI representative who handles the claim, investigates
5 it, makes sure that there's proper coverage, and
6 assesses who was at fault.
7 Does that sound about right?
8 MS. HEATHER REICHERT: Yes, it does.
9 MR. BYRON WILLIAMS: And in terms of
10 experience, an adjustor does not require, for example,
11 to be a -- a journeyman mechanic, correct?
12 MS. HEATHER REICHERT: No, they do not.
13 MR. BYRON WILLIAMS: And my
14 understanding as well was that adjustors now work as a
15 team as opposed to the previous procedure of one (1)
16 adjustor per claim.
17 Would that be correct?
18 MS. HEATHER REICHERT: Yes, that is
19 correct.
20 MR. BYRON WILLIAMS: So by "adjusting
21 team," I'll ask you to -- to define for me what MPI
22 means by "adjusting team."
23 MS. HEATHER REICHERT: So if you're --
24 you're -- you were referencing about an adjusting team
25 that we have now, which means that someone can deal

1 with an adjustor. If that adjustor isn't available the
2 second or third day that they might call, any adjustor
3 can pick up that file and has the information in order
4 to be able to answer the questions of that -- of that
5 claimant.
6 So that's what we're referring to as an
7 adjusting team. It's not that there are two (2) or
8 three (3) people that together are looking at every
9 single claim. It's that any adjustor can look at a
10 specific claim and answer questions for a claimant, so
11 they don't have to get a specific adjuster in order to
12 have their questions answered.
13 So from that respect, no, the estimator
14 is not part of the adjusting team. But clearly the
15 estimator is an important part of the whole claims
16 process. So from -- from that perspective, and when I
17 talk about -- when I think of teams, all of those
18 people are part of an important team, if you will, in
19 helping a claimant get their -- their claim dealt with
20 and their repairs made.
21 MR. BYRON WILLIAMS: But in a specific
22 sense, an adjusting team is -- is referenced here or in
23 the service centre model, you're not speaking of an
24 estimator as being part of that team?
25

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: So in the

4 context of how it's -- it's put in this particular

5 pamphlet or brochure, no, the estimator isn't somebody

6 that you would call directly to talk about your -- your

7 claim. So from the standpoint of, 'Please, speak with

8 your adjusting team', that team in this context would

9 not include the estimator.

10 MR. BYRON WILLIAMS: The -- the concept

11 of an adjusting team, when was this change introduced?

12 MS. HEATHER REICHERT: I'm sorry, I

13 didn't catch the first part of your question. Which

14 change?

15 MR. BYRON WILLIAMS: In terms of -- Ms.

16 Reichert, you've dis -- discussed a concept where a

17 person has -- is not a -- has the option, if they're

18 not -- unable to reach one adjustor to speak to other

19 adjustors, correct?

20

21 (BRIEF PAUSE)

22

23 MS. HEATHER REICHERT: Okay. So the

24 process where you even talk with any specific adjust --

25 or any adjustor, not the specific one that you

1 initially dealt with, that would have started at MPI in
2 and around 2012. And I've just been reminded to ensure
3 that the panel understands that this document that
4 we're looking at, it describes how things are - - are
5 done, or are -- are being done prior to all of the
6 rollout of the RepairCenter and the other items that
7 I've just described. So I just wanted to make that
8 clear.
9 MR. BYRON WILLIAMS: Just so I'm clear,
10 you're not saying that this isn't a current document on
11 your website?
12 MS. HEATHER REICHERT: No, I'm saying
13 this is -- this is a current document on the website
14 but it doesn't get into what I just described about the
15 supplements being able to be done electronically or,
16 you know, that this infers that the -- the body shop
17 would have to call and physically connect with the --
18 the estimator, like that paper process. So this
19 doesn't contemplate the now electronic process, and
20 that streamlined -- streamlined process.
21 It does -- obviously, as it's referring
22 to the adjusting team, it is current as it relates to
23 in 2012 we had the team approach where you could talk
24 to anyone on a team about your claim. So, yes, it is
25 current from that respect.

1 MR. BYRON WILLIAMS: And -- and just
2 for the purposes of clarity, if a consumer has an issue
3 with the repairs allowed, are they able to address
4 those concerns with the, in quotation marks, "adjusting
5 team"?
6 MS. HEATHER REICHERT: Yes, they can.
7 MR. BYRON WILLIAMS: So they can go to
8 the estimating supervisor, or the adjusting team?
9 MS. HEATHER REICHERT: Or they can go
10 to our fair practice office. They can contact numerous
11 different areas that -- if they've got concerns with
12 what is being suggesting to be repaired and they're not
13 comfortable with that or they're not happy with the
14 repair after the fact, there are lots of avenues for
15 them to express their -- their concern and -- and seek
16 -- seek information.
17 MR. BYRON WILLIAMS: Now, Diana, I'm
18 going to ask you to pull up from the -- the notices, 20
19 percent to 20 percent trained team adjusting list.
20
21 (BRIEF PAUSE)
22
23 MR. BYRON WILLIAMS: Now, Ms. Reichert,
24 I -- I understand your point about the changes
25 implemented with regard to the Mitchell RepairCenter,

as well as the -- the WorkCenter.

Am I correct in suggesting to you that there are still occasions where a repair shop might have to contact an adjusting team?

MS. HEATHER REICHERT: Yes, there would be occasions when a repair shop would need to contact an adjusting team. I don't think I indicated that was not the case. I -- I want to also make clear that we have been rolling out the Mitchell RepairCenter to the body shops. We've been rolling them out in waves, if you will. So we could not -- like, there's over three hundred (300), I think, body repair shops if I'm -- I mean, that's within Manitoba.

So what we have done is we've been rolling out this RepairCenter to, I don't know, nine (9), ten (10) repair shops at a time. And -- and the initial stage is making sure all of the -- every -- the quirks or whatever within the program were all ironed out, and then proceeded with the next wave. And I think that, at this point, we're on about 9 -- wave 9 or 10. And it's anticipated that we will be completing that RepairCenter rollout by February of 2015.

So there are still some repair shops that are having to fill out supplements by paper and faxing them in and having them faxed back, and -- and

that process does still exist today.

MR. BYRON WILLIAMS: Diana, if you can just scroll down this page a little bit. Excu -- that's great there.

And, Ms. Reichert, so this is a notice to repair shop owners and managers, agreed?

MS. HEATHER REICHERT: Yes, it is.

MR. BYRON WILLIAMS: And what's it's advising them is that, If you need to speak to different teams at different centres, here's your email and here's your -- your number.

Is that fair enough?

MS. HEATHER REICHERT: That's fair enough.

MR. BYRON WILLIAMS: And am I correct in suggesting to you that it's possible that a repair shop or manager contacting MPI will speak to different team members on -- on different occasions on the same file?

That's conceivable?

MS. HEATHER REICHERT: That's definitely conceivable. That's the team concept.

MR. BYRON WILLIAMS: And so if -- if a repair shop has more than one (1) call about a particular file, they're not guaranteed contact with

1 the same member of the adjusting team, agreed?
2 MS. HEATHER REICHERT: That's correct.
3 That's what the team concept means, is that anyone in
4 that team should be able to assist whoever called on a
5 particular claim.
6 MR. BYRON WILLIAMS: And, Ms. Reichert,
7 you spoke of the rollout of the Mitchell RepairCenter.
8 In the time frame of December and
9 January 20 -- December 2013/January 2014, approximately
10 how many shops would -- would this have been rolled out
11 to?
12
13 (BRIEF PAUSE)
14
15 MS. HEATHER REICHERT: My understanding
16 is that the first wave was approximately eight (8)
17 shops. So I believe that between December 2013 and
18 January 2014, there was one (1) wave. So eight (8)
19 repair shops would have been having this program rolled
20 out to them.
21 MR. BYRON WILLIAMS: We'll come back to
22 that in a -- in a few moments. Before -- perhaps,
23 Diana, if we could pull up Exhibit MPI-10-2, which is
24 the PUB pre-ask. It's the quarterly financial report,
25 and specifically page 5.

1 Ms. Reichert, you'll have that document
2 memorized, will you not?
3
4 (BRIEF PAUSE)
5
6 MR. BYRON WILLIAMS: Right there is
7 perfect, Diana.
8 Ms. Reichert, you'll see that presented
9 in your second quarterly report of the current fiscal
10 year is Goal 6, which is focussed on employee
11 satisfaction and encouraging employees to strive for
12 excellence, agreed?
13 MS. HEATHER REICHERT: Yes.
14 MR. BYRON WILLIAMS: And if we look at
15 the past results, we'll see a -- a 76 percent employee
16 satisfaction associated with the fourth quarter of
17 '07/'08, agreed?
18 MS. HEATHER REICHERT: Yes, that's
19 correct.
20 MR. BYRON WILLIAMS: The fourth quarter
21 of '09/'10, we have a 74 percent employee satisfaction
22 level, agreed?
23 MS. HEATHER REICHERT: Yes.
24 MR. BYRON WILLIAMS: And in the first
25 quarter of the 2011 year, we have a 73 percent employee

1 satisfaction level.
2 Is that right?
3 MS. HEATHER REICHERT: Yes, that is.
4 But I just would point out that that seventy-three
5 (73), seventy-four (74), and seventy-six (76), all of
6 them are within the target range of 70 to 80 percent.
7 MR. BYRON WILLIAMS: Thank you for
8 that, Ms. Reichert. It looks like these surveys
9 generally are conducted every second year.
10 Would that be fair?
11 MS. HEATHER REICHERT: Generally. I
12 don't know that it's a strict schedule of every two (2)
13 years or anything like that.
14 MR. BYRON WILLIAMS: You'll agree with
15 me that, in terms of employee satisfaction, as we're
16 deep into the 2014/'15 year, the results from 2011/'12
17 are a bit stale?
18 MS. HEATHER REICHERT: I agree that --
19 that the -- there's -- it's been about three (3) years
20 since an employee satisfaction survey has been
21 completed.
22 MR. BYRON WILLIAMS: And it would be
23 fair to say that the employee opinion survey was not
24 undertaken in 2013/'14, and instead was deferred to the
25 '14/'15 year?

1 MS. HEATHER REICHERT: That is correct.
2 When the -- the employee opinion survey would typically
3 have come out I guess in the -- in the fall of 2013.
4 And that was when our then-CEO, Marilyn McLaren,
5 announced her retirement. So it was deemed that it was
6 appropriate not to conduct the employee opinion survey
7 until a new CEO was in place. And in fact, we now have
8 scheduled the employee opinion survey to occur in
9 February of 2015.
10 MR. BYRON WILLIAMS: Thank you. In --
11 in the last two (2) years, being the fiscal years
12 2012/'13-2013/'14, has MPI surveyed employees for
13 satisfaction with, or criticism of, the PIPP's claim
14 handling and reserving process?
15
16 (BRIEF PAUSE)
17
18 MS. HEATHER REICHERT: I don't believe
19 that -- that they have been surveyed specifically on
20 that program. I am willing to take it as an
21 undertaking, not just to rely on my memory. So I will
22 undertake to determine whether or not there has in fact
23 been a survey of staff with respect to -- was it the
24 PIPP, the BI3, bodily injury program.
25 MR. BYRON WILLIAMS: And, Ms. Reichert,

1 before you get anxious with the undertakings, I have a
2 few related questions. So maybe I'll -- I'll package
3 it up, and if you're -- if My Learned Friend will allow
4 me to ask a compound question.
5 Ms. Reichert, we're looking for a --
6 again, within the last two (2) years, being 2012/'13-
7 2013/'14, information of whether or not MPI has
8 surveyed employees for satisfaction with, or criticism
9 of 1) the PIPP's claim handling and reserving process;
10 2) the collision estimating and reserving practice; 3)
11 the team adjusting process; 4) the physical damage re-
12 engineering process; and 5) compliance with loss of use
13 policy and expenditure guidelines.
14 MS. HEATHER REICHERT: Okay. I think
15 that was spelled out quite clearly so we will do -- or
16 we will undertake to get that information.
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: And just to
21 clarify the undertaking, Ms. Reichert, you're going to
22 explore whether those surveys were done; and if you --
23 can I -- if they were done, would you agree to provide
24 an executive summary of the results?
25 MS. HEATHER REICHERT: If they have

1 been done I am con -- confident that there would be an
2 executive summary, and so we would provide that.
3
4 --- UNDERTAKING NO. 41: MPI to determine whether
5 employees have been
6 surveyed for satisfaction
7 with or criticism of the
8 PIPP's claim handling and
9 reserving process; the
10 collision estimating and
11 reserving practice; the
12 team adjusting process; the
13 physical damage re-
14 engineering process; and
15 compliance with loss of use
16 policy and expenditure
17 guidelines for the years
18 2012/2013 and 2013/2014,
19 and provide an executive
20 summary
21
22 CONTINUED BY MR. BYRON WILLIAMS:
23 MR. BYRON WILLIAMS: Just before the --
24 what I hope will be the coffee break -- always at the
25 Board's call -- Diana, I wonder if I could ask you to

1 turn to Values for Manitobans, which is Volume I, SM.1,
2 page 24.
3
4 (BRIEF PAUSE)
5
6 MR. BYRON WILLIAMS: And, Ms. Reichert,
7 if -- if you need to -- if you need to scroll -- us to
8 scroll back, I can -- or you can accept, subject to
9 check, but -- that -- that this commentary is in -- in
10 the -- in the context of the bodily injury improvement
11 initiative?
12 MS. HEATHER REICHERT: I -- yes.
13 MR. BYRON WILLIAMS: And you see that
14 it's suggested that one (1) of the results of the
15 bodily improvement -- bodily injury improvement
16 initiative, or BI3, is increased employee satisfaction
17 accomplished through a number of factors, including a
18 new team-based organizational structure.
19 Do you see that?
20 MS. HEATHER REICHERT: Yes, I do.
21 MR. BYRON WILLIAMS: And in terms of
22 this suggestion, my question to you is: Can MPI point
23 to any employment survey within the last two (2) years
24 to support this claim?
25

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Madam Chair, if -- I -- I don't mind if MPI wants -- I could really use some coffee, so we'd -- we'd be happy to give them -- you know, if they want to caucus over -- over the coffee break.

THE CHAIRPERSON: Would that be okay with you?

MS. HEATHER REICHERT: That would be fine. Thank you.

THE CHAIRPERSON: Okay. Then we'll take our coffee break and we'll come back just shortly after twenty (20) to 11:00. Thank you.

--- Upon recessing at 10:26 a.m.
--- Upon resuming at 10:47 a.m.

THE CHAIRPERSON: We're ready to begin again. I'll move over to Mr. Triggs, who has some new exhibits to number. Thank you.

MR. MICHAEL TRIGGS: Thank you, Madam Chair. I do have another -- a number of exhibits to introduce. The first exhibit, I believe, is MPI Exhibit number 41. It's entitled, "Change in

1 Government of Canada Ten (10) Year Bond Yields." Mr.
2 Johnston will speak just very briefly to this once I've
3 introduced all the exhibits.
4
5 --- EXHIBIT NO. MPI-41: Change in Government of
6 Canada ten (10) year bond
7 yields
8
9 MR. MICHAEL TRIGGS: Exhibit number 42,
10 it's response to Undertaking number 23.
11
12 --- EXHIBIT NO. MPI-42: Response to Undertaking 23
13
14 MR. MICHAEL TRIGGS: Exhibit number 43
15 is response to Undertaking number 30.
16
17 --- EXHIBIT NO. MPI-43: Response to Undertaking 30
18
19 MR. MICHAEL TRIGGS: Exhibit number 44
20 is response to Undertaking number 34.
21
22 --- EXHIBIT NO. MPI-44: Response to Undertaking 34
23
24 MR. MICHAEL TRIGGS: And -- and that --
25 that's it. And, Mr. Johnston, if you'd just quickly

1 speak to the -- Exhibit number 41.
2 MR. LUKE JOHNSTON: Thank you. So this
3 was not an undertaking. This was just additional
4 information that MPI provided in light of the DCAT
5 draft undertaking. So in regards to -- to interest
6 rates, what we wanted to show here was in the top table
7 this is -- the top left-most table is our current
8 modelling of interest rates. And what's being shown
9 here is how historically interest rates have changed
10 from their current level.
11 And so in the left column you'll see
12 these are percentiles. About half the -- if you go
13 through that row you'll notice num -- most of the
14 numbers are around zero. So about half the time
15 interest rates will increase from their current levels,
16 and half the time they'll decrease historically. And
17 that's -- the basis of our modelling was how interest
18 rates have changed from their current levels over time,
19 so that's how we -- that's how we did it.
20 To the right of that table is the method
21 requested by -- in the PUB DCAT undertaking where we do
22 the percentage change in yields, and that shows the
23 distribution on that basis. So that's -- that's for --
24 information of all the parties bef -- I'm assuming
25 we'll discuss this at some point.

At the bottom table, we -- we can provide more information if necessary on how we did this. But I went into the Professor Simpson evidence, and he identified stagflation as 1976 to 1985. So we completely removed the effects -- anything related to that period from the -- the model. And the bottom two (2) tables show the revised output using -- you know, excluding that period.

Unfortunately, the shading didn't show up the greatest here, but what it notes in the bottom there is -- is what I said earlier. The current Government of Canada ten (10) year bond rate is about 2 percent as at October 31st. The DCAT has a -- has a cap -- a lower cap, at one point six eight (1.68).

If we model it in this way, almost any decrease will be capped at the minimum, which would in theory result in the same result in the -- in the DCAT report, which is essent -- like very close to the equivalent of just assuming flat interest rates. So that's -- that was just for additional clarity on that topic.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. Thank you.

1 Mr. Williams, you can begin your cross-examination
2 again.
3
4 CONTINUED BY MR. BYRON WILLIAMS:
5 MR. BYRON WILLIAMS: Thank you. And --
6 and before we get back to Ms. Reichert, Mr. Johnston,
7 we'll certainly have some more questions about this
8 perhaps tomorrow morning.
9 But in terms of Exhibit 42-Undertaking
10 23, am I correct in understanding that this is prior to
11 management action?
12 MR. LUKE JOHNSTON: That's correct.
13 MR. BYRON WILLIAMS: Okay. Thank you.
14
15 (BRIEF PAUSE)
16
17 MR. BYRON WILLIAMS: I'm sorry, Ms.
18 Reichert. I was distracted. I've had my coffee, I'm
19 feeling perky. How are you?
20 MS. HEATHER REICHERT: I'm fine. Thank
21 you.
22 MR. BYRON WILLIAMS: I think we were
23 awaiting a response to...
24 MS. HEATHER REICHERT: Okay. So I'm
25 not so perky as to remember exactly what the question

1 was that we left on, so if you could kindly repeat that
2 for me.
3 MR. BYRON WILLIAMS: You run the risk
4 of me making up a new one, Ms. Reichert, but what I'm -
5 - what I asked before the coffee break was, in terms of
6 the suggestion of increased employee satisfaction, the
7 question posed was: Can MPI point to an employment
8 survey within the last two (2) years to support that
9 claim?
10 MS. HEATHER REICHERT: No, we cannot
11 point to a formal employee opinion survey in that
12 regard. However, our -- our opinion and -- and why
13 it's written there as is, is that you don't need to
14 have a formal employee opinion survey in order to be
15 able to gauge the satisfaction of -- of the employees
16 that are working on any particular area. So on the
17 ground, the -- the managers and supervisors have a feel
18 for the engagement of their staff.
19 And so, based on implementing the BI3
20 system, it -- we have said on the record before it is
21 about a seven (7) year process. When you implement as
22 significant and as complex a -- a system and change in
23 the way of processing and working on claims as the BI3
24 did, it -- it's about a seven (7) year process to get
25 that totally in -- indoctrinated into how people are

1 working and -- and feeling about the work that they're
2 doing.
3 So our -- our feeling is that, based on
4 how people are working and responding to the
5 collaborative working, the working in the teams,
6 they're more engaged on the files that they -- the --
7 the claim files that they have. So that's the basis of
8 this -- this particular comment.
9 Also, just to remind the -- the panel,
10 we did file a post-implementation review of BI3 shortly
11 after the project was completed. And we intend to file
12 another post-implementation review at the seven (7)
13 year mark when projects of this size and nature are
14 considered to be fully integrated and fully -- fully
15 implemented within the organization. So we will be
16 doing that at the seven (7) year mark.
17 MR. BYRON WILLIAMS: And I take it that
18 it would be correct to suggest that that review will be
19 done by an external party?
20 MS. HEATHER REICHERT: No. Post-
21 implementation reviews are done internally with staff
22 that were not involved in the -- in the project itself.
23 MR. BYRON WILLIAMS: Okay. Thank you.
24 Diana, if I can turn your attention to
25 Volume II, the Claims Incurred, and specifically page

1 31.

2

3 (BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: Scroll down,

6 please. Oh, perfect.

7 Mr. Johnston, is this -- is this your

8 turn now, sir?

9 MR. LUKE JOHNSTON: Likely so, yeah.

10 MR. BYRON WILLIAMS: In terms of

11 increases in the severity in '13/'14, one (1) of the

12 factors you -- you cite, starting at line 11, the

13 second dash, is a 1 percent higher severity due to a

14 change in reserving practices.

15 Am I correct?

16 MR. LUKE JOHNSTON: Correct.

17 MR. BYRON WILLIAMS: And just slipping

18 to page 34 of this document for a second, Mr. Johnston

19 -- and you can scroll down a bit, Dia -- perfect.

20 Thank you.

21 The change in reserving practices was

22 considered to be a nonrecurring factor. So what we

23 here -- see here on this page is, on the second line,

24 the -- an adjustment to -- to factor that out.

25 Am I correct?

1 MR. LUKE JOHNSTON: That's correct.
2 MR. BYRON WILLIAMS: Now if -- Diana,
3 if you could turn to Information Request PUB 1-52(a)
4 for a moment. Just focussing on the question first.
5
6 (BRIEF PAUSE)
7
8 MR. BYRON WILLIAMS: And, Mr. Johnston,
9 before we get to your answer, we see here that the PUB
10 is asking you to confirm that the cited change in
11 reserving pra -- practice related to the bulk IBNR
12 provision related to collision or, alternatively, to
13 describe the nature, timing, and extent of the cited
14 change in reserving practices.
15 Did I capture the nature of that
16 question correctly, sir?
17 MR. LUKE JOHNSTON: Yes. And assuming
18 you're going to go on, I'll -- I'll --
19 MR. BYRON WILLIAMS: Indeed we are.
20 And, Mr. Johnston, just scrolling down, just to assist
21 the -- the reader, to the response to (a), essentially,
22 what MPI said is the change wasn't related to the IBNR;
23 it was related to a systems issue that resulted in an
24 overstatement of reserves.
25 Is -- is that right, sir?

1 MR. LUKE JOHNSTON: That's correct.
2 Understandably, with such a significant change in
3 severity, we had the business really, you know, dig
4 into every aspect of that increase. They found that
5 there was this overstatement, I believe double-
6 reserving issue that accounted for there being a little
7 bit more reserves on claims; it was equal to 1 percent.
8 Clearly, that's not a legitimate increase in -- in the
9 amount, so we adjusted it out in the forecast.
10 MR. BYRON WILLIAMS: And, Mr. Johnston,
11 just to make sure we're clear, this isn't the double-
12 reserving related to the PIPP side that was identified
13 by the Corporation in 2011/'12, agreed?
14 MR. LUKE JOHNSTON: Correct. This is
15 on the physical damage side.
16 MR. BYRON WILLIAMS: And this isn't the
17 lag on the PIPP side either; this is -- this is a
18 different issue?
19 MR. LUKE JOHNSTON: Yes. Yeah, a very
20 different issue, yeah.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: Now, just -- am I
25 correct in suggesting to you, Mr. Johnston, then that

1 when the Mitchell -- and to back up, this was
2 associated with the Mitchell WorkCenter, was it not?
3 MR. LUKE JOHNSTON: Yes, that's my
4 understanding from discussions with the business.
5 MR. BYRON WILLIAMS: Not the Mitchell
6 RepairCenter?
7 MR. LUKE JOHNSTON: Per -- per the
8 response, we state WorkCenter. And that's -- yeah,
9 that's the extent of my knowledge, yeah.
10 MR. BYRON WILLIAMS: And just
11 practically speaking, when an estimator reviews a
12 vehicle and -- and inserts, you know, his -- his or her
13 calculations or observations into the Mitchell
14 WorkCenter, would I be correct in suggesting that the
15 system would normally pop in some sort of reserve?
16 MR. LUKE JOHNSTON: That's my
17 understanding.
18 MR. BYRON WILLIAMS: So in this case,
19 it was just popping a double reserve?
20 MR. LUKE JOHNSTON: Yes, that's --
21 that's my understanding. I -- I'm not exactly sure
22 why, but that -- that apparently was occurring in that
23 short time frame, for whatever reason, and then was
24 later addressed.
25 MR. BYRON WILLIAMS: And was the -- the

1 double-reserving on the collision side, was it
2 identified by the actuarial team or the -- the team on
3 the ground?
4 MR. LUKE JOHNSTON: No, it was identif
5 -- it was not identified by the actuarial team. It
6 was, per my previous comments, basically, a real deep
7 look into all the causes of the severity change. And
8 this issue was caught by the business and brought
9 forward.
10 MR. BYRON WILLIAMS: Okay. Now, Diana,
11 I'm going to go back to the claims incurred, page 35.
12 And then next up will be CAC 2-35.
13 On line 7 through 9, Mr. Johnston,
14 you'll see a -- a discussion of a -- a special
15 collision IBNR provision being incorporated to account
16 for a significant lag in claim reporting.
17 Do you see that, sir?
18 MR. LUKE JOHNSTON: Yes.
19 MR. BYRON WILLIAMS: And then if we can
20 just go to CAC-2-35. Scroll down please, Diana. And
21 the second paragraph, we see a -- a bit different
22 language. There's a discussion of a lag in claims
23 processing.
24 Do you see that reference, Mr. Johnston?
25 MR. LUKE JOHNSTON: Yes, I do.

1 MR. BYRON WILLIAMS: And there's also
2 an -- an indication that the processing lag extended
3 beyond February 2014 and January 2014, back into
4 December 2013.
5 Do I have that corr -- or is that --
6 would that be correct, sir?
7 MR. LUKE JOHNSTON: Yes. There was
8 basically a prolonged period without really any -- just
9 a really prolonged period of high frequency that was
10 very abnormal. You might have a few weeks in -- you
11 know, here or there that really set you back. But this
12 was just an extended period of time where it was just
13 kind of relentless frequency, and there was definitely
14 a lag in the -- in the handling of these physical
15 damage claims.
16 MR. BYRON WILLIAMS: And you don't need
17 to turn there, Mr. Johnston, but if we look at the
18 external auditor there -- his supporting actuary's
19 report. They, again, speak to a delay in -- in
20 processing.
21 Was that your understanding as well,
22 sir?
23 MR. LUKE JOHNSTON: Subject to check,
24 but that -- I would -- that would make sense if they
25 identify that.

1 MR. BYRON WILLIAMS: And just in terms
2 of the language, is the lag in claims reporting flagged
3 in the claims incurred the same as a lag in claims
4 processing?
5 MR. LUKE JOHNSTON: When I -- well,
6 when I'm referring to this lag and -- and it might be a
7 -- I'm not sure if the wording is consistent
8 everywhere. But I'm talking about a normal speed at
9 which the claims are re -- reported, and specifically
10 to me, and then show up on the system. So when I say,
11 "a lag," I'm saying, Okay, well, I'm at the end of
12 December and, you know, there's -- usually I find out
13 that there was six thousand (6,000) claims reported in
14 December by this time, and I've only found out there's
15 three thousand (3,000).
16 So I'm pretty sure three thousand
17 (3,000) isn't right. This -- must be something
18 happening here. Talk to the business and they'll
19 confirm that there's a -- a really big backlog in
20 claims. And so from my perspective, I've got to be
21 careful because I'm trying to estimate the ultimate
22 liability for all the claims that happened in that
23 period.
24 So when I say, "lag," that's -- I'm
25 saying, "lag," in just normal reporting patterns that I

1 see historically.

2 MR. BYRON WILLIAMS: And, Mr. Johnston,

3 and -- and I apologize for being obtuse, but just

4 trying to understand the driver of the -- the lag. And

5 I'll -- in -- with -- again, with the permission for a

6 compound question. I'll throw some hypotheses at you,

7 and you can help me to understand.

8 Is the delay or lag in claims processing

9 a function of claims not being reported by accident

10 victims? Claims not being properly recorded at call

11 centres? Claims not being processed properly in

12 Mitchell? Or estimators or adjustors being unable to

13 keep up? Or some -- some combination of that?

14 MR. LUKE JOHNSTON: My view, it is

15 possible that the -- the factors you listed could

16 contribute in some way. I don't know the answer to

17 that. My view is that the volume of the claims coming

18 in was very unprecedented. And even historically, if -

19 - if we have a very large volume collision month,

20 normal reporting patterns won't -- won't apply, right?

21 It's not -- it's not normal, right?

22 So it's -- the -- what was different

23 about this episode is just the length of the high

24 frequency and just no -- no break to recover from that

25 abnormal frequency.

1 So whether it has anything at all to do
2 with the -- the items you listed, I don't know. I've -
3 - from my perspective, I viewed this as a volume issue
4 and tried to properly account for it in terms of
5 posting the rate liability for MPI.
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: So, Mr. Johnston,
10 would I be correct in suggesting -- or let me try this
11 again.
12 Would it be correct to suggest that you
13 do not attribute any part of this to the transition to
14 the Mitchell system?
15 MR. LUKE JOHNSTON: Those were not --
16 not my comments. My comments were that I believe the
17 majority of this is related to volume and that I don't
18 know if the other items contribute to this at all. I -
19 - I haven't talked with the business or attempted to
20 break out the details for the items you listed.
21 MR. BYRON WILLIAMS: Ms. Reichert, have
22 you spoken with your -- your folks in terms of
23 understanding the drivers of the unprecedented delay in
24 processing?
25 MS. HEATHER REICHERT: There were many

1 conversations during the horrendous winter that we had
2 about the impact on claims processing. The sheer
3 volume in order to be able to get the estimates done
4 and information put into -- or into our claims system
5 was -- was absolutely horrendous. And so I just echo
6 what -- what Mr. Johnston has said.
7 Any one (1) of the listed items that Mr.
8 Williams listed could have contributed, but our
9 understanding as we were facing the severe winter that
10 we had, it really -- the -- the major impact was the
11 sheer volume and the ability to try to process that
12 volume on the same kind of time frame that a normal
13 winter would be -- would be processed.
14 So there were no discussions, from my
15 perspective, that the Mitchell WorkCenter was a major
16 contributing factor to -- to this lag that is being
17 discussed.
18 MR. BYRON WILLIAMS: Okay. Thank you.
19 In -- Ms. Reichert, I suspect this is still you. Am I
20 correct in -- in understanding that -- that the -- in
21 terms of benchmarking, that the Corporation is still in
22 the process of developing metrics in assessing ongoing
23 productivity and claims management, physical damage,
24 and the cont -- the contact centre?
25 MS. HEATHER REICHERT: Benchmarking in

1 and of itself is a continuous process, so we are
2 continually looking at how we benchmark and what are
3 appropriate benchmarks to use. So the answer to your
4 questions is, yes, we are still working on it.
5 MR. BYRON WILLIAMS: Well, I'll be
6 little more directive then. You'll recall that last
7 year in the Board order there was a commentary about
8 the -- the fact that benchmarks were not available with
9 regard to -- to claims management.
10 Do you recall that?
11 MS. HEATHER REICHERT: Somewhat, yes.
12 MR. BYRON WILLIAMS: And if you need a
13 reference the -- the Board put it to you directly in
14 PUB 1-63. And the Corporation indicated that it's
15 still in the process of developing metrics in the areas
16 of claims management, physical damage, and -- and the -
17 - the contact centre.
18 Is that fair?
19 MS. HEATHER REICHERT: Yes, and that
20 was my comment, that it's still in the process. We're
21 still working on that.
22 MR. BYRON WILLIAMS: Is there a time
23 frame?
24
25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: Metrics of that
2 nature, they'll be determined/developed once we have
3 the -- the new physical damage process fully
4 implemented. To do something on an existing system
5 when we know that we're in the process of changing that
6 system, from our perspective it's not a good use of
7 time and resources at this point.
8 MR. BYRON WILLIAMS: So it's years
9 away, Ms. Reichert?
10 MS. HEATHER REICHERT: I would say it's
11 more than a year away, yes.
12 MR. BYRON WILLIAMS: Diana, I wonder if
13 you can turn to CAC First Round Information Request 1-
14 6, and we'll be pulling up 1-7 right away.
15
16 (BRIEF PAUSE)
17
18 MR. BYRON WILLIAMS: This is an
19 Information Request, you'll agree, seeking copies of
20 the agreements with the ATA, being the Automotive
21 Trades Association, and the MDA, the Manitoba Dealers
22 Association, agreed?
23 MS. HEATHER REICHERT: Yes.
24 MR. BYRON WILLIAMS: And originally,
25 MPI declined to provide this information, but was

1 compelled to provide it by the Public Utilities Board,
2 correct?
3 MS. HEATHER REICHERT: Correct.
4 MR. BYRON WILLIAMS: We'll come back to
5 that in a moment.
6 Diana, if you can go to CAC 1-7.
7
8 (BRIEF PAUSE)
9
10 MR. BYRON WILLIAMS: And this is,
11 you'll agree, a request for the Manitoba Collision
12 Repair Industry Study, the 2013 -- the 2013 report
13 based upon the 2012 study, agreed?
14 MS. HEATHER REICHERT: Yes.
15 MR. BYRON WILLIAMS: And MPI originally
16 declined to answer this Information Request and then
17 was compelled by the Public Utilities Board.
18 Is that correct?
19 MS. HEATHER REICHERT: I believe so,
20 yes.
21 MR. BYRON WILLIAMS: If we can go to
22 the attached report, perhaps just start at the cov --
23 the -- the cover page, if you have it, Diana.
24
25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: Ms. Reichert, this
2 was an update to a 2009 study that was con -- conducted
3 collaboratively between MPI, the ATA, and the MDM
4 (sic), agreed?
5 MS. HEATHER REICHERT: Yes, that's my
6 understanding.
7 MR. BYRON WILLIAMS: And MNP was the
8 consultant to perform this report?
9 MS. HEATHER REICHERT: Sorry. That's
10 correct.
11 MR. BYRON WILLIAMS: And we'll come to
12 details in a moment, but this was based on a fairly
13 extensive survey of the -- the repair industry in
14 Manitoba, correct?
15 MS. HEATHER REICHERT: Yes.
16 MR. BYRON WILLIAMS: And before we get
17 into any of the details of the report, are there any
18 substantive conclusions from this report that MPI has
19 taken issue with or flagged?
20 MS. HEATHER REICHERT: So I am not as
21 intimately familiar with this report in my
22 responsibilities. So I'm just going to get back to you
23 in one (1) sec.
24
25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: I understand
2 there is nothing in this report that we take issue
3 with. We accepted the report, and as -- as it's re --
4 or as it's documented.
5 MR. BYRON WILLIAMS: Okay. And to --
6 to the knowledge of MPI, has the ATA or MDM (sic) taken
7 any substantive issue with any of the findings of this
8 report?
9 MS. HEATHER REICHERT: Not to our
10 knowledge, no.
11 MR. BYRON WILLIAMS: And in terms of
12 the perceptions of repair shop owners, apart from this
13 2012 sur -- survey, are there any more recent surveys
14 in the possession of Manitoba Public Insurance?
15 MS. HEATHER REICHERT: No, not that I
16 am aware of.
17 MR. BYRON WILLIAMS: So this is the
18 most current external survey of the -- of the -- the
19 attitudes of the repair industry?
20 MS. HEATHER REICHERT: Just to be
21 clear, while body shops were surveyed for information,
22 this report itself is actually an assessment of the
23 health of the industry, so it's not just purely a
24 survey of the -- of the body shops.
25 MR. BYRON WILLIAMS: Thank you for that

1 clarification. And just to go back to my question
2 though.
3 In the possession of MPI, is there any
4 more recent survey of the perceptions or attitudes of
5 the -- of the body shops provided by an external
6 consultant?
7 MR. LUKE JOHNSTON: To my knowledge,
8 no, there is not.
9 MR. BYRON WILLIAMS: Okay. Just we'll
10 spend a few moments on -- on this document. Perhaps we
11 could start at page 17, towards the bottom of that
12 page, Diana.
13
14 (BRIEF PAUSE)
15
16 MR. BYRON WILLIAMS: And just for the
17 court reporter, when I'm referring to the page numbers,
18 I'm using the MNP page numbers in the bottom right-
19 corner as compared to the PDF page numbers. And Diana
20 is smarter than I am and has -- has done that
21 correctly, miraculously.
22 Just as a starting point, Ms. McLaren --
23 excuse me. I don't know if -- if I've promoted you or
24 not, Ms. Reichert, but I apologize. The reported
25 results from this survey suggest that MPI is

1 responsible for 85 percent of the survey respondents'
2 total revenue.
3 Is -- is that right?
4 MS. HEATHER REICHERT: Yes, I see that
5 there.
6 MR. BYRON WILLIAMS: Now, if we can
7 just scroll down for a second. Ms. Reichert, what this
8 is telling us, as -- as we move from left to right, is
9 that for the smaller shops MPI is allowing for sample
10 size responsible for a bit less than 70 percent of
11 their business.
12 Would that be a fair interpretation?
13 MS. HEATHER REICHERT: I would say that
14 is a fair interpretation, yes.
15 MR. BYRON WILLIAMS: As we move up the
16 scale to the less than a million but more than five
17 hundred thousand (500,000), around 80 percent for that
18 particular size of firm.
19 Would that be fair?
20 MS. HEATHER REICHERT: Seventy-nine
21 percent, to be exact.
22 MR. BYRON WILLIAMS: If we're going to
23 be precise, for -- between the 1 million to 2 mil -- 2
24 million, 89 percent, agreed?
25 MS. HEATHER REICHERT: Correct.

1 MR. BYRON WILLIAMS: And a whopping 90
2 percent for the stores with revenues over 90 percent.
3 Would that be fair?
4 MS. HEATHER REICHERT: Ninety percent,
5 correct, yes.
6 MR. BYRON WILLIAMS: And if we go to
7 page 18. Keep scrolling, Diana. Right there's
8 perfect. And would it also be fair to say that since
9 the previous survey in twe -- 2009 MPI's relative
10 importance to those surveys has increased by about 4
11 percent, in that there's been a 4 percent increase in
12 MPI work and a corresponding 4 percent decrease in
13 other paid work?
14 MS. HEATHER REICHERT: Yes, that's that
15 first line there.
16
17 (BRIEF PAUSE)
18
19 MR. BYRON WILLIAMS: So for the -- in
20 particular, the large reshare -- repair shops, MPI is
21 close to the only game in town.
22 Would that be fair, Ms. Reichert?
23 MS. HEATHER REICHERT: Yes, to the
24 extent that 86.3 percent of the large, i.e., the
25 greater than the 2 million. Interestingly, the

1 percentage that we represent of the large, greater than
2 2 million, repair shops has actually decreased. I
3 mean, that really accounts for that 4 percent decline
4 that is noted in the -- the first line.
5 The -- the greater than the 2 million
6 shops really make up the -- the whole reason for that
7 decrease. So while they do receive a majority of their
8 work from MPI, the percentage, based on this report, is
9 in fact decreasing.
10 MR. BYRON WILLIAMS: Yes. And -- and
11 just to clarify the record, and I apologize for that,
12 Ms. Reichert, the first table we went through, should
13 have indicated, was the 2009 numbers. And the -- and
14 so I apologize for that. And I did not mean to
15 misdirect you.
16 Now, if we could turn to page 29 for a
17 moment, being the MNP numbering. And scroll down on
18 the page, please. That's perfect there.
19 Now, this is, Ms. Reichert, an estimate
20 of the -- based upon sixty-six (66) survey respondents
21 of the average number of hours spent on MPI-related
22 activities per week.
23 Would that be fair?
24 MS. HEATHER REICHERT: Yes, it would.
25 MR. BYRON WILLIAMS: And it's from

1 2012, agreed?

2 MS. HEATHER REICHERT: Yes.

3 MR. BYRON WILLIAMS: And the suggestion

4 was that twenty-seven point nine (27.9) hours a week

5 were -- were related to estimating, correct?

6 MS. HEATHER REICHERT: That is correct,

7 yes.

8 MR. BYRON WILLIAMS: And also smaller

9 numbers, but still a substantial amount of time related

10 to parts procure -- curement -- procurement and account

11 reconciliation.

12 Would that be fair?

13 MS. HEATHER REICHERT: Yes.

14 MR. BYRON WILLIAMS: If we can go to

15 page 30 -- 31 for a moment. Scroll down to the bottom

16 of the page, table 8, please, Diana. And stopping

17 here, this is a comparative estimate of the amount --

18 average number of hours per payment in three (3)

19 categories, being estimating, parts procurement, and

20 account reconciliation.

21 Is that correct, Ms. Reichert?

22 MS. HEATHER REICHERT: Yes, it is.

23 MR. BYRON WILLIAMS: And MNP has

24 subdivided this into the -- the four (4) categories of

25 business by -- by their revenues, agreed?

1 MS. HEATHER REICHERT: Yes, I would.
2 MR. BYRON WILLIAMS: And the one (1)
3 potential outlier on this table, if we go to the right-
4 hand side under -- under "Totals," I'd suggest to you
5 may be the less than five hundred thousand (500,000)
6 size firm where -- where the -- the numbers seem to be
7 significantly larger than -- than the -- the average
8 numbers of hours per payment for the smaller firms.
9 Would that be fair?
10 MS. HEATHER REICHERT: I'm sorry, can
11 you say that again?
12 MR. BYRON WILLIAMS: Yes. Let's try it
13 better. Ms. Reichert, you can see on the total column
14 in terms of the time spent, for example, for firms with
15 revenues over $2 million, you see an average time of
16 two (2) -- two (2) hours roughly in 2009, and an
17 increase to three-point-three (3.3) hours in 2012,
18 agreed?
19 MS. HEATHER REICHERT: Yes.
20 MR. BYRON WILLIAMS: If we move up to
21 the firms less than five hundred thousand (500,000),
22 you see an increase from 2009 of nine point six (9.6)
23 hours to 2012 of thirteen point seven-five (13.75)
24 hours, correct?
25 MS. HEATHER REICHERT: Yes.

1 MR. BYRON WILLIAMS: And what I'm
2 suggesting to you is if you look at that table in terms
3 of the relative number of hours, the total for the
4 firms under five hundred thousand (500,000) seems to be
5 perhaps a bit of an outlier compared to the other three
6 (3) businesses as measured by revenue size.
7 Would you agree with that?
8 MS. HEATHER REICHERT: On a -- on a
9 pure hours perspective, on a percentage increase
10 perspective I -- I would say not. But I agree with the
11 numbers that you quoted.
12 MR. BYRON WILLIAMS: Now, you see in
13 the first paragraph under -- under this -- this table,
14 there's a commentary -- the last sentence -- a
15 commentary by MNP that given the small sample of these
16 shops reporting the re -- result for this group, i.e.
17 those less than five hundred thousand (500,000) may not
18 be reliable.
19 Do you see that statement?
20 MS. HEATHER REICHERT: Yes, I do.
21 MR. BYRON WILLIAMS: And, Ms. Reichert,
22 my question in -- in terms of that is whether MPI has
23 made any efforts to resurvey, or resample, these
24 smaller outlets?
25 MS. HEATHER REICHERT: No, we have not.

1 MR. BYRON WILLIAMS: Okay. You also
2 see, Ms. Reichert, in the bottom paragraph the last
3 sentence -- thank you, Diana -- a suggestion, or a
4 conclusion by MNP that:
5 "Shops with over 2 million indicated
6 a significant increase in time with
7 the biggest increases in estimating
8 and -- and parts procurement."
9 Do you see that?
10 MS. HEATHER REICHERT: Yes, I do.
11 MR. BYRON WILLIAMS: Thank you. I
12 wonder if we could go to page 33 for a moment, please?
13 Again, this is the MNP commentary.
14 MR. REGIS GOSSELIN: Mr. Williams, I --
15 I just -- could I -- could I interrupt your --
16 MR. BYRON WILLIAMS: Always.
17 MR. REGIS GOSSELIN: -- questioning
18 just for -- just -- just to clarify my own -- my own
19 mind. Harkening -- I believe going back to the
20 pervious discussion regarding the table, the
21 differences in -- in time spent on payments per -- per
22 company.
23 Now, looking at -- I mean, leaving aside
24 the issue of small sample size, it seems pretty clear
25 from this that larger businesses are more efficient at

1 dealing with MPI than the smaller operators. And so I
2 -- starting from the assumption that a small company is
3 getting paid the same amount as the large company for
4 the same damage, so any gain that's generated from
5 efficiency goes to the repair shop?
6 MS. HEATHER REICHERT: Yes, that would
7 be a good --
8 MR. REGIS GOSSELIN: And I guess the
9 question --
10 MS. HEATHER REICHERT: -- analysis.
11 MR. REGIS GOSSELIN: -- the question I
12 have is: Do you get gains from that? Does MPI get any
13 gains from that increased efficiency by certain shops?
14 Looking at -- you know, flipping the -- the thing
15 around, you're dealing with a larger shop versus a
16 small shop.
17 Are you getting gains from the larger
18 shop that you wouldn't get otherwise?
19
20 (BRIEF PAUSE)
21
22 MS. HEATHER REICHERT: Okay. So -- so
23 a more efficient body shop would help MPI from the
24 standpoint of reducing our loss of use cost, just off
25 the -- off the top. But more importantly, where MPI

1 gets gains in our relationship and -- and partnership
2 with the -- with the trades is in our ability to
3 negotiate with them the -- the labour rates that they
4 are paid for doing the -- the work for MPI.
5 And I believe that Mr. Guimond in his
6 testimony earlier a couple weeks ago indicated, for
7 instance, in Saskatchewan where they recently
8 negotiated a 10/10/10 increase in the labour rates for
9 body shops, MPI has been able to negotiate a much lower
10 -- I think it was in and around 2 -- 2 percent increase
11 in labour rates with our body shops. So we are -- we
12 gain efficiencies and -- and therefore keep our costs
13 down through those mechanisms.
14 The efficiency of a -- of a repair shop
15 in being able to -- to acquire their parts more
16 quickly, not spending as much time in -- in having to
17 process, you know, payments or whatever, that would be
18 to their benefit and would be to their bottom line. If
19 I -- if I understood the question correctly.
20 MR. REGIS GOSSELIN: Yes, you did. But
21 I just -- I just want to get the -- the -- you know,
22 the -- from the perspective of MPI, looking at this
23 data which suggests to me that serving -- or your
24 relationship with a larger body shop, a larger
25 operator, must -- there must be efficiency gains for

you from dealing with a larger repair shop.

I mean, if they're -- if they're spending less time dealing with MPI and using your systems than a smaller shop, there's got to be gains that you're making from that relationship.

MS. HEATHER REICHERT: At an aggregate level, I understand. Like the volume of those larger sho -- shops actually yields to a -- to a lower labour -- is it labour rate?

(BRIEF PAUSE)

MR. DAN GUIMOND: Yeah. What's important for MPI is the negotiated shop rate with the trades. So the more efficient the shops are, the lower the shop rate can be. And that's really where it's important when we compare ourselves across Canada in terms of being able to lower the rates at -- at the overall level.

So the more -- because the larger shop do most of our business, right, that's -- because they're more efficient, so -- so that's why we're able to negotiate a lower shop rate at the aggregate level. So the more the shops are efficient, the more we're able to reduce the shop rate. The lower the shop rate,

1 the lower the rates are for our customers.
2 MS. SUSAN PROVEN: Oh, could I ask a
3 little bit on this topic about where the shops are
4 located? I'm thinking, you know, small towns, lots of
5 little small towns. In fact, I think Basswood even has
6 a body shop. I don't know, you know, whether you deal
7 with them or not.
8 But overhead must be one (1) of the
9 major things, is it not, in the body shop rate that has
10 to be set? And I'm thinking, you know, having a big
11 shop on a main street like Pembina Highway, it could be
12 very costly as compared to Main Street, Souris, for
13 example.
14 Do you want to comment on that?
15 MS. HEATHER REICHERT: I would say
16 that, yes, typically, a smaller shop, they're paid the
17 -- the same labour rate as the larger shops are. And I
18 would on average say that a smaller shop would have
19 less overhead, right? It might be a -- an owner-
20 operated body shop, and they don't have the same -- the
21 same overhead, which likely also can contribute, I'm
22 guessing, to why it might take them a little bit longer
23 to process some of these -- these payments. They're
24 not as computerized.
25 But I would say that, generally, yes, a

1 smaller shop would have less -- less overhead, and
2 therefore get more profit, if you will, from the same
3 labour rate that a large shop would get.
4 MS. SUSAN PROVEN: As you said, the
5 owner-operator is the same person that's repairing the
6 vehicle in many cases as the person that's doing this
7 paperwork that Mr. Byron is talking about. So, I mean,
8 whether that's efficient or not, it certainly factors
9 into the -- out the cost in the end. There's no
10 special person, I would imagine, doing all this
11 paperwork for MPI; it's just the people that actually
12 do the work as well, do you think?
13 MS. HEATHER REICHERT: I mean, I -- I
14 cannot comment on that specifically, but anecdotally
15 that would make sense to me that it would be one (1) or
16 two (2) people in the shop, and -- and they have less
17 overhead, but they're also doing all of the paperwork.
18 MR. BYRON WILLIAMS: Madam Chair, with
19 -- with your permission, I do want to thank Board
20 member Proven for mentioning my home town of Souris. I
21 try and get a reference every hearing, so -- and now
22 we've got two (2).
23
24 CONTINUED BY MR. BYRON WILLIAMS:
25 MR. BYRON WILLIAMS: But further to --

1 we'll come back to -- to my questions in a moment, but
2 further to both the Chairperson's questions and Madam
3 Proven's questions, perhaps if we can go to MNP, page
4 58. And we'll just go to the very bottom of that page,
5 Diana, and then we'll flip over in a second to the next
6 page because there's some tables that might assist.
7 And, Ms. Reichert, you're the -- you're
8 the gifted accountant and I'm the humble lawyer,
9 agreed?
10 MS. HEATHER REICHERT: I think that's a
11 trick question.
12 MR. BYRON WILLIAMS: Yeah. In -- in
13 terms of -- but a term you'll be fa -- familiar with,
14 or an acronym you'll be fam -- familiar with, is EBITDA
15 defined to be earnings before interest, taxes,
16 depreciation, and amortization.
17 Would that be fair?
18 MS. HEATHER REICHERT: Yes.
19 MR. BYRON WILLIAMS: And EBIT -- TDA is
20 often used to measure the true operating performance of
21 a business, agreed?
22 MS. HEATHER REICHERT: Yes.
23 MR. BYRON WILLIAMS: So if we flip to
24 the next page, and going to Figure 66 at the bottom --
25 thank you -- Ms. Reichert, am I correct in suggesting

1 to you that what this represents is a comparison of
2 average EBITDA as a percentage of revenue by revenue
3 segment?
4 Would that be fair?
5 MS. HEATHER REICHERT: Yes, I think
6 that's a fair assessment.
7 MR. BYRON WILLIAMS: And the, I'm going
8 to say turquoise colour, represents firms with revenue
9 of -- of more than $2 million, agreed?
10 MS. HEATHER REICHERT: Yes.
11 MR. BYRON WILLIAMS: And the brown
12 represents firms with revenues between, well, more than
13 a million and less than 2 million, agreed?
14 MS. HEATHER REICHERT: Yea -- I'm not
15 as familiar with all the detail behind this, so up to 2
16 million could in fact include the up to a million, as
17 well. It's not clear to me on this particular schedule
18 if that would be the case.
19 MR. BYRON WILLIAMS: I think I can -- I
20 -- I think I can give you some comfort if we'd just
21 scroll up a little bit. It -- it looks like they're
22 comparing revenue segments. Well, I guess we'll --
23 we'll leave that description there.
24 And we'll agree that the light brown
25 represents firms with revenues of up to 1 million.

1 Would that be fair?
2 MS. HEATHER REICHERT: Yes.
3 MR. BYRON WILLIAMS: And the narrative
4 told, at least on this page, is as measured by EBITDA,
5 the more handsome results are for the -- the turquoise
6 being those with revenues greater than $2 million.
7 Would that be fair?
8 MS. HEATHER REICHERT: Yes, that --
9 that would be -- that would be a fair, again,
10 assessment of this table.
11 MR. BYRON WILLIAMS: And just the last
12 point again to assist the panel, is if we go to the
13 very -- Figure 67 on the next page. And simply, this,
14 you'll agree with me, Ms. Reichert, looks at average
15 EBITDA as a percentage of revenue by region.
16 Would that be fair?
17 MS. HEATHER REICHERT: Yes, it would.
18 MR. BYRON WILLIAMS: Okay. If we could
19 turn back to MNP, page 33.
20 And, Ms. Reichert, you'll agree this is
21 a summation of the responses of survey respondents
22 being asked to comment on their business relationship
23 with MPI, agreed?
24 MS. HEATHER REICHERT: Agreed.
25 MR. BYRON WILLIAMS: And the -- you'll

1 see some of the compliments in the top of the page.
2 And, of course, I want to direct your attention to the
3 approvements a bit farther down this page. So if we
4 can just scroll down to -- right there, Diana, is
5 perfect.
6 You'll see a commentary from -- reported
7 by MNP under number 1 under the heading of, "More
8 Accurate Consistent Estimation Process."
9 Do you see that, Ms. Reichert?
10 MS. HEATHER REICHERT: Yes, I do.
11 MR. BYRON WILLIAMS: And focussing on
12 the first bullet for a moment, you'll see a suggestion
13 from survey respondents that estimates are often
14 inaccurate, requiring supplemental est -- estimates and
15 resultant delays, agreed?
16 MS. HEATHER REICHERT: Yes, I agree.
17 MR. BYRON WILLIAMS: And a third bullet
18 -- excuse me, a fourth bullet suggesting policies and
19 procedures are not clearly communicated and are not
20 followed consistently by all claim centres and
21 estimators, resulting in confusion and delays?
22 MS. HEATHER REICHERT: Yes, I see that
23 there.
24 MR. BYRON WILLIAMS: And, Ms. Reichert,
25 are you in a position to comment of how, if at all,

1 this analysis of estimating compared to the earlier
2 report, the 2009 report?
3 MS. HEATHER REICHERT: No, I -- I
4 cannot comment on if similar statements were made in
5 the 2009 report. I don't have that information.
6 MR. BYRON WILLIAMS: And how do these
7 suggestions for improvement compare to the MPI internal
8 measures in terms of quality of estimating?
9 MS. HEATHER REICHERT: Can I get you to
10 repeat or rephrase your question?
11 MR. BYRON WILLIAMS: Ms. Reichert, I'll
12 -- I'll suggest to you that captured in this report are
13 -- is -- is at least some negative commentary about the
14 accuracy and consistency of the MPI estimating process,
15 agreed?
16 MS. HEATHER REICHERT: I agree that
17 some of the survey respondents did raise these kinds of
18 concerns with respect to the MPI processes. As with
19 any process, I would expect that there would be
20 individuals that weren't as happy with the process.
21 And with any process there's always room for
22 improvement.
23 I would say that -- that as a result of
24 this particular report, not just this report, but as an
25 input, this is the exact reason why we are looking at

1 our physical damage claims processing and looking to
2 re-engineering it, so that it can be more consistent.
3 Specifically, the -- the comment on,
4 Estimates are often inaccurate, requiring supplemental
5 estimates and -- and result in delays, that speaks to
6 exactly what Mr. Guimond was -- was testifying to
7 earlier, a couple of weeks ago. As the cars become
8 more complex, it is more and more difficult just on
9 looking at the car damage itself, to be able to
10 accurately estimate how much repair work needs to be
11 done. And often it is not until the actual body shop
12 is able to get it up onto a -- a hoist and start to --
13 to take apart, as they say, then they're able to
14 determine that there is damage that couldn't be seen by
15 the estimator at the service centre.
16 So I think that this report actually is
17 -- is very much supporting why it is that we want to
18 take the measures we are in re-engineering the physical
19 damage claims process.
20 MR. BYRON WILLIAMS: So the second part
21 of my question, Ms. Reichert, was: Am I -- would it be
22 correct to presume that, in terms of its internal
23 estimating process, MPI has a standard of measurement
24 in terms of the accuracy and the adherence to
25 guidelines of its internal estimators?

1 MS. HEATHER REICHERT: At MPI we do
2 review and look at how many supplements are being
3 received, what the nature of those supplements are, if
4 the -- if it is indicative of some systemic issue with
5 how estimates are done. So from a quality perspective
6 we -- we have that monitoring and that follow-up.
7 MR. BYRON WILLIAMS: So, just to be
8 more pointed, Ms. Reichert, how do you evaluate the
9 performance of your internal team in terms of their
10 accuracy and adherence to guidelines?
11 MS. HEATHER REICHERT: There are
12 compliance rules that every estimate has to fall
13 within. And if it's not compliant to those rules it --
14 it does not -- does not go out to the -- to the body
15 shop or is not given to the customer.
16 MR. BYRON WILLIAMS: So these
17 complaints by the body shops are unfounded?
18 MS. HEATHER REICHERT: I am not saying
19 that they are unfounded. I am saying that they are a
20 result of the fact that the cars today are more complex
21 and that even in a -- an older vehicle there are times
22 when just looking and examining the outside of the
23 vehicle, you are not going to be able to determine the
24 exact extent of the repair that needs to occur.
25 So from that perspective, I see what the

1 body shops are commenting on -- on, is that they might
2 receive an estimate that doesn't have all of the
3 repairs needed listed on it, because they can't be
4 determined until they actually get it up on the hoist
5 and take -- take off fenders or -- or whatever to
6 understand what the total damage is.
7 MR. BYRON WILLIAMS: Not to belabour
8 the point, and -- and just perhaps as a final question
9 on this point, apart from the review of supplemental
10 estimates, what, if any other empirical measures, does
11 MPI employ to examine its adherence to -- and -- to
12 guidelines, and its accuracy in estimating?
13 MR. DAN GUIMOND: Every time an
14 estimator does an estimate, there's a software program
15 that we use which runs a compliance algorithm against
16 the estimate. Once the compliance is there, it can be
17 provided to the customer and so on, and -- and the
18 customer can go to the shop. What we discovered is
19 from this particular surveys and -- and digging into
20 this since 2012, it's not that the estimate was
21 inaccurate, but in a way was incomplete.
22 So what we discovered is that you --
23 like the employees were doing the work like the way
24 they were supposed to and the way they were -- the way
25 they were measured, but what we discovered is that the

1 changes in how cars are being manufactured that they
2 couldn't complete the estimate where it would be a
3 hundred percent accurate because they can't see the
4 damage.
5 And that's why we're -- we're -- we --
6 we realize -- that's how we came to the realization
7 that we would have to make significant changes in the
8 way we process claims in the future. And that --
9 that's what's happening, and that's why there's such a
10 high supplement level in our estimates. And until we
11 make these changes that we're doing right now, it will
12 continue to be so because the estimator is simply
13 unable to see the damage.
14 MR. REGIS GOSSELIN: Could you -- Mr.
15 Guimond, could you explain to me how it's going to be
16 different in the future? So in the future I'll go
17 right to the repair shop, and the estimation will be
18 done by the repair shop operator or staff. And so that
19 -- that information will be sent to MPI, I would
20 imagine, and then reviewed by MPI and given a stamp of
21 approval.
22 Is that basically how it's going to
23 work?
24 MR. DAN GUIMOND: That -- we need to do
25 the pilot that we talked about, the distribute

1 estimating, but I don't think that's -- that's doable
2 on the long run to continue to approve everything,
3 every line item and so on. That's why we're putting a
4 lot of software with predictive analytics and -- and
5 data analysis. And we believe that we have enough data
6 at the shop level that we can come up with key
7 performance indicators that would be built then into
8 the accreditation agreement, and just be able to
9 monitor on a large extent through deviations of -- of -
10 - standard deviations in terms of performance, and have
11 penalties for people that don't stay within the norms
12 of -- of what they have.
13 Also for the -- the large shops, I think
14 I put in my testimony that about forty (40) shops do 80
15 percent of our business. I mean, we very well put an
16 estimator on site but -- but this thing about going
17 back and forth like that and approving everything on
18 the line item, and so on, we don't view that as
19 sustainable on the long run. We have to use more
20 analytics, more key performance indicators, modify our
21 accreditation agreements, and really focus on -- on
22 management by -- by exception through the analytics.
23
24 CONTINUED BY MR. BYRON WILLIAMS:
25 MR. BYRON WILLIAMS: Thank you. And --

1 and thank you for that answer, Mr. Guimond. And I take
2 it you have a preliminary list of your key performance
3 indicators?
4 MR. DAN GUIMOND: Right now we -- we
5 are in the process of developing them with the joint
6 working committee.
7 MR. BYRON WILLIAMS: So you'll have a
8 list to be filed with the GRA next -- for next year,
9 sir?
10 MR. DAN GUIMOND: I would say we may
11 have a preliminary one but not a final one because as -
12 - we're going to run the pilot starting -- hopefully --
13 hopefully we can start running the pilots by the fourth
14 quarter 2015 year, and have some results by the time we
15 have to negotiate with the trade, which is generally
16 2017. And those KPIs will continually be adjusted
17 based on our findings.
18 MR. BYRON WILLIAMS: Turning back to
19 MNP, page 31, table 8, again this can go to anyone on
20 the MPI panel, you're aware that my -- MNP recommended
21 that MPI select a sample of shops to validate the
22 baseline for each of these activities?
23 Does that ring a bell?
24 MR. DAN GUIMOND: It's been a while
25 since I read the report, but I'm -- I'm sure, if -- if

you read it somewhere, I mean...

MR. BYRON WILLIAMS: I'm pretty sure I did. If -- if you need a reference, Mr. Guimond, we can go to page 80.

MR. DAN GUIMOND: I suggest we keep going with your questions there.

MR. BYRON WILLIAMS: Sir, you'll -- you'll accept, subject to check, that MNP suggested that these were fairly global estimates and that, going forward, it would be useful to select a sample of shops to validate the baseline for each activity, being estimating, parts procurement, and account reconciliation.

You'll accept that, subject to check, knowing you can refer to page 80 if you feel the need?

MR. DAN GUIMOND: Yes.

MR. BYRON WILLIAMS: And I take it this was done?

MR. DAN GUIMOND: No.

MR. BYRON WILLIAMS: Is it in the process of being done, sir?

MR. DAN GUIMOND: No. The more we looked into this, the more we realized we had a systemic issue in terms of how we were processing claims. And we would have to -- based on the

1 information we had, if we look at the supplementing
2 rate, it was just going right through the roof.
3 And we -- we came to the conclusion that
4 these statistics, if you look at the greater than $2
5 million, the estimating at one point three-seven (1.37)
6 would just be going up and up and up because the
7 estimators are unable to do a -- a proper estimate with
8 the new vehicles.
9 And each time we would go to the shop,
10 the shop would have to continue to finalize the
11 estimate, and these numbers would simply get worse.
12 And it's a systemic issue that -- that we have to deal
13 from a process perspective.
14 MR. BYRON WILLIAMS: Thank you for
15 that. Now, sir, just before we leave this area, in
16 terms of the supplemental estimates going through the
17 roof, that was your characterization of the situation?
18 MR. DAN GUIMOND: We run at about 80
19 percent supplement rate. So every -- so for all the --
20 all the estimates that we do, 80 percent of them will
21 have a supplement, at least one (1) if not more than
22 one (1).
23 MR. BYRON WILLIAMS: And how would that
24 compare to, sir, from 2009, for example?
25 MR. DAN GUIMOND: I'd have to check

1 that.

2 MR. BYRON WILLIAMS: By way of

3 undertaking, sir, if you could just provide a -- some

4 support for your characterization of supplementals

5 going through the roof.

6 MR. DAN GUIMOND: Yes. Maybe I'll --

7 I'll rephrase, but the supplement will be increasing

8 year over year, and the situation will be getting worse

9 and worse as we get those new vehicles in the fleet.

10 And that's the point that I'm trying to make.

11 MR. BYRON WILLIAMS: Okay. And again,

12 I don't wish to -- to belabour it, but are you go -- is

13 -- is your evidence -- are you going from a -- a

14 baseline of 70 and going to 80 percent, or is more akin

15 to going from 75 to 80 percent?

16 MR. DAN GUIMOND: I think if we don't

17 deal with this systemic issue, you'll be at 100

18 percent. It -- it just -- it just the -- the process

19 that we're following right now, it -- it's really what

20 we've identified as systemic issue due to the auto

21 industry structural changes that are ongoing. And it

22 needs to -- it needs to change.

23 MR. BYRON WILLIAMS: Okay. Thank you.

24 THE COURT REPORTER: Do we still have

25 an undertaking?

1 MR. BYRON WILLIAMS: I'll reflect upon
2 that. Not at this point in time.
3 MR. REGIS GOSSELIN: Mr. Guimond, the -
4 - that -- what you just described is not un -- unique
5 to MPI. So is that an industry -- an industry-wide
6 problem?
7 MR. DAN GUIMOND: It depends on the
8 models that -- that the insurance company uses. Like
9 we -- the way MPI has done claims since its inception,
10 it -- it does the estimate and it -- it also manages at
11 the line item on the estimate.
12 We're very unique as a jurisdiction that
13 does that. A lot of the -- like ICBC, for example,
14 some of the distributed estimate models that they have,
15 it's -- it's the shop that does the estimate. We're
16 very unique in doing all the estimate ourselves. It's
17 -- it's -- in most companies out in the private sector
18 or even the public sector, they will allow the shop to
19 do the estimate.
20 MR. REGIS GOSSELIN: Okay. So I go to
21 -- I go to a service station. This is me speaking. I
22 go to a service station and I go to get my brakes
23 changed. And the mechanic opens up the car and says,
24 Well, no, you need the brake, you need to -- you need
25 to change this and you need to change that. So what

1 should be a four hundred dollar ($400) bill ends up
2 being a twelve hundred dollar ($1,200) bill. We've
3 already gone through that.
4 Now, looking at it from MPI's
5 perspective, how did MPI protect itself against that
6 hap -- happening when you're going to turn the -- the
7 key over to the -- to the repair shop to do the
8 estimation?
9 MR. DAN GUIMOND: Well, the first thing
10 we have to do is not to give him the key. I mean, we -
11 - we have to be able to continue to protect ratepayers
12 against the leakage that I referred to. So the
13 analytics that we're building, the data, the data
14 mining that we're building at the shop level is
15 critical. And the ability to have penalties on the
16 shops and the auditing functions that we do and having
17 people on site will be very important not to -- to hand
18 over the keys, like you're saying, and to -- and to be
19 able to make sure that the average cost per estimate,
20 for example, doesn't grow, right, like, that you're
21 able to -- to manage the -- the leakage.
22 That -- that's going to be very, very
23 important. And that's why we're going to do this
24 pilot, to be able to demonstrate to ourselves that as
25 we provide more authority to the shops to do things

more on their own, that it doesn't result in additional costs.

And we're working right now with the joint working committee, in terms of how we're going to monitor, how we're going to report, how we're going to have penalties. And also, it -- it's -- we're going to have to be able to -- you know, some of these shops, if you -- you find them with the hand in the kitty, so to speak, you know, we'll -- we'll have to shut them down.

So the penalties will be quite strict to -- to send the message.

MR. REGIS GOSSELIN: Now, you indicated earlier on in your testimony that you were embedding technology in the -- in the shops, IT technology in the shop. So in looking at -- at the -- the system that you're implementing now, so they -- they will have a computer on a desk, but the -- the software they're using will be linked into MPI. Is that how that -- is that how -- they'll be using your -- your software to report back to you.

Is that...?

MR. DAN GUIMOND: Not quite. The -- the RepairCenter is -- is part of the -- what we call the Mitchell suite, which is a software that's created by a company called Mitchell. And they run that

software out of a Toronto data centre, which has an interface to our -- our computers. So that's -- that's how it communicates together.

But they are -- so there -- there is what we -- what we call an interface, or a way to communicate between that software and -- and our -- our claims systems.

MR. BYRON WILLIAMS: Just to follow up on the Chairperson's question.

Who pays for the -- the infrastructure in the shops?

MR. DAN GUIMOND: We pay for the licensing. That's one (1) of the things we mentioned last week, how our -- out of -- out of the $13.3 million that we're going to save compared to how we do business today. But the new model, we expect we're going to pay $5 million in other costs, being -- one (1) of them being the licensing agreement. I think there's an undertaking that specifies that amount.

That's why we believe the net savings to ratepayers will be approximately $8 million by the time you're done with, you know, saving compared to what you do today, what it costs tomorrow, but then that bottom line saving is about $8 million.

MR. BYRON WILLIAMS: And as I jump

1 topics, just while I've got you on -- hot on the tro --
2 hot to trot on this, sir.
3 Do you anticipate any further capital
4 estimate revisions related to these -- to this
5 expenditure?
6 MR. DAN GUIMOND: Yes. We are doing a
7 review of the entire initiative, which we're going to
8 our board of directors in January.
9 MR. BYRON WILLIAMS: So is the $8
10 million in estimated savings revised -- as we
11 understand, revised downward from thirteen (13), does
12 that include your expectations of the capital estimate
13 revisions?
14 MR. DAN GUIMOND: We -- like, the six
15 (6) -- like, in terms of the big numbers, the $65
16 million for the initiative and the 8 million to the
17 bottom line, I don't expect any changes to those key
18 numbers. In terms of where the savings are going to
19 come from, it -- it might change. Like, it -- it's a
20 long-term project.
21 But at the end of the day, in terms of
22 the overall funding envelope and -- and the dollars to
23 the bottom line, we -- we expect to be able to hold --
24 hold the line on that.
25 MR. BYRON WILLIAMS: Madam Chair, I

have about ten (10) to fifteen (15) minutes in this area. But it's -- it's not a terrible breaking. I'm -- I'm fine. I'm at the Board's...

(BRIEF PAUSE)

THE CHAIRPERSON: We'll -- we'll do the next fifteen (15) minutes and then we'll break for lunch. Thank you.

MR. BYRON WILLIAMS: We'll see -- we'll see if I can get it down to ten (10).

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Guimond -- or excuse me, Ms. Reichert, MNP page 46.

Right there, Table 24, you'll see a survey of the average day trainings per employee in 2011 by revenue category, agreed?

MS. HEATHER REICHERT: Agreed.

MR. BYRON WILLIAMS: And we see focussing on the journeyperson body repairer, the high average day trainings was two point six (2.6) days for those in the category between half a million dollars and a -- nine hundred and ninety-nine thousand dollars ($999,000), agreed?

1 MS. HEATHER REICHERT: Agreed.
2 MR. BYRON WILLIAMS: And in the shops
3 plus -- or over $2 million in revenues, that same
4 journeyperson experienced about one point four (1.4)
5 days of -- of training in the 2011 year, fair?
6 MS. HEATHER REICHERT: Yes, that's
7 fair.
8 MR. BYRON WILLIAMS: Just going down to
9 the journeyperson painter and let's focus just on the
10 last column, those over -- revenues -- firms with
11 revenues over $2 million.
12 In the 2011 year they were reporting one
13 point nine (1.9) days of training per employee, agreed?
14 MS. HEATHER REICHERT: Yes.
15 MR. BYRON WILLIAMS: And I take it MPI
16 has updated its information in terms of average days of
17 training per employees?
18 MS. HEATHER REICHERT: No. I don't
19 believe we have.
20 MR. BYRON WILLIAMS: Scrolling down
21 this same page, keep scrolling, please. Thank you.
22 That's perfect. Just to -- directing your attention to
23 the first full paragraph under Table 25. Ms. Reichert,
24 in terms of the type of training, you'll agree that MNP
25 identified training gaps in terms of one (1) category,

1 being estimating.
2 Is that correct?
3 MS. HEATHER REICHERT: Yes, I see that
4 there.
5 MR. BYRON WILLIAMS: And another
6 training gap identified was in lean production
7 management, agreed?
8 MS. HEATHER REICHERT: Yes, I see that
9 as well.
10 MR. BYRON WILLIAMS: And can MPI
11 provide a empirical update on -- on these results in
12 terms of what is going on in the industry?
13
14 (BRIEF PAUSE)
15
16 MR. DAN GUIMOND: Is it possible to see
17 the label of the table? So as I mentioned when we
18 started to study this, this is back in -- this is the
19 2012 you've got, or not the 2009?
20 MR. BYRON WILLIAMS: And, Mr. Guimond,
21 I'm not supposed to give evidence, but I'll suggest to
22 you that this survey training looks like it was a 2011
23 survey. The -- the report's 2012, but I think this was
24 a survey of the 2011 year. You -- you can accept that
25 subject to check.

1 MR. DAN GUIMOND: So in terms of the
2 training and so on with the new cars coming in, we are
3 in the process of -- we're -- we're going to have to
4 really do significant changes to the training, and also
5 to -- like, to your point in terms of efficiency at the
6 shop level and so on with the -- the changes that we're
7 going to be making.
8 But it will require not only a -- a
9 change in -- in the training material that -- that we
10 provide training on and so on, but we will have to work
11 also with the apprenticeship program and the Red River
12 and so on to -- to really create a -- a -- an ability
13 to help the new people coming into the -- into this
14 kind of -- of trades. And also to be able to do a lot
15 more training than currently is.
16 Because at the rate of change that's
17 coming in the number of days of training and the amount
18 of training will -- will go up significantly until this
19 transition is over, which we believe by 2020 should
20 stabilize. But between now and 2020, all these numbers
21 that you see are -- the amount of training required
22 will be bigger, the frequency of training will be
23 higher, better integration with apprenticeship program,
24 Red River, ourselves, and the trades will be required.
25 And also how we deal with the OEMs will

need to change because we're hoping that we can get the OEMs to come to our R&D facility and do the training onsite versus every shop having to send their people to various OEMs to be able to do their training. So we're going to have to really create a new model to be able to deal with what's happening.

So we are in the process of reviewing this, and -- and putting this together. But as you can see it -- it's -- because it's a structural change that's happening in the auto industry and because of how our business partners are being affected and ourselves, that it's -- it's a really significant undertaking. This is -- what MPI is doing now through the physical damage re-engineering, it's one of the biggest initiatives that the Corporation has undertaken in its history. That's how -- that's how big this change is.

MR. BYRON WILLIAMS: Is there a current mechanism to update or evaluate the training commitment of -- for these journeypersons, sir?

MR. DAN GUIMOND: In -- in terms of how we do business today, yes, but in terms of -- as these vehicles come in, we -- we don't have the data yet to -- to say that we're able to -- to do that. Like we're in the process of gathering all of that information

1 like, for example, how welding is changing or the
2 equipment that you're using.
3 Take the Ford-150, for example, that's
4 coming up aluminum, the -- the training requirements,
5 and so on, we're -- we're going to have to assess that,
6 and we're going to have to look at it as -- as we start
7 doing the repairs, because right now there -- you know,
8 it's a minimum requirement so to speak. But as we have
9 people doing the work and as we see the results of
10 doing the work, we're -- we're going to have to
11 constantly stay on top of that and improve it as we go
12 along. This is -- this is huge changes that are going
13 on right now. Huge.
14 MR. BYRON WILLIAMS: Just to follow up
15 on a question Board member Neville had, oh, two (2)
16 weeks ago. The observation by the -- by the repairers
17 at the time they responded to -- they responded to the
18 survey was that formalized training such as
19 apprenticeship technical training was not teaching
20 modern technologies and processes. That was a concern
21 expressed by the respondents to that survey? You're
22 nodding. Is that a "yes", sir?
23 MR. DAN GUIMOND: Yes.
24 MR. BYRON WILLIAMS: And to your
25 knowledge, has there been a material change in the

1 curriculum at the colleges to date?
2 MR. DAN GUIMOND: Not to my knowledge.
3 And at the rate of change in the equipment that you
4 need to buy and the costs of the equipment and so on,
5 we're even concerned about affordability at this point
6 in time. So we're -- we're going to have to look into
7 that.
8 MR. BYRON WILLIAMS: And MPI --
9 speaking of that, MPI currently supports apprentices --
10 apprentices with both a tool allowance, as well as a
11 reward for -- of two thousand dollars ($2,000) for each
12 level of apprenticeship they -- they complete.
13 Is that correct?
14 MR. DAN GUIMOND: Subject to check, but
15 that's my understanding. In -- in the agreement we
16 have, we do have a tool allowance, and also an
17 incentive for -- for training.
18 MR. BYRON WILLIAMS: And, sir, in terms
19 of the motor vehicle body repair program, you'll agree
20 with me, subject to check, that there are four (4)
21 levels for that apprenticeship?
22 MR. DAN GUIMOND: Yes, subject to
23 check.
24 MR. BYRON WILLIAMS: And does MPI track
25 how many apprentices have received bonuses for

1 completions of all four (4) levels of that repairer
2 program, of the motor vehicle body repair program?
3 MR. DAN GUIMOND: Yeah. We -- we track
4 the people that taken advantage of -- of what we put
5 into the contract, yes.
6 MR. BYRON WILLIAMS: Well, let me be
7 more precise, sir.
8 Do you track how many -- how many ones
9 make that transition from apprentice to journeyperson?
10 MR. DAN GUIMOND: I believe so, but
11 I'll -- I'll double check. I'll take that as a -- as
12 an undertaking. But, yes, I believe we do track that.
13 MR. BYRON WILLIAMS: Okay. And, sir,
14 in -- as part of that undertaking, you will report back
15 on the number of apprenticeships -- apprentices who've
16 received support for either the motor vehicle body
17 repair programming (sic) apprenticeship or the painter
18 program apprenticeship and have followed that through
19 to journeyperson status?
20 MR. DAN GUIMOND: Yes. And do you want
21 the tool allowance, too?
22 MR. BYRON WILLIAMS: Yes. That would
23 be great. Thank you.
24
25 --- UNDERTAKING NO. 42: MPI to indicate how many

1 apprentices transition to
2 journeyperson, how many
3 received support for either
4 the motor vehicle body
5 repair program or the
6 painter program
7 apprenticeship, and tool
8 allowance; and indicate if
9 it tracks how many stay in
10 Manitoba
11
12 CONTINUED BY MR. BYRON WILLIAMS:
13 MR. BYRON WILLIAMS: And do you track
14 as well how many of those remain in Manitoba?
15 MR. DAN GUIMOND: That I don't know,
16 right. I -- I don't know if we -- if we keep track of
17 people that leave Manitoba or not.
18 MR. BYRON WILLIAMS: Sir, will you
19 report back --
20 MR. DAN GUIMOND: I -- I don't think
21 so.
22 MR. BYRON WILLIAMS: -- if you do?
23 MR. DAN GUIMOND: Yes, we will.
24 MR. BYRON WILLIAMS: Okay. And you --
25 you indicated that currently you believe you don't

1 think you do.

2 MR. DAN GUIMOND: That's right.

3 MR. BYRON WILLIAMS: Okay. Madam

4 Chair, on this particular subject, subject to my review

5 of my notes, I think I'll finally move on.

6 THE CHAIRPERSON: Okay. Thank you, Mr.

7 Williams. We'll take a lunch break and come back at

8 quarter after 1:00. Thank you.

9

10 --- Upon recessing at 12:13 p.m.

11 --- Upon resuming at 1:18 p.m.

12

13 THE CHAIRPERSON: Okay. Welcome back

14 after lunch. We're ready to begin this afternoon's

15 proceedings. And we're going to call upon Mr. Triggs

16 at this point to present some exhibits for MPI.

17 MR. MICHAEL TRIGGS: Thank you, Madam

18 Chair. MPI Exhibit number 45 is an answer to

19 Undertaking number 9. It's been passed out to

20 everyone. Thank you.

21

22 --- EXHIBIT NO. MPI-45: Response to Undertaking 9

23

24 THE CHAIRPERSON: Thank you very much,

25 Mr. Triggs. Ms. Neville had had a -- was there

1 anything else? No? Ms. Neville had had a question
2 just before we were going to leave for lunch, and she'd
3 like to ask it now in regard to training, I believe.
4 MS. ANITA NEVILLE: Is it on? Yeah.
5 Mr. Guimond, you were talking about the physical damage
6 re-engineering, and as I'm listening to you and
7 listening to various responses to -- to Mr. Williams,
8 it strikes me that you and the industry is ill prepared
9 -- and I don't mean to be rude, but ill prepared for
10 the changing technologies that are coming in the cars.
11 And I guess what I would like to have is
12 a better understanding of what's happening. What the
13 coordination is. What the initiatives are with
14 educational institutions. What's happening with
15 industry associations to try and prepare for it.
16 Because the lack of preparation could potentially
17 result, from a neophyte's perspective, in a tremendous
18 escalation of costs.
19 Am I off base?
20 MR. DAN GUIMOND: No. No, I think if
21 we don't find a way to deal with these fast changes
22 that are occurring in industry, that you're quite
23 right. That costs would be even probably bigger than
24 the $30 million that I put in my testimony that we're
25 anticipating by 2020, which we're going to try to

1 mitigate and -- and avoid.
2 I'm not -- I'm not sure it's ill
3 prepared. I -- I'm not too sure I would use those
4 words. I mean, if we look at 2009, we started to see
5 that there would be some -- you know, there were some
6 issues with the health of the industry. And then by
7 2012, we're starting to see really the patterns of
8 what's going on.
9 Today, if we look at 2014 going into
10 2015, we have the joint committee. We're able to deal
11 with the Ford-150 with the aluminum. We're able to --
12 to deal with the new technology. We're rolling out the
13 technology. By the fall of next year, you're probably
14 going to see some -- some mobile apps for our
15 customers, and so on.
16 The -- the issue -- the biggest
17 challenge, in terms of working with -- with the Red
18 River apprenticeship, the trades, and so on, it's a
19 little bit about the speed at which the OEMs are going
20 and the information being available to actually be able
21 to work with the schools and prepare the curriculums.
22 So the example that I gave during my
23 testimony where there was a lag -- I mean, it's going
24 so fast that the vehicle can be manufactured,
25 distributed, sold, and in an accident before the repair

1 policies and procedures are done and the training is
2 done. That's the challenge for us. And we're working
3 with the OEMs to have advanced information. They're
4 willing to work with us to be able to -- to start
5 giving us the information.
6 So to answer your question, it's the
7 ability to work with the OEMs to get the information in
8 a timely manner that allows us to go work with the
9 college apprenticeship and industry to stay ahead of
10 the curve to make sure the vehicles are properly
11 repaired.
12 So I think to the point that you're
13 making, if we've not able to solve that challenge,
14 you're quite right that costs could go -- not only --
15 not only could costs go up, but worst-case scenario is
16 vehicles would not be properly repaired and -- and the
17 -- the dangers involved in that, or -- or vehicles
18 being written off when they could have been repaired.
19 So I hope I -- I answered your question
20 in terms of it's all about timing. Timing is our enemy
21 right now.
22 MS. ANITA NEVILLE: You -- you have
23 answered the question. But I guess what I find myself
24 wondering is whether there's a recognition by the other
25 players in this form -- organization of the urgency of

1 the situation. You realize that because it's going to
2 affect the costs and the -- but it strikes me -- and
3 I'm just listening here. I don't -- I don't have any
4 other knowledge. But it strikes me that there is a
5 lack of recognition of the urgency and the lack of -- I
6 think -- I think you referenced it, that there aren't
7 the students coming forward to -- to take this on.
8 MR. DAN GUIMOND: Yes. And I think
9 it's by disseminating knowledge and by providing
10 information, like, even us coming here, this here,
11 providing you with a strategic overview and -- and the
12 challenges that we're facing.
13 So people are starting to recognize it.
14 They're starting to understand it. And the other
15 element maybe that I would add to maybe compare to
16 other jurisdictions is that being able to work with our
17 business partners and the OEMs, and -- and eventually
18 with the colleges and so on, is that we will be able to
19 -- to have a price point in the marketplace from a --
20 from an auto insurance policy that will be lower
21 across.
22 I mean -- I mean, if you look right now
23 across Canada, the -- the price for automobile
24 insurance is much more higher than -- than the price
25 increases that we're seeing in -- in Manitoba. And

1 it's that collaboration, innovation, and people
2 starting to see it, acknowledge it, work with us to --
3 to deal with it that is allowing us to -- to keep the
4 price point where it is.
5 MR. REGIS GOSSELIN: I have a question
6 in relation to the testimony this morning. It was --
7 sorry. It has to do with the -- the estimating that
8 you had to do because of the -- because of the lag in
9 information in relation to claims counts, and also
10 claims severity. And I guess now we're some -- over
11 half a year past that period, or close to a year past
12 that period.
13 So was your estimation close to where it
14 should have been?
15 MR. LUKE JOHNSTON: I don't have exact
16 numbers, but I know last month-end I checked our -- our
17 prior year's collision results. So that would be not
18 the current year, but the... We were actually over
19 budget even compared to this forecast that we put in.
20 So I don't think we were substantially over budget, but
21 what we added was not quite enough. But we could -- I
22 could get you that exact number, if you'd like.
23 MR. REGIS GOSSELIN: But that would --
24 that would impact this year's financial results,
25 wouldn't it?

1 MR. LUKE JOHNSTON: Yes, to the extent
2 that say we added 13 million IBNR for these claims that
3 hadn't been reported, and to date there's been sixteen
4 (16), there would be an additional $3 million hit to
5 this year as an unexpected variance from our
6 expectations, yeah.
7 MR. ALLAN MORIN: I have a question for
8 -- well, actually, it's Mr. Guimond that made the
9 comment, but maybe Ms. Reichert might answer it. You
10 mentioned that 80 percent of all the repair estimates
11 require supplemental information from the auto
12 workshop.
13 Would MPI have any idea as to what that
14 cost implication might be relative to, like, the final?
15 Would that represent, you know, 10 percent or 15
16 percent more than what it would have cost without the
17 supplemental requirements?
18 MS. HEATHER REICHERT: I don't have
19 that number. I'm willing to take that as an
20 undertaking to -- if I understand the question. So the
21 undertaking would be to provide you with what the
22 dollar value of supplements are in a -- a given year
23 relative to our total physical damage claim costs?
24 MR. ALLAN MORIN: Yeah, because if the
25 intent is to ultimately, you know, rid yourself of

1 supplemental requirements. So what -- you know,
2 conversely, what is -- what does that add in costs.
3 And if you got rid of it a hundred percent, I guess,
4 how much would we end up saving. But just the cost
5 factor would be the one (1) that I would need to know.
6 MS. HEATHER REICHERT: And just to
7 clarify, though, whatever the dollar amount is of those
8 supplements, if we eliminate the supplement, it will
9 not necessarily mean eliminating the cost. It just
10 means that we'll be able to more accurately estimate
11 the cost of a repair initially. The cost savings that
12 we'll have is from not delaying the repair process. So
13 loss of use, et cetera. But we can definitely get you
14 what the value of supplements in the past year have
15 been relative to the total repair cost for physical
16 damage.
17 MR. ALLAN MORIN: Thank you.
18
19 --- UNDERTAKING NO. 43: MPI to provide the value of
20 supplements for the past
21 year relative to the total
22 repair cost for physical
23 damage
24
25 MR. LUKE JOHNSTON: And if I could just

1 add one (1) -- I -- I do happen to have the September
2 month-end claims information on my computer. And per
3 your question about collision, as of end of September
4 we had budgeted to have 13.6 million reported. And we
5 actually had 18.3 million reported from prior years.
6 So we were about 4.7 million over budget at that time.
7 THE CHAIRPERSON: Okay. Mr. Williams,
8 did you want to continue with your cross-examination?
9 MR. BYRON WILLIAMS: Ms. Menzies won't
10 let me.
11 MS. MEGHAN MENZIES: I'm just going to
12 read into -- in our exhibits, if that's okay, and
13 introduce those -- them to the Board.
14 THE CHAIRPERSON: Thank you very much,
15 Ms. Menzies.
16 MS. MEGHAN MENZIES: Thank you. And so
17 I think that all of these should have been distributed
18 last night and paper copies should be before everyone
19 at this point. The first exhibit is CAC -- is the
20 average interest on Canadian long-term bonds by decade,
21 and that's a table. And that would be marked as CAC
22 Exhibit 13.
23
24 --- EXHIBIT NO. CAC-13: Table depicting average
25 interest on long-term

1 Canadian bonds by decade

2

3 MS. MEGHAN MENZIES: The second exhibit

4 is the Handbook of Fixed Income Securities by Frank

5 Fabozzi, Chapter 47. And I would ask that that be

6 marked as CAC Exhibit 14.

7

8 --- EXHIBIT NO. CAC-14: Handbook of Fixed Income

9 Securities by Frank

10 Fabozzi, Chapter 47

11

12 MS. MEGHAN MENZIES: The third is a

13 long bond rate percentage graph, and I would ask that

14 that be marked as CAC Exhibit 15.

15

16 --- EXHIBIT NO. CAC-15: Graph depicting long bond

17 rate percentage

18

19 MS. MEGHAN MENZIES: And -- and the

20 actuary report of October 31st, 2013. There's two (2)

21 pages from that. And we ask that that be marked as CAC

22 Exhibit 16.

23

24 --- EXHIBIT NO. CAC-16: Actuary report of October

25 31, 2013

1 MS. MEGHAN MENZIES: And I had
2 previously spoken with the Board secretary about
3 including the evaluation of beginner driver education
4 programs as Exhibit 17. And as it's been introduced by
5 MPI, we'd -- we would actually request that we not
6 introduce that as an exhibit today.
7 And I would like to make one (1) last
8 note for MPI. There was a request that we introduce
9 Mr. Simp -- Dr. Simpson's PowerPoint, and we've done
10 that in advance. But I wanted to make a special note
11 of CAC Exhibit 15, as that is the only new material
12 that will be in that PowerPoint. And so just for
13 reference for tomorrow. Thank you.
14 MR. BYRON WILLIAMS: Thank you and good
15 afternoon, members of the panel. After introducing all
16 those exhibits, I'm not sure we'll get to them this
17 afternoon. But you -- you will have them. Diana, if
18 you can pull up CAC Exhi -- CAC Information Request 1-
19 6, and I think it's the first attachment. And I think
20 it's Clause 2.03.
21
22 CONTINUED BY MR. BYRON WILLIAMS:
23 MR. BYRON WILLIAMS: Ms. Reichert,
24 subject to check, you'll agree that this was the
25 amendment agreement of 2013 entered into be -- be -- by

1 Manitoba Public Insurance with the ATA and the MDM
2 (sic)?
3 MS. HEATHER REICHERT: MM -- excuse me.
4 MMDA, yes, I -- I do.
5 MR. BYRON WILLIAMS: Sorry. And just -
6 - just a -- a simple question, I hope. Drawing your
7 attention -- actually, just one (1) second. If I could
8 stand down, I think we might have the wrong agreement
9 here.
10
11 (BRIEF PAUSE)
12
13 MR. BYRON WILLIAMS: This is the -- the
14 contract relating to the extension term, Ms. Reichert,
15 agreed?
16 MR. LUKE JOHNSTON: Yes.
17 MR. BYRON WILLIAMS: And I just want to
18 draw your attention to the second and third and fourth
19 lines where:
20 "Manitoba Public Insurance is
21 acknowledging it will not introduce
22 estimate policy changes, the effect
23 of which will reduce the overall
24 revenues payable to motor vehicle
25 body shops in Manitoba."

1 Do you see that -- that clause, Ms.
2 Reichert?
3 MS. HEATHER REICHERT: Yes, I do.
4 MR. BYRON WILLIAMS: And just at a --
5 at a high level, what type of policy changes might have
6 been contemplated by that -- what type of estimate
7 policy changes might have been contemplated by that
8 clause?
9
10 (BRIEF PAUSE)
11
12 MS. HEATHER REICHERT: The policy
13 changes that would be referred to there are
14 referencing, as I understand the -- the rules that are
15 built into the estimating software, so that there
16 wouldn't be changes to any of those specific rules
17 underlying that system.
18 MR. BYRON WILLIAMS: Now, I -- I may
19 have missed it. Was this clause continued into the
20 current agreement with the -- with the industry?
21 MS. HEATHER REICHERT: I would need to
22 check that. I cannot recall off the top of my head.
23 MR. BYRON WILLIAMS: Okay. Well, I'm
24 the lawyer. I -- you'll prob -- I'll -- I'll check it
25 myself, Ms. Reichert. And then, if I do identify it,

1 we may have a couple more questions on it.
2 I have some questions now about the
3 bodily improvement initiative. And I will be re --
4 making some reference to some commentary from Mr. John
5 -- Johnston in the last week's discussion with Ms.
6 Grammond.
7 But, Ms. Reichert, probably some of the
8 early questions might go to you, but you can -- am I
9 correct in suggesting that the -- the bodily injury
10 improvement initiative was initiated in the previous
11 decade, but came into effect on or about September of
12 2010?
13 MS. HEATHER REICHERT: Yes. That would
14 be what I understand.
15 MR. BYRON WILLIAMS: And among the
16 objectives for Manitoba Public Insurance flowing from
17 BI3, as I'll call it, one (1) of them would have been
18 increasing consistency in claims handling between case
19 managers.
20 Would that be fair?
21 MS. HEATHER REICHERT: That would be
22 fair, yes.
23 MR. BYRON WILLIAMS: And another
24 objective would have been enhancing case management
25 effectiveness, which would be accomplished through

1 providing staff with tools such as disability duration
2 guidelines and rehabilitation plans built on leading
3 industry practices, agreed?
4 MS. HEATHER REICHERT: That sounds
5 exactly what we have written in our Value for
6 Manitobans section. So, yes, I would agree.
7 MR. BYRON WILLIAMS: Sounds familiar,
8 does it? And another one would be risk reduction to be
9 accomplished by reducing claims leakage over time.
10 Would that be fair?
11 MS. HEATHER REICHERT: Yes, that would
12 be fair.
13 MR. BYRON WILLIAMS: Probably over to
14 you now, Mr. Johnston, but I could be wrong. Turning
15 to PUB-1-40(d), page 3, Mr. Johnston, whether we call
16 it lag or not, one (1) of the challenges you've
17 identified in your testimony over the last couple of
18 weeks was compliance with -- a challenge with
19 compliance with existing guidelines for reserving.
20 Would that be fair?
21 MR. LUKE JOHNSTON: By challenge if you
22 mean that there appear to be some issues with setting
23 reserves per the guidelines that we have, correct.
24 MR. BYRON WILLIAMS: And it's -- it's
25 understood that MPI undertook a comprehensive review of

1 its reserving practices with regard to PIPP, being the
2 Personal Injury Protection Plan, in -- in the spring of
3 2013, agreed?
4 MR. LUKE JOHNSTON: Correct.
5 MR. BYRON WILLIAMS: And what is
6 presented here in the response to 1-40(d) of the PUB's
7 First Round Information Requests is a comparison
8 between budget and actual for the weekly indemnity
9 line, recognizing that some of these reserves are
10 related to the challenges in the reserving guidelines
11 while -- while some of the changes would be ones that
12 just naturally occurred.
13 Would that be a fair statement, sir?
14 MR. LUKE JOHNSTON: That's fair. There
15 will always be -- there will always be changes in, you
16 know, claimants' conditions or claimants may, you know,
17 pass away or that -- you know, cause reserves to be
18 released. But on average those tend to equate to
19 roughly zero, and this was not the case in this
20 particular review.
21 MR. BYRON WILLIAMS: So a major element
22 of this narrative would be the challenges in -- in
23 adhering to reserving guidelines, agreed?
24 MR. LUKE JOHNSTON: Yes. And I suspect
25 in -- in relation to this lag discussion for these

1 older claims, it's likely not that there weren't
2 significant reserves up for the claim. It just might
3 have been that the timing of when they updated some of
4 the reserves or modified the existing reserves was
5 likely lagged. And when they did do that, the effect
6 was to increase -- on average increase these older year
7 reserves.
8 MR. BYRON WILLIAMS: And, Mr. Johnston,
9 when you speak of older claims, I assume you're
10 speaking in -- in the period between 2004 and 2007
11 'cause the -- because the earlier years would be
12 covered by your tabular reserving methodology?
13 MR. LUKE JOHNSTON: True. On a -- on
14 an ultimate basis we still have a budget. As you can
15 see, we actually -- based on experience we actually
16 budget some negatives here in some of the older years.
17 But anything beyond kind of that five (5) year point,
18 like a claim that's maybe five (5) years old or so,
19 we're not really expecting a lot of new case reserves
20 to be reported.
21 We're -- we're relying on the case
22 estimates heavily, and that's fair -- I think fairly
23 evident from the budget particularly if you look at
24 claims that are, you know, in that -- you know,
25 definitely the ten (10) plus year age, but even the

more recent years. There's no -- the budget is always under a million for 2007 and -- and older.

MR. BYRON WILLIAMS: And so by older, sir, you're referring to years 2007 through 2004?

MR. LUKE JOHNSTON: That's fair, recognizing that some claims are really, really old and you wouldn't expect any significant changes to a claim that's been on file for like fifteen (15) years. Yeah.

MR. BYRON WILLIAMS: And, Mr. Johnston, just -- just because I want to be precise here, if I'm looking at the claims between 1994 and 2003 am I correct -- or would I be correct -- would it be correct to suggest that those adjustments would not be a reflection of the case reserve review, but would be a reflection of revisions to tabular reserving?

MR. LUKE JOHNSTON: I -- I see where your question is going. The case managers still put in their own case reserves. When I do the actuarial review, I use my own estimates. Like I -- I just put in lifetime reserves for all the claims, and then for any other claims that are open we have another process. If -- if there's a claim that the case manager legitimately believes is not a lifetime claim we have another process for that.

But the two (2) methodologies are very

1 similar. The case managers are using the same tables
2 that I use. But beyond ten (10) years, I just put it
3 in for life. If they put in some -- some other number,
4 my IBNR estimate will be my number. So they still
5 continue to case res -- reserve.
6 Maybe I can just -- I'm just looking at
7 your face. The -- the --
8 MR. BYRON WILLIAMS: It's kind of sad,
9 isn't it, Mr. Johnston?
10 MR. LUKE JOHNSTON: The -- I -- I
11 didn't have any position on your face, just that -- the
12 case managers always put what the guidelines say to --
13 you know, they're supposed to use for that claim. But
14 beyond ten (10) years, in my actuary report, I say I'm
15 going to post an ultimate liability estimate based on
16 these all just being life for my -- for my tables.
17 But that doesn't mean the case manager
18 stops managing the claim. And -- and if they have a
19 strong believe that this is not a lifetime claim and
20 they want to put some other number in there, they'll do
21 that, and I will ask them about it. I'll say, you
22 know, Why do you have, like, just a block fifty
23 thousand dollars ($50,000) in for that person? And
24 they might say, Well, it's a minor relapse for paying
25 them IRI for a year, and then we expect them to go

1 back. Like, something like that.
2 MR. BYRON WILLIAMS: And, Mr. Johnston,
3 just to finish this point and to clarify it for Ms.
4 Sherry, who will no doubt be reading this tran -- are
5 the revisions -- are the variances from budget for the
6 years 2003 through 1994 in any way a reflection of the
7 case reserving process and review that was undertaken
8 in the spring of 2013?
9
10 (BRIEF PAUSE)
11
12 MR. LUKE JOHNSTON: If -- let's say all
13 of these claims -- there are no new claims in -- in the
14 last year, for example. To the extent that these
15 claims already had lifetime reserves, I will already
16 have a number posted in -- in our actuary report.
17 If there's no new claims and they're all
18 for life, whatever they do in here, my ultimate
19 estimate likely isn't going to change regardless of
20 what they do. If that's -- so what I'm saying is, if I
21 have fifty (50) and they only happen to reserve forty
22 (40) of them but I already have fifty (50) of them
23 reserved for life anyways, if they go ahead and add the
24 extra ten (10) lifetime reserves, the overall budget is
25 going to be the same because I've always been treating

them that way anyways.

To the extent that there's new information on these claims, that wouldn't be caught in the tabular reserving exercise, and that would flowthrough into the -- as a hit to the budget. But this is just dollars reported in -- in the year, not the -- the new change to the ultimate value of those claims -- not necessarily any change to the ultimate value in those claims.

MR. BYRON WILLIAMS: Thank you. Now, Mr. Johnston, leaving aside the tabular reserving really old years, did we agree that your old years are the years between 2007 and 2004?

MR. LUKE JOHNSTON: That's -- it's -- it's hard because there's different levels of old -- oldness. As you know, beyond ten (10) years we've officially kind of -- from my perspective, I've kind of written them off in the sense that I'm putting them for life. Case managers, go ahead and work the claim as much as you want. And if you can get them back to work, great, but I'm assuming you're not -- that's not going to happen.

The likelihood of getting them back is probably just a little bit better in the, you know, five (5) to ten (10) year kind of range, but they're

still booked for life. And -- and from that perspective, I would call them old or kind of -- kind of locked in to the extent in terms of how we reserve.

MR. BYRON WILLIAMS: So, Mr. Johnston, when we're trying to understand the, in quotation marks, "lag issue," you indicated to us that we would look to those years where the budget was quite modest, i.e., less than a million dollars.

Fair enough?

MR. LUKE JOHNSTON: The -- the lag could occur and likely did occur in all of the years. Any claim that was being handled in that period where there was a lag could be affected. And if it meant that a claim should have had a lifetime reserve posted, and instead it had a block amount, and -- 'cause the case manager hadn't, you know, got to that -- updating that yet, then that would be in effect.

In the shorter term, it might involve, you know, not getting the claimant back to work as fast because you don't have time to -- you know, like that. So it could affect anything from a brand new claim to a -- to the handling of an older claim if there was a lag issue that affected the amount of time they had to work the files.

MR. BYRON WILLIAMS: Analytically, Mr.

1 Johnston, there's a difference between -- I'll suggest
2 to you and I'll ask you to agree.
3 There is a difference between failing to
4 post a reserve in a appropriate time versus hitting a
5 duration back-to-work benchmark, agreed?
6 MR. LUKE JOHNSTON: Yes, if -- if
7 nothing else has changed in how we handling claimants -
8 - how we're handling claimants other than the timing of
9 the -- when the reserve is posted, then your -- your
10 exposure hasn't really changed, just how you've kept
11 track or recorded your results has lagged.
12 If there's a different issue where
13 duration is being extended, then that's an exposure
14 issue, right? I have more claims open than I'm
15 supposed to have at this time. Pay -- payments are up
16 and that type of thing. You're right. Those are two
17 (2) different issues. If -- if our paid -- paid is
18 paid, right? You don't have a -- you know, it is what
19 it is. If all our paid had been completely consistent
20 and we just had a reserving issue, that would be
21 different than -- than what the reality was, where we
22 had kind of both things going on.
23 MR. BYRON WILLIAMS: And what you're
24 flagging, sir, is -- is in some of the more recent
25 years there is that duration issue or claims management

1 issue that is raising exposure for the Corporation,
2 agreed?
3 MR. LUKE JOHNSTON: Yes. And that was
4 this discussion about -- there was some talk about,
5 Well, are you putting up kind of redundant amounts.
6 And I was saying no, because I'm looking and I have
7 more claims open than I expect. The paid -- you know,
8 the duration is extending. I'm worried that exposure
9 is up and I need to post an amount that's appropriate
10 to cover that -- that level of exposure. And we'll deal
11 with -- you know, we'll -- we'll deal with this case
12 reserving issue as well. But I don't know if that
13 answered your question. Sorry.
14 MR. BYRON WILLIAMS: You're doing fine,
15 Mr. Johnston. My face doesn't look as bad as it did a
16 few minutes ago, does it?
17 MR. LUKE JOHNSTON: You're smiling now,
18 so that's...
19 MR. BYRON WILLIAMS: We'll come back to
20 that point in a couple of minutes. Just to flag a
21 couple of years.
22 If we look at the 2008 year, we see a --
23 a budget of 28 million -- excuse me, $2.8 million,
24 agreed?
25 MR. LUKE JOHNSTON: Agreed. And can I

1 ask you to maybe scroll down a little bit on that? I
2 think if we just remember, actual is the first set of
3 numbers, and budget's the second column, I think we're
4 -- we're good. But, yeah. So 2008, actual, 8 million;
5 budge, two point eight (2.8), yes.
6 MR. BYRON WILLIAMS: And for 2010, we
7 see a budget of 9.45 million and an actual of 15.3
8 million, sir?
9 MR. LUKE JOHNSTON: Correct.
10 MR. BYRON WILLIAMS: And that would be
11 a $5.87 million variance adverse?
12 MR. LUKE JOHNSTON: Yes.
13 MR. BYRON WILLIAMS: Diana, I wonder if
14 we can move to PUB-1-41, page 4.
15 And, Mr. Johnston, what we have here is
16 a similar analysis, but relating to the variance
17 between budget and actual for the accident benefit
18 other, ABO, correct, sir?
19 MR. LUKE JOHNSTON: I can't see the
20 whole question, but if I just pull it up here.
21 MR. BYRON WILLIAMS: You can accept it
22 subject to check --
23 MR. LUKE JOHNSTON: Yes.
24 MR. BYRON WILLIAMS: -- or you can
25 scroll back -- actually scroll if you -- if you'd like,

Mr. Johnston.

MR. LUKE JOHNSTON: Yeah, I got it now. That looks -- yeah, that's correct.

MR. BYRON WILLIAMS: And just a couple years, sir, that I -- if we look at the 2011 year, we see a budget of 2.3 million, with the actual of six point four (6.4), agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: A variance of over $4 million?

MR. LUKE JOHNSTON: Correct.

MR. BYRON WILLIAMS: And 2012, we see a budget of 3.2 million, with a variance of 10.86 million, agreed? Excuse me --

MR. LUKE JOHNSTON: Yeah. Reverse that around.

MR. BYRON WILLIAMS: With an actual.

MR. LUKE JOHNSTON: Yeah.

MR. BYRON WILLIAMS: Let -- let's try that again, because the question was poorly asked, for which I apologize.

Sir, confirming for 2012, the budget was 3.2 million, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: The actual was

1 10.86 million, correct?
2 MR. LUKE JOHNSTON: Yes.
3 MR. BYRON WILLIAMS: Variance of about
4 7.65 million?
5 MR. LUKE JOHNSTON: Correct. If I can
6 comment on the two (2) charts you just have shown, the
7 -- you can see in this -- in the period where we talk
8 about posting lifetime reserves.
9 So if -- if the case manager's
10 instructions are to absolutely post lifetime reserves
11 by year 5, and depending on the claim possibly as early
12 as year 2, and there's a lag in doing that, you could
13 see how there could be some significant variances in
14 this particular set of years.
15 So say there is a kind of a marginal
16 claim at around the five (5) year mark. If I see that
17 claim still getting IRI for five (5) years, I want it
18 put -- put up for life -- lifetime reserves.
19 If it hasn't been done yet and they do
20 the case reserve review, they find it, they post it,
21 that would be something that would show up on here,
22 similar to a -- you know, like the 2011 year example
23 you have here. Likely it was a -- a file or two (2) or
24 more that needed to have lifetime reserves posted and
25 it hadn't been done yet. And when they went through

1 the guidelines, they updated it, and that was the
2 effect.
3 MR. BYRON WILLIAMS: And, Mr. Johnston,
4 just so I'm clear, are you attributing the 7.65 million
5 variance in 2012 to lag issues?
6 MR. LUKE JOHNSTON: Might not be the
7 only issue, but clearly, based on that budget, that is
8 not normal reporting behaviour that I would expect.
9 And so I definitely wasn't expecting 10.8 million to be
10 reported in that -- in that year.
11 So if that's -- I suspect some of that's
12 due to lag. And there -- you know, there may be other
13 things I'm not aware of, but I'd expect that's probably
14 the majority of it.
15 MR. BYRON WILLIAMS: Mr. Johnston, if
16 my math is right, with BI3 being implemented in
17 September 2010 and the claims review being undertaken
18 in March 2013, would it be correct to suggest that it -
19 - it took about two and a half (2 1/2) years to address
20 the reserving challenges MPI's staff were experiencing?
21 MR. LUKE JOHNSTON: Okay. So September
22 2010 is implementation. Let's assume that -- I think
23 it's reasonable to assume that, from -- at least from
24 my perspective -- I won't discuss the business side
25 yet, but I wouldn't have enough information at the end

1 of the 2010/'11 year to conclude that really anything
2 is significantly different.
3 And even if I did see some changes, I'd
4 probably say, Okay, well, we just implemented this
5 system, you know. Relax. It'll go back to normal.
6 In '11/'12 year, we did note some
7 issues. We talked about this auto-reserving issue,
8 some minor issues with pay -- payments going up, et
9 cetera. Again, from my perspective, I -- I kind of put
10 those as implementation growing pains, like expected
11 them to revert.
12 We get to the -- and that doesn't mean
13 that this wasn't discussed with the business, but
14 again, this is from my perspective.
15 '12/'13, October review comes. We
16 definitely say we have an issue. Pay -- you know, the
17 -- we have a duration issue and we have a case
18 reserving issue. It's brought forward to the Board --
19 management and the Board. And the business commits to
20 fully reviewing all of these claims and getting things
21 back, you know, on track to where they -- where they
22 should be and where we want to be with -- with the new
23 system. And that essentially brings us to -- to today.
24 So the -- the business has been -- you
25 know, like we've been -- we've seen these issues

1 through the -- through the last few years, and we've
2 been addressing some different reserving issues, you
3 know, with -- whether -- whether it's auto reserving or
4 duration, as they come up. And, yeah, I -- I don't
5 know. From -- I can't really explain the business's
6 perspective but that's -- that's mine.
7 MR. BYRON WILLIAMS: Okay. Thank you.
8 We're going to just go to the duration issue and have a
9 bit more conversation there. And I'll ask Diana to
10 pull up the transcript of your discussion with Ms.
11 Grammond from October 29th at page 1,027.
12 And, Mr. Johnston, it's lines 1 to 16,
13 in particular eleven (11) to six (6) -- sixteen (16)
14 that we'll give you a chance to just take a look at.
15
16 (BRIEF PAUSE)
17
18 MR. BYRON WILLIAMS: And, Mr. Johnston,
19 the concern you're flagging on this page is the concern
20 with certain type of IRI claims that are staying open
21 longer than they're used to.
22 Would that be fair?
23 MR. LUKE JOHNSTON: Yes. I'm looking
24 at the percentage of IRI claims relative to the total
25 number of IRI claims that are still open at different

1 stages of -- of their lifetime, so to speak.
2 MR. BYRON WILLIAMS: And if -- I'll
3 direct your attention to the bottom of this page, being
4 page 12 -- 1,027 and then roll over to the top of page
5 1,028. Mr. -- Mr. Johnston, at line 25 you can see
6 that -- that's perfect, Diana -- you're talking about
7 putting in a plan to essentially start benchmarking
8 experience based on pre-system targets.
9 Do you see that, sir?
10 MR. LUKE JOHNSTON: Yes, I do.
11 MR. BYRON WILLIAMS: And, Mr. Johnston,
12 could you understand how that statement might be
13 puzzling to some who would have expected benchmarks to
14 already be in place?
15
16 (BRIEF PAUSE)
17
18 MR. LUKE JOHNSTON: So the -- the new
19 system -- again it's my understanding that there are --
20 I believe it's ICD-10 guidelines for -- return-to-work
21 guidelines that case managers have. And again, from my
22 perspective, what I brought forward to the business is
23 my view of duration and to show what I'm seeing in
24 terms of how -- how claims are staying open.
25 So clearly the goal of BI3 isn't to just

1 maintain old benchmarks, like -- or maintain things the
2 way they -- they were. What we started doing is to say
3 -- you know, and -- and sometimes there's a -- you
4 know, a translation issue between the actuarial
5 department and the claims department. We don't
6 necessarily speak the same language.
7 But what we're doing is we're putting
8 the benchmarks based on the way that I see them for
9 financial reporting purposes, and we're starting to
10 track the performance relative to those benchmarks
11 based on pre-BI3 experience. So at least at a minimum,
12 from an actuarial basis, we -- you know, we can target
13 to meet and then exceed those benchmarks.
14 There's -- there's other benchmarks that
15 the business uses for all other types of case
16 management issues that I -- you know, I'm not as a --
17 that are necessarily needed by me or used by me, but
18 there's others that we could probably provide. But I -
19 - I don't enough knowledge to speak intelligently about
20 them.
21 MR. BYRON WILLIAMS: Mr. Johnston,
22 you're describing my entire legal career.
23 So bef -- before we get to the -- the
24 non-actuarial part of the team, for -- did I understand
25 you correctly, for financial reporting purposes you've

1 recommended a return to the pre-BI3 guidelines, sir?
2 MR. LUKE JOHNSTON: No, we wanted to
3 make sure that there was a clear connection between the
4 business and the financial implipications (sic) of
5 their decisions.
6 So in terms of BI3 implementation, I
7 have no doubt the -- you know, the -- the injury claims
8 management department was doing everything that they
9 thought they needed to do to make this successful. And
10 then you have the actuary over here saying, Oh, you
11 know, like, my numbers are going up and I have to post
12 higher ra -- like, so we wanted to bridge those
13 together and make sure that the benchmarks they were
14 seeing were the ones that were really -- that -- you
15 know, that mattered on a financial basis, as well.
16 If you're a case manager, you might have
17 guidelines, let's get, you know, income replacement
18 payment out within a certain number of days. And
19 that's a really important benchmark to you, and you'd -
20 - you know, you do it, you get it in. You know, Yay, I
21 did -- you know, I met my benchmark.
22 But from my perspective on it, I'd be
23 saying, You're paying a lot more money, you know.
24 Like, Why are -- you know, why are you still paying
25 these claims, et cetera?

1 So we needed to merge the benchmark so
2 what the business was doing was also consistent or
3 working with our financial benchmarks as well, and then
4 that they understood what -- how -- what they were
5 doing would -- might impact our financial results, and
6 then the forecasting as well.
7 MR. BYRON WILLIAMS: Mr. Johnston, I
8 wonder if by way of undertaking you can provide, just
9 using your language here, the benchmarks that you're
10 employing on a financial basis based on the pre-system
11 targets?
12
13 (BRIEF PAUSE)
14
15 MR. LUKE JOHNSTON: Yeah. Yeah, we can
16 do that.
17
18 --- UNDERTAKING NO. 44: MPI to indicate the
19 benchmarks employed on a
20 financial basis based on
21 the pre-system targets
22
23 CONTINUED BY MR. BYRON WILLIAMS:
24 MR. BYRON WILLIAMS: And going to your
25 evidence again, lines 10 to 14 on page 1,028.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: So you're talking

4 about monthly benchmarking and tracking of the injury

5 case management process to ensure that we actually meet

6 and eventually beat benchmarks.

7 Do you see that, Mr. Johnston?

8 MR. LUKE JOHNSTON: I do. And the --

9 maybe the context I'll add is that those are the

10 benchmarks that I use on the financial side, not

11 necessarily all the benchmarks that they might use in

12 terms of their injury claims management processes.

13 MR. BYRON WILLIAMS: And on the

14 financial side, sir, are those again the benchmarks

15 based on pre-system targets?

16 MR. LUKE JOHNSTON: I'm currently using

17 pre-system targets. We had a relatively stable

18 reporting settlement process prior to that. So it's --

19 those are logical benchmarks to use 'cause we have a

20 lot of history and stability in those numbers, so we'll

21 start with that and -- and likely work from there

22 through time.

23 MR. BYRON WILLIAMS: And how long have

24 those benchmarks been in place?

25

(BRIEF PAUSE)

MR. LUKE JOHNSTON: We started tracking this for February or for this -- I guess one (1) month before this fiscal year, but essentially this -- this year.

MR. BYRON WILLIAMS: So February 2014, sir?

MR. LUKE JOHNSTON: Yes. March is probably a -- a -- this fiscal year.

MR. BYRON WILLIAMS: I'll give you the month, Mr. Johnston.

And is there a summary demonstrating whether MPI is meeting these benchmarks on a monthly basis?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Can you maybe just repeat what is being requested? We're -- we're definitely comfortable with providing some information, like -- but we have a series of reports that we're looking at. And we just want to be sure what -- what it is that you want and whether we can provide that.

MR. BYRON WILLIAMS: Mr. Johnston,

1 you've -- you've talked about a monthly benchmarking of
2 -- and tracking of the injury case management process
3 to ensure that you actually meet and eventually beat
4 benchmarks which I understand to be pre -- pre-system
5 targets. And so what I'm looking for is a -- a summary
6 from March 2014 to September or Oct -- September 2014
7 in terms of the success -- the results of MPI in -- in
8 meeting that objective.
9 MR. LUKE JOHNSTON: We can provide you
10 with a summary of that information. We track a lot of
11 things, but in terms of what you're after, we can do
12 that.
13 MR. BYRON WILLIAMS: And is that
14 satisfactory for the reporter?
15
16 --- UNDERTAKING NO. 45: MPI to provide a summary
17 from March 2014 to
18 September 2014 in terms of
19 the results of MPI in
20 meeting objective
21
22 CONTINUED BY MR. BYRON WILLIAMS:
23 MR. BYRON WILLIAMS: Ms. Reichert, I
24 was not really ignoring you. You heard Mr. Johnston
25 talk about some of the other benchmarks on -- on

1 perhaps your side of the file, with one (1) example
2 being the timely payment to claimants.
3 You heard that statement?
4 MS. HEATHER REICHERT: Yes, I did.
5 MR. BYRON WILLIAMS: And is there sort
6 -- some sort of illustrative or summary document that
7 could give my client insight into some of the
8 benchmarks you're looking at from your -- from -- from
9 your side? You know, let's ignore Mr. Johnston for a
10 while and let's focus on -- on you.
11 MS. HEATHER REICHERT: First, Mr.
12 Johnston and I are almost attached at the hip when it
13 comes to financial benchmarking and -- and actuarial
14 reserving.
15 MR. BYRON WILLIAMS: I try to sow
16 division wherever I can, Ms. Reichert.
17 MS. HEATHER REICHERT: Yes. So I guess
18 what I'll -- I'll reference back to is the section that
19 we have included in our application, the entire section
20 on benchmarking, where we've gone through.
21 MR. BYRON WILLIAMS: Fair enough.
22 MS. HEATHER REICHERT: And so if
23 there's anything specific in there that you've got a
24 question on, but that's the focus from a overall
25 corporate perspective of the things that we look at

1 that are important.
2 MR. BYRON WILLIAMS: Ms. Reichert,
3 thank you for that. I'll review that and see if I have
4 any follow-up further. Mr. Johnston, I want to take
5 you back to last year's general rate application,
6 Volume II, claims incurred. Exhibit 5, Table 5, page
7 131.
8 Do you remember it, sir? You probably
9 do.
10 MR. LUKE JOHNSTON: I will soon, I
11 think. Okay. Yes, I -- I see this. Yes.
12 MR. BYRON WILLIAMS: Sir, this -- this
13 was an element of the Corporation's forecast last year.
14 And it's demon -- it's describing the growth rate
15 factors that were considered in the development of your
16 -- in this case your coll -- collision estimates in --
17 for last year's general rate application.
18 Is that fair?
19 MR. LUKE JOHNSTON: Correct.
20 MR. BYRON WILLIAMS: And we'll see that
21 just going on the second column from the left, there's
22 an examination of average parts per claim, average
23 paint materials, average -- average body material.
24 Those are some of the -- the issues canvassed, sir.
25 Is that correct?

1 MR. LUKE JOHNSTON: Correct.
2 MR. BYRON WILLIAMS: And you'll see an
3 examination of actual results for the years 2010/'11,
4 through '12/'13.
5 Would that be fair?
6 MR. LUKE JOHNSTON: Yes.
7 MR. BYRON WILLIAMS: And again,
8 consideration of the percentage change in these
9 factors, agreed?
10 MR. LUKE JOHNSTON: Agreed.
11 MR. BYRON WILLIAMS: And, sir, I -- I
12 won't take you there unless you really want to, but if
13 we were to go to Exhibit 6, Table 5, page 138 or so,
14 we'd see the sa -- oh, I guess Diana's taking us there.
15 We'd see the same sort of analysis on the comprehensive
16 side.
17 Would that be fair?
18 MR. LUKE JOHNSTON: That's fair.
19 MR. BYRON WILLIAMS: Now, Mr. Johnston,
20 if I use the term to describe this as the repair rate's
21 growth factors, that's a term that -- that you're
22 comfortable with, sir?
23 MR. LUKE JOHNSTON: Yes.
24 MR. BYRON WILLIAMS: And am I correct
25 in suggesting that the repair rate growth factor's

1 analysis was not used to create this year's collision
2 or comprehensive forecast?
3 MR. LUKE JOHNSTON: Yes. The -- the
4 belief we had in previous -- from previous forecasting
5 committees is that while this level of detail was
6 important for the business, we were -- our belief was
7 we were slicing things a bit too thin for the
8 forecasting perspective. We -- we started -- if you
9 think about, you know, all of the different types of
10 covers you can have on the comprehensive side, we were
11 breaking out claims into, you know, ten (10), fifteen
12 (15) components, trying to forecast separate growth
13 rates for every single item for all the different --
14 you know, let's say fire, attempted that, you know, et
15 cetera.
16 Whether this particular methodology in
17 the aggregate produced a -- as good of an estimate as
18 you'd get if you simply just took the coverage as a
19 whole and -- and fit trend lines and -- through the
20 history was a debate that we were having. So on
21 collision, for example, do you need to -- to do your
22 forecast? Just leave that separate from the business
23 side. To do your forecast for the GRA, do you need to
24 break out every, you know, cost -- cost of paint, body,
25 other? Like, when you have -- historically had a

1 fairly stable relationship in terms of severity trends.
2 So what -- the decision was to take this
3 out. Of course, the year we did that we had 10 percent
4 severity increase. So the timing wasn't the greatest.
5 Just because we didn't forecast on this basis doesn't
6 mean that the information isn't available any more.
7 It's largely how we did the breakdown of -- of the
8 impacts. But that was -- that was the -- the rationale
9 for moving away from this really highly -- highly
10 detailed analysis to a more higher level analysis.
11 MR. BYRON WILLIAMS: And if we could
12 just stay on this page for a minute, Diana.
13 Mr. Johnston, just in terms of the
14 process undertaken in developing the growth rate
15 factors historically, am I correct in suggesting to you
16 that these would be prepared by the -- whether we call
17 them field staff, or the collision repair experts, they
18 would -- the --the initial cut of this document would
19 be prepared by them?
20 MR. LUKE JOHNSTON: The -- the data
21 itself would -- I'm -- I'm going on memory here --
22 likely be provided by our enterprise data warehousing
23 group. So there's a -- as you see, a very detailed
24 series of tables and data.
25 So the actual preparation of the data

1 would likely be done by that group and then provided
2 to, as you've stated, individuals on the physical
3 damage side for analysis and discussion at the claims
4 forecasting meetings.
5 MR. BYRON WILLIAMS: And in essence
6 they'd use this information to consider whether there
7 were anomalies or unexpected trends developing, or
8 errors.
9 Would that be fair?
10 MR. LUKE JOHNSTON: I -- I think it's
11 fair to say that if there was anomaly in any particular
12 one of these lines that that would be something they
13 would discuss at the meeting. That's fair.
14
15 (BRIEF PAUSE)
16
17 MR. BYRON WILLIAMS: And then am -- am
18 I correct in suggesting that these growth rate factors
19 would then be vetted by the claims forecasting
20 committee?
21 MR. LUKE JOHNSTON: Correct. Again
22 though the issue was, Is it realistic to vet literally
23 hundreds of factors on these tables for every line?
24 And does that add any value over a higher level
25 breakdown such as doing, you know, repairs versus total

1 losses in providing a more summarized view?
2 It's -- it's difficult to say whether
3 you're getting a better estimate using this method.
4 When you look at the overall view, any kind of
5 interrelationships that you may have as well, you'll
6 capture that you may not get -- when you're forecasting
7 line by line and amalgamating them together.
8 So again as -- as I mentioned that's a -
9 - that's a debate. But, yes, the forecasting committee
10 would look at this, ask any questions, and obviously
11 the most weight in terms of how we proceed would be
12 given to the business side in terms of their
13 recommendations.
14 MR. BYRON WILLIAMS: Apart from the
15 elimination of the growth rate factors analysis from
16 the collision and comprehensive claims forecasting, are
17 there any other material changes in the forecasting
18 process, sir?
19
20 (BRIEF PAUSE)
21
22 MR. LUKE JOHNSTON: In terms of how we
23 run the forecasting committee, the structure is
24 essentially the same. There's business experts
25 involved. Recently we've tried to expedite the

1 forecast so we can get some of the preliminary
2 indications to management earlier. So if there's
3 something like a potential rate increase coming we
4 don't find that out in May.
5 But in terms of how the committee meets
6 and, you know, who's involved and, you know, like this
7 is an example where we made a decision to kind of --
8 not streamline but reduce the amount of detail in a
9 particular forecast area. But outside -- you know,
10 outside of something like that the structure and
11 processes have been basically the same.
12 MR. BYRON WILLIAMS: Thank you. Just
13 one (1) kind of last question, not on this subject
14 matter. We can put that away.
15 And I don't have a reference for you,
16 sir, but in terms of the enterprise data warehouse or
17 the data warehouse, can you identify what, if any,
18 challenges there are in using data pre-2000/2001?
19 MR. LUKE JOHNSTON: I'm trying to
20 remember what the particular issue is there. I'll -- I
21 will -- it's probably just a matter of sending an email
22 and getting back to you at some point on that, if
23 that's okay.
24 MR. BYRON WILLIAMS: Yeah. And, Mr. --
25 Mr. Johnston, I don't know if we need to formalize it

1 as an undertaking, but I'll -- I'll keep it on my list,
2 and you'll get back to me a bit later today. What
3 we're trying to understand is what was the issue; how
4 was it discovered; what was the fix, if any; and how,
5 if at all, that impairs the use of data pre-2001 and
6 what type of data?
7 MR. LUKE JOHNSTON: I will undertake to
8 -- to see. I believe the issue was that -- is in
9 relation to not being able to have certain types of
10 data beyo -- like, before that period, or is there a
11 reference that you're looking at?
12 MR. BYRON WILLIAMS: Mr. Johnston,
13 there's a reference in the record, and it's the one
14 that I -- I couldn't locate. So perhaps what I'll do
15 and I'll suggest to Mr. Triggs, we'll -- rather than
16 you undertake right now, we'll keep this on our -- on
17 our issues list. And I'll hopefully find the -- the
18 reference this evening. And -- and we'll try and email
19 it to you this evening just to give you a bit of a
20 head's up.
21 MR. LUKE JOHNSTON: Yes, that would be
22 helpful. I'm not aware of a particular new data issue.
23 My thinking was more that certain types of data might
24 not be available prior to a certain date when, you
25 know, maybe a system changed occurred, or some --

1 something like that. But that's -- when I see the
2 reference I'll respond.
3 MR. BYRON WILLIAMS: Thank you. Madam
4 Chair, we're moving to a different subject matter, so I
5 don't know if this is an appropriate time for coffee or
6 --
7 THE CHAIRPERSON: I think this would be
8 a wonderful time to have coffee. And we'll return at
9 twenty (20) to 3:00. Thank you.
10
11 --- Upon recessing at 2:25 p.m.
12 --- Upon resuming at 2:45 p.m.
13
14 THE CHAIRPERSON: Okay, welcome back.
15 I'm going to call upon Ms. Grammond to make a few
16 comments.
17
18 RE-CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:
19 MS. CANDACE GRAMMOND: Thank you, Madam
20 Chair. I just have a few questions for the panel in
21 respect to some of the answers to undertakings that
22 were filed earlier. So I thought it would be good if
23 we could put those on the record before Mr. Williams
24 resumes his cross.
25 So first of all, with respect to

1 Undertaking 33, this is Exhibit 32 of MPI, this is on
2 the issue of the split between driver premium and
3 vehicle premium. The Corporation -- thank you, Diana.
4 The Corporation has advised that about a third of
5 drivers do not have a vehicle registered in their name,
6 as we see on the screen. And so that's about 16
7 million of the 47 million in driver premium that is
8 from those drivers.
9 So it would be fair to say then that
10 about a third of drivers don't contribute to -- or
11 would not contribute under the Corporation's rate app
12 to the RSR rebuilding.
13 Is that fair to say?
14
15 (BRIEF PAUSE)
16
17 MR. LUKE JOHNSTON: They would not
18 directly contribute in terms of the amount that that
19 actual individual pays. It's a little grey in terms of
20 I think most families would have one (1) person insure
21 all the vehicles for the family. And to say that
22 maybe, like, the other people don't contribute might be
23 a little bit misleading in that sense, if you know what
24 I mean.
25 Like it's -- it's not a requirement that

1 everybody has to ensure a car in the house. But -- but
2 on this basis, yes, there's one-third (1/3) that only
3 have a driver's licence and don't pay vehicle premiums,
4 yeah.
5 MS. CANDACE GRAMMOND: So leaving aside
6 the issue of the common household for the moment, the -
7 - the converse of what we're just discussing would be
8 that these one-third (1/3) -- or this one-third (1/3)
9 of drivers would also not be eligible for a rebate if
10 we were in a rebate environment, right, because those
11 are paid on vehicle premiums?
12 MR. LUKE JOHNSTON: That's correct.
13 MS. CANDACE GRAMMOND: Would you agree
14 though that the third of the drivers that don't have a
15 vehicle in their name, and hence don't pay vehicle
16 premiums, would still benefit from Basic being
17 appropriately capitalized?
18 MR. LUKE JOHNSTON: Well, they -- I
19 agree with that statement. If they always remain as
20 individuals that never have a vehicle, and the effect
21 of -- of not being property capital -- capitalized is
22 always on the vehicle, then essentially they may never
23 get the hit or the benefit from that -- from that. But
24 it's likely -- this group likely changes through time
25 whether they have or don't have a vehicle. A lot of

them are probably young people, yeah.

MS. CANDACE GRAMMOND: I appreciate that the composition of the group would change over time for a variety of reasons, some of which you've referred to. What's the Corporation's position with respect to the fairness of this situation where we have about a third of the drivers that would not be contributing to an RSR surcharge if the Board were to grant one?

MR. LUKE JOHNSTON: Going back to the -- kind of the household concept again, and the fact that the -- if we were to apply a 1 percent to this 16 million, the amount would be very -- very minor. And again we -- we stated earlier that we wouldn't even be sure how to apply this because you -- you might be talking about a 1 percent fee on a twenty dollar ($20) premium, and that would just round the twenty dollars ($20).

So the Corporation doesn't have any major concerns that this is a significant disparity, and like a fairness issue.

MS. CANDACE GRAMMOND: And has the Corporation ever considered an alternative to say a percentage for these -- this segment of the driving population, like maybe a flat rate?

1 MR. LUKE JOHNSTON: We haven't. We did
2 speak earlier about the driver safety rating scale, and
3 that -- that's something that we'll look at in future
4 years. And I suspect in the future we'll -- we'll
5 always have to consider whether extra revenue, you
6 know, should come from higher -- you know, different
7 driver premiums or -- or whatever the case but in this
8 rate app we didn't -- we didn't consider that.
9 MS. CANDACE GRAMMOND: Thank you. My
10 next questions relate to Undertaking 38, which has been
11 entered as Exhibit 35 in this proceeding.
12
13 (BRIEF PAUSE)
14
15 MS. CANDACE GRAMMOND: So this was the
16 undertaking with respect to the impact of a $325
17 million effect in terms of probal -- probability level.
18 And, Diana, if you can just scroll a bit -- yeah. So
19 the undertaking was with respect to both with and
20 without -- or before and after management action.
21 The first paragraph of the response
22 deals with before management action, and -- and so my -
23 - my questions are really going to be directed to the
24 after management action scenario. And what we were
25 hoping the response from the Corporation would provide

1 was a sense of how extreme of an adverse ebent -- event
2 would be necessary to use up the level of total equity
3 currently proposed as the upper target, so the three
4 twenty-five (325), using a stress testing approach
5 otherwise comparable to the DCAT.
6 So the response as provided indicates
7 that there are no adverse scenarios after management
8 action that have a $325 million or greater impact to
9 total equity at a probability level of 1 percent or
10 higher.
11 So from the work that the Corporation
12 has done on the combined scenario in the DCAT, can the
13 Corporation estimate the probability level of the
14 comine -- combined scenario after management action
15 that would exhaust a total equity balance of about 325
16 million? I -- I know that was really long, but I
17 wanted to give you the thought process.
18 MR. LUKE JOHNSTON: Can you repeat --
19 no, I'm just kidding. We will do our best to do that.
20 The -- our most adverse scenarios before management
21 action tend to kind of fall in that 300 million plus
22 range. As stated in the question, a huge portion of
23 that is the interest rate kind of risk or -- or -- that
24 we're -- that we're taking.
25 So we'll -- we'll stress test and make

1 some assumptions and see roughly if we can get a rough
2 number there for you, yeah.
3 MS. CANDACE GRAMMOND: Thank you.
4
5 --- UNDERTAKING NO. 46: MPI to estimate the
6 probability level of the
7 combined scenario after
8 management action that
9 would exhaust a total
10 equity balance of about 325
11 million
12
13 MS. CANDACE GRAMMOND: The last
14 undertaking that I have just a couple of questions on
15 is Undertaking 24, which is entered as Exhibit 29.
16 This was an undertaking with respect to operational
17 savings regarding the cost containment initiatives that
18 the Corporation has implemented.
19 So the first part of the response deals
20 with the vacancy provision. And so keeping in mind
21 that there is a historical vacancy level every year,
22 and we talked about that earlier in the proceeding, can
23 the Corporation give an indication pursuant to the
24 numbers here in the first paragraph how much relates to
25 actual staff reductions above those historical levels?

1 MS. HEATHER REICHERT: As it relates to
2 the current '13/'14 fiscal year, actual staff
3 reductions that we budgeted for was seven (7) permanent
4 full-time equivalents. So that will be reflected in
5 the overall -- like, it won't be reflected in the
6 savings because we actually budgeted not to spend that
7 money.
8 So I'm not sure if that is answering the
9 question directly or not.
10 MS. CANDACE GRAMMOND: So the savings
11 attributable to those seven (7) FTEs would be about
12 four hundred thousand dollars ($400,000), right?
13 MS. HEATHER REICHERT: That's right,
14 based on the reduction to our budget as it relates to
15 those seven (7) FTE, yeah.
16 MS. CANDACE GRAMMOND: Thank you. And
17 then the other two (2) items that are listed give rise
18 to a savings of over a hundred thousand dollars
19 ($100,000).
20 Is there any indication of what the
21 forecast savings would be for the year of the
22 application on those items?
23 MS. HEATHER REICHERT: No, I don't have
24 a forecast for that. Just generally speaking, we would
25 expect -- seeing as this was half a year, generally,

1 these type of expenditures are relatively even
2 throughout the year. So I would just say that I would
3 expect it to be somewhere close to, but I'm not
4 committing, to twice the savings that we've incurred in
5 the first half of the year.
6 MS. CANDACE GRAMMOND: Thank you.
7 Madam Chair, those are my follow-up
8 questions at this time.
9 THE CHAIRPERSON: Thank you, Ms.
10 Grammond. Now I'll go back to Mr. Williams.
11
12 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:
13 MR. BYRON WILLIAMS: Yes. Thank you.
14 Just for the -- I guess the scheduling
15 of MPI and the Board, I've got some questions in the
16 area of interest rates that will probably take us to --
17 close to the end of today.
18 I -- we will make sure that any
19 questions relevant to the DCAT are completed before Dr.
20 Simpson's evidence. And I expect they'll be done
21 tomorrow -- tomorrow morning. We'll come close to
22 starting off with them.
23 Mr. -- Mr. Johnston, are you the
24 interest rate guy? Depends?
25 MR. LUKE JOHNSTON: It depends, yeah.

1 MR. BYRON WILLIAMS: Okay.
2 MR. LUKE JOHNSTON: It depends, but,
3 yeah, please ask questions. We'll decide.
4 MR. BYRON WILLIAMS: I'll let you two
5 (2) -- two (2) -- I guess, since you're joined at the
6 hip, I'll let you two (2) fight it out.
7 Just at a very high level, and -- and
8 I'll try not to -- to trespass too far where My Friend,
9 Ms. Grammond, has gone, but there'll be a little
10 overlap, especially with my client sitting behind me.
11 But it would be fair to say that rising
12 interest rates tend to benefit MPI on the claims
13 liability side due to discounting, leading to lower
14 anticipated cla -- claims costs, all other things being
15 equal.
16 Would that be fair?
17
18 (BRIEF PAUSE)
19
20 MS. HEATHER REICHERT: Yes.
21 MR. BYRON WILLIAMS: And again, at a
22 very high level, rising interest rates tend to hurt MPI
23 on the investment income side, all other things being
24 equal?
25 MS. HEATHER REICHERT: Correct. On the

1 marketable bond side, yes.
2 MR. BYRON WILLIAMS: And similarly,
3 declining interest rates tend to hurt the Corporation
4 on the claims liability side, leading to higher
5 anticipated claims costs, all other things being equal?
6 MS. HEATHER REICHERT: All other things
7 being equal, yes.
8 MR. BYRON WILLIAMS: And declining
9 interest rates tend to help MPI on the investment
10 income side, all other things being equal? Focussing
11 on marketable bonds.
12 MS. HEATHER REICHERT: Focussing on
13 marketable bonds and the fact that we have to record
14 them at market. And then, of course, the lower
15 interest rates overall would impact on the yield of --
16 of those bonds.
17 MR. BYRON WILLIAMS: Yes. Thank you
18 for that. And it would be accurate to say that the
19 current reality of MPI is that a shift upwards in terms
20 of interest rates has a relatively greater positive
21 effect in -- in reducing claims costs as compared to
22 the negative impact of declining in -- investment
23 income, agreed?
24 MS. HEATHER REICHERT: Yes, that is the
25 fact, because we are currently -- have a difference in

1 the duration between the bonds, the marketable bonds,
2 and the claims of minus one (1), where the duration of
3 our bonds are lower than the duration of our claims.
4 MR. BYRON WILLIAMS: All other things
5 being equal, a shift upwards in terms of interest rates
6 is good news for net income?
7 MS. HEATHER REICHERT: Generally
8 speaking, correct.
9 MR. BYRON WILLIAMS: Similarly, the
10 current reality for MPI is that a shift downwards in
11 terms of interest rates has a relatively smaller
12 positive impact on reducing claims costs than the
13 positive imp -- imp -- than -- let's just scratch that
14 question. That was too convoluted. Too late in the
15 day.
16 Ms. Reichert, since you're being so
17 agreeable so far, we can agree that there's both a
18 downside risk and an upside opportunity flowing to MPI
19 and its ratepayers from changes in interest rates.
20 MS. HEATHER REICHERT: Yes, that is
21 true.
22 MR. BYRON WILLIAMS: And we'll come to
23 a definition of duration in just a moment, but
24 currently MPI uses duration matching to manage its
25 interest rate risk, agreed?

1 MS. HEATHER REICHERT: Yes, we do.
2 MR. BYRON WILLIAMS: And we'll come to
3 the one (1) -- one (1) year bandwidth in a moment. But
4 from 2010 until recently the -- MPI managed an interest
5 rate risk using a plus or minus two (2) years of the
6 actuarially determined duration of -- of claims
7 liabilities?
8 MS. HEATHER REICHERT: Yes, that is
9 correct.
10 MR. BYRON WILLIAMS: And currently it's
11 a one (1) year bandwidth effective roughly August of
12 2014.
13 MS. HEATHER REICHERT: That's correct.
14 MR. BYRON WILLIAMS: And prior to 2010,
15 the bandwidth was actually one and a half (1 1/2)
16 years, but based on corporate liabilities, agreed?
17 MS. HEATHER REICHERT: Yes, that is
18 correct.
19 MR. BYRON WILLIAMS: Ms. Reichert, you
20 probably don't need to go there 'cause I'm sure you
21 have it memorized. But you'll recall from last year's
22 Board order, Order 151/13, pages 32 and 33 -- no doubt
23 you've got that memorized -- that the Board expressed
24 the view at that time that the Corporation's approach
25 to duration mismatching makes it too vulnerable to

1 interest rate risk.
2 Do you recall that from last year's
3 Board order?
4 MS. HEATHER REICHERT: Yes, I recall
5 something to that effect.
6 MR. BYRON WILLIAMS: And there was
7 certainly an -- an opinion expressed by the Board that
8 the Corporation should match exposures, including cash
9 flow beyond duration mat -- matching on a going forward
10 basis.
11 Would that be fair?
12 MS. HEATHER REICHERT: Yes. As I
13 recall, the order was to look at the duration mismatch
14 and -- and review that situation.
15 MR. BYRON WILLIAMS: And indeed to
16 present a discussion paper for -- for the purposes of
17 this proceeding, agreed?
18 MS. HEATHER REICHERT: Agreed. Which
19 we have done.
20 MR. BYRON WILLIAMS: Got it right here.
21 Ms. Reichert, you -- you haven't been -- been here for
22 as many years, so you can answer this one, or Mr.
23 Johnston can if he -- if he can stretch his memory a
24 little farther.
25 Mr. Johnston, if we were to go back to

1 years before, such as the 2010 GRA, would it be fair to
2 say that there was a bit of a different tone in the
3 discussion about interest rate risk with -- with the
4 general understanding back in 2010 that unrealized
5 gains and losses due to a fluctuating market yield were
6 expected to offset to a large extent the impact on
7 unpaid claims liabilities?
8 MR. LUKE JOHNSTON: My recollection was
9 that typically we'd show that if there is an effect, we
10 might have offset that by maybe 75 or 80 percent of
11 that number. I can't recall if any of the effects were
12 very significant. Clearly, if we're -- if the effect's
13 only 10 million and you offset it by seven (7), that's
14 a lot different than the effect being a hundred million
15 and offsetting it by seventy (70).
16 So a lot of the stuff we're talking in
17 this hearing are -- we 're talking about interest rates
18 rising, like, two hundred (200) basis points. And
19 that's why you're starting to see, like, incredibly
20 huge numbers. And, of course, it magnifies your --
21 your mismatch issue.
22 MR. BYRON WILLIAMS: And so, in -- in
23 general terms, Mr. John -- oh, sorry, go ahead.
24 MR. LUKE JOHNSTON: I was going to say
25 one (1) -- one (1) other thing is that -- just to

1 remember is that we only started forecasting interest
2 rates in our model over the last two (2) years. So we
3 essentially left int -- rates at status quo in previous
4 versions of the GRA. And one (1) of the things that
5 makes this -- these last few GRAs difficult is that
6 we're not in a normal interest rate environment.
7 So if we had been in an interest world
8 that interest rates were fairly close to the long-term
9 average, the bank forecasts would probably be
10 forecasting something similar to that. But we're in
11 this world where we're at the lowest rates of all time,
12 essentially, and we're -- we're talking about
13 forecasting huge increases. And that's -- that's where
14 the risk really comes from and that -- that's what
15 makes it so different.
16 MR. BYRON WILLIAMS: And thank you for
17 that, Mr. Johnston. Your -- your point being that
18 another development in the dialogue is the reality that
19 the Corporation, for the first time in last year's GRA,
20 was forecasting the impact that increasing or
21 decreasing interest rates could have both on claims'
22 liabilities as well as the impact on the value of the
23 bond portfolio, agreed?
24 MR. LUKE JOHNSTON: Correct.
25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: If one looks to
4 the -- the duration matching discussion paper, and
5 specifically page 8, just flow down to cashflow
6 matching, is it fair to describe kind of the analysis
7 going on within the Corporation as a debate between
8 cashflow matching versus duration matching?
9 MS. HEATHER REICHERT: Generally
10 speaking, yes. There are pure cashflow matching, and
11 then there are -- there is what we call bucket
12 matching. So that could be bucket duration matching or
13 -- or bucketing our claims and matching more precisely
14 the cashflows within that -- that bucket.
15 So generally, to answer your question,
16 yes, the -- the analysis, the information that we're
17 trying to get through the -- through the ALM study is
18 basically comparing cashflow matching in its purest
19 form to duration matching in its many different forms.
20 MR. BYRON WILLIAMS: And you use the
21 term 'bucket matching'.
22 And would one (1) example of bucket
23 matching be the approach taken in Saskatchewan by the
24 auto insurer there?
25 MS. HEATHER REICHERT: Yes, that's my

1 understanding, is that they do a form of bucket
2 duration matching.
3
4 (BRIEF PAUSE)
5
6 MR. BYRON WILLIAMS: And would you
7 agree with the suggestion that the term 'duration' has
8 a special meaning in the context of bonds in that it is
9 a measurement how -- of how long in years it takes for
10 the price of a bond to be repaid by its internal cash
11 flows?
12 MS. HEATHER REICHERT: Sure.
13 MR. BYRON WILLIAMS: Okay. And for the
14 purposes of -- of its duration matching analysis,
15 Manitoba Public Insurance employs the combined Macaulay
16 Duration.
17 Is that correct?
18 MS. HEATHER REICHERT: Yes, that is
19 correct.
20 MR. BYRON WILLIAMS: And Macaulay
21 Duration is a name given to the weighed average time
22 until cashflows are received, and it's measured in
23 years.
24 Would that be fair?
25 MS. HEATHER REICHERT: I have got an

1 affirmative on that.
2 MR. BYRON WILLIAMS: So that's a 'yes'?
3 MS. HEATHER REICHERT: Yes.
4 MR. BYRON WILLIAMS: And so when we use
5 the term 'duration' in discussing your -- your risk
6 mitigation strategy, we shouldn't consider that to be
7 analogous to the maturation of the bonds in all cases.
8 It -- those are -- those terms mean
9 different things, agreed?
10 MS. HEATHER REICHERT: No, I -- I would
11 agree. There's a difference between the term of the
12 bond and duration of the bond.
13 MR. BYRON WILLIAMS: Now, Ms. Reichert,
14 you helpful -- helpfully indicated earlier that the
15 average duration of claims liabilities was -- did you
16 say eight point nine (8.9) years?
17 Did I hear you say something to that
18 effect? No?
19 MS. HEATHER REICHERT: I don't believe
20 I quoted any number.
21 MR. BYRON WILLIAMS: Okay. Well, let -
22 - let's turn to page 57 of the DCAT.
23
24 (BRIEF PAUSE)
25

1 MR. BYRON WILLIAMS: Sorry, Diana, I
2 didn't give you notice of that. If you can scroll
3 down?
4
5 (BRIEF PAUSE)
6
7 MR. BYRON WILLIAMS: Okay. And perhaps
8 this is to you, Mr. Luke as you're sometimes known, Mr.
9 Johnston. You see about the fourth line from the
10 bottom of -- of the page a suggestion first of all that
11 the average duration of claims liabilities in 2013/'14
12 was approximately eight point nine (8.9) years.
13 Do you see that, sir?
14 MR. LUKE JOHNSTON: Yes.
15 MR. BYRON WILLIAMS: You see, as well
16 an indication that for Basic the average duration of
17 claims liabilities was approximately nine (9) to ten
18 (10) years, agreed?
19 MR. LUKE JOHNSTON: Yes. Yeah.
20 MR. BYRON WILLIAMS: And, Mr. Johnston,
21 for someone usually so price -- precise, there's a bit
22 of vagueness in that, and in terms of the average
23 duration of claims liabilities in 2013/'14 for Basic,
24 can you put a little more precision around that nine
25 (9) to ten (10) years?

1 MR. LUKE JOHNSTON: Yeah. No, that's
2 fair. We can -- I don't know off the top -- top of my
3 head but the same analysis that we did to get the eight
4 point nine (8.9). We'll just pull Basic out of there,
5 and tell you what that number is. I can undertake to
6 do that. It'll be between nine (9) and ten (10) years.
7
8 --- UNDERTAKING NO. 47: MPI to provide information
9 regarding in terms of the
10 average duration of claims
11 liabilities in 2013/'14 for
12 Basic put a little more
13 precision around that nine
14 (9) to ten (10) years
15
16 CONTINUED BY MR. BYRON WILLIAMS:
17 MR. BYRON WILLIAMS: And, Mr. Johnston,
18 is that -- can we generally expect that the average
19 duration of claims liabilities for Basic will be
20 somewhat longer than the average duration of claims
21 liabilities for the Corporation as a whole?
22 MR. LUKE JOHNSTON: Yes, definitely.
23 That's -- that's really what I'm alluding to here, that
24 there was a corporate -- corporate strategy in this
25 case. And Basic, given it has the PIPP program, that

1 alone is -- has significant long-term duration.
2 Something like Extension, reduced
3 deductibles, things like that, we're talking maybe a
4 year duration. Special Risk Extension's probably in
5 the one (1) to two (2) years, a little bit longer with
6 some tort claims and stuff, but short-duration lines.
7 MR. BYRON WILLIAMS: Focussing first on
8 risk and comparing Basic to the Corporation as a -- as
9 a whole, would it be fair to say that Basic is
10 relatively over-exposed to downside duration risk as
11 compared to the portfolio as a whole?
12 MR. LUKE JOHNSTON: Well, the gap is --
13 the gap is -- it's a fact -- it's a fact that the gap
14 is bigger. So in that case, the -- the mismatch will be
15 bigger. If it happens to be on the negative side, the
16 -- the -- that mismatch will also be larger on for a
17 Basic only perspective.
18 MR. BYRON WILLIAMS: And the converse
19 is true in terms of upside opportunity, where Basic
20 stands to benefit more as compared to the portfolio as
21 a whole.
22 Would that be fair?
23 MR. LUKE JOHNSTON: Yes.
24 MR. BYRON WILLIAMS: Diana, I wonder if
25 we can turn to the response to CAC First Round

1 Information Request 1-146.

2

3 (BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: And I'm -- we'll

6 eventually come to the response. The -- let's go the

7 question to question for (g) first, and then we'll go

8 to the response in a moment.

9 And perhaps MPI can assist me with this.

10 We see terms used such as cashflow matching, but we

11 also -- MPI is familiar with the term 'immunization'?

12 MS. HEATHER REICHERT: Yes.

13 MR. BYRON WILLIAMS: And would it be

14 fair to describe the objective of immunization as

15 aiming to construct a portfolio that, over a specified

16 time horizon, will earn a predetermined return

17 regardless of interest rate changes?

18 MS. HEATHER REICHERT: Yes, I would say

19 that's a fair description.

20 MR. BYRON WILLIAMS: Analytically, can

21 MPI indicate whether an analytic distinction to be

22 drawn between immunization and cashflow matching?

23

24 (BRIEF PAUSE)

25

1 MS. HEATHER REICHERT: As I understand,
2 there -- there is a difference as communicated in the
3 handbook of fixed income securities that you've
4 submitted as an exhibit.
5 MR. BYRON WILLIAMS: Do you want to
6 help me with it, Ms. Reichert, or --
7 MR. LUKE JOHNSTON: Sorry. What did --
8 what -- do you want me to read something into the --
9 MR. BYRON WILLIAMS: No. We'll --
10 we'll approach it a different way.
11 MS. HEATHER REICHERT: Okay.
12 MR. BYRON WILLIAMS: So we'll come back
13 to that point. But you see the question posed in 1-
14 146(g), which is asking MPI to confirm that it's
15 possible to have a $500 million and a billion bond
16 portfolio with -- each with the same duration. But
17 neither would immunize or match the risk of a 750
18 million liability portfolio owing to the size mismatch
19 or to correct the statement.
20 So that's the question. And -- and
21 perhaps we could turn to the response, Ms. Reichert.
22 MS. HEATHER REICHERT: M-hm.
23 MR. BYRON WILLIAMS: (g) -- sorry,
24 Diana, (g).
25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: So MPI --

4 basically MPI's making the point that imm --

5 immunization requires, you'll agree with me:

6 "The average duration to be equal at

7 all times. The market values of

8 assets must be greater than or equal

9 to the present value of liabilities.

10 And the dispersion of assets has to

11 be greater than or equal to the

12 dispersion of liabilities."

13 Agreed?

14 MS. HEATHER REICHERT: Agreed.

15 MR. BYRON WILLIAMS: And so this

16 concept of immunization, we can distinguish between the

17 -- from the current approach of Manitoba Public

18 Insurance in terms of risk mitigation, in that

19 immunization has three (3) -- three (3) criteria or

20 elements, whereas the MPI approach is focussed on

21 duration, agreed?

22 MS. HEATHER REICHERT: No, I -- I don't

23 believe I agree. Currently MPI is duration matching

24 within that plus or minus one (1) year bandwidth as

25 described, you know, duration calculated in the

1 appropriate ways. We also match or -- or try very hard
2 to make sure that the value of our fixed bond portfolio
3 is equal to or greater than the amount of our
4 outstanding claims. And the dispersion of assets
5 greater than or equal to the dispersion of the
6 liabilities...
7
8 (BRIEF PAUSE)
9
10 MS. HEATHER REICHERT: Okay. I'm going
11 to take a stab at the third one (1), and then Mr.
12 Johnston, I know will jump in to -- to help. So the
13 dispersion of assets being greater than or equal to the
14 dispersion of the liabilities, that one's a bit more
15 difficult for us to achieve in that we do have some
16 liabilities that are, like, forty (40) year duration.
17 So if I understand number 3, that would
18 indicate that you would have assets that would be of a
19 forty (40) year duration as well, or a term. And there
20 are not very many, or I don't know that there are any
21 in our portfolio, that are of that duration. So we --
22 we're not matching or immunizing as it relates to
23 number 3. But number 1 and 2 is -- is what we do
24 attempt to do.
25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Sorry, Ms.
4 Reichert, it's getting late in the day and -- and I'm
5 getting a little tired and I apologize for that.
6 In terms of a formal measure of interest
7 rate tolerance, the duration variance bandwidth is the
8 only formal measure employed by the Corporation,
9 agreed?

10

11 (BRIEF PAUSE)

12

13 MS. HEATHER REICHERT: From the
14 standpoint of a formal policy, yes.
15 MR. BYRON WILLIAMS: And it would be
16 fair to say that that band -- bandwidth -- width is
17 different than the concept that the average duration of
18 assets and liabilities are to be equal at all times,
19 agreed?
20 MS. HEATHER REICHERT: Yes, I agree.
21 That's why at -- currently at MPI we are not a hundred
22 percent immunized from fluctuating interest rates, and
23 why there is the risk to us of increasing -- or pardon
24 me, the downside risk of decreasing interest rates and
25 the opportunity potential of increasing interest rates.

1 MR. BYRON WILLIAMS: And it would be
2 fair to say that the Corporation has not adopted a
3 formal policy requiring the market value of the
4 Corporation's fixed income assets to be at least equal
5 to the value of its claims liabilities, agreed?
6 MS. HEATHER REICHERT: Again, not
7 formal. But that is definitely part of what we look at
8 and -- and do try at all times to have our bond
9 portfolio at least equal to our claims' liabilities.
10 MR. BYRON WILLIAMS: And it would be
11 fair to say that the Corporation has not adopted a
12 policy require -- regarding the dispersion of the
13 Corporation's assets and liabilities?
14
15 (BRIEF PAUSE)
16
17 MS. HEATHER REICHERT: Okay, just SO --
18 to specifically answer on point 3, no, we don't have a
19 formal policy as it relates to that. But I do need to
20 point out that these criteria, the three (3) criteria,
21 that relates to single period duration matching, which
22 is not what MPI does in any event. So really, the --
23 these three (3) criteria are not what we guide
24 ourselves by. We do multi-period duration matching.
25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: So when you spoke
4 previously of being guided by the concept of the market
5 value of assets must be greater than or equal, that's
6 not really what you're -- you're trying to do?
7 MS. HEATHER REICHERT: That's not what
8 I said. We do try to do that. We do that under the
9 context of a multi-period duration matching. So these
10 criteria specifically, as I understand or as I'm being
11 educated, relate to a single period duration.
12 MR. BYRON WILLIAMS: Would it be fair
13 that one (1) of the conclusions in the duration matchin
14 -- matching discussion paper was that -- page 2, if
15 you're looking, Diana, at the bottom, that MPI going to
16 a two (2) year band in 2010 had the effect of
17 increasing interest rate risk?
18 MS. HEATHER REICHERT: Yes. As -- as
19 it says there in the last sentence, that is the case.
20 MR. BYRON WILLIAMS: And among the
21 factors MPI has given for choosing to move to a two (2)
22 year band in 2010 was the expectation that interest
23 rates were forecasted to increase, agreed? If you're
24 looking for a reference, it's CAC 1-146F, I think.
25 MR. LUKE JOHNSTON: Is that one twenty

1 six (126)?
2 MR. BYRON WILLIAMS: One dash one
3 forty-six (1-146).
4 MR. LUKE JOHNSTON: One forty six
5 (146).
6
7 (BRIEF PAUSE)
8
9 MS. HEATHER REICHERT: Diana, are you
10 looking for that particular CAC?
11 MR. BYRON WILLIAMS: Sorry, I'm -- I
12 apologize, 1-146, I think it's 'F'. Right there.
13
14 (BRIEF PAUSE)
15
16 MS. HEATHER REICHERT: Okay, so as --
17 as it says in this response, there were several reasons
18 that the Corporation moved to -- to that larger range.
19 The first was the definition of the liabilities was
20 changed from total liabilities to claims liabilities.
21 Second, because the bond portfolio was in transition
22 with the elimination of real return bonds and the
23 addition of long bonds. And third, at that time the
24 interest rates were forecasted to increase. Just --
25 MR. BYRON WILLIAMS: So --

1 MS. HEATHER REICHERT: -- quite frankly
2 as we are forecasting today.
3 MR. BYRON WILLIAMS: So in part the
4 thinking was the larger the bandwidth the greater the
5 opportunity to take advantage of the rising interest
6 rates that were forecast?
7 MS. HEATHER REICHERT: I -- I cannot
8 speak to the motivation. I think this was stating a
9 fact, that at the time that we changed the plus or
10 minus one point five (1.5) to plus or minus two (2), at
11 that time that that happened interest rates were
12 forecasted to increase. So, therefore, yes, that would
13 have been a benefit to the Corporation.
14 This is not saying, as far as I read it,
15 that that was like the motivation to changing to plus
16 or minus two (2).
17 MR. BYRON WILLIAMS: It's suggesting
18 that the change to the higher duration bandwidth was
19 made for several reasons, one (1) of which was that
20 interest rates were forecast to increase, agreed?
21 MS. HEATHER REICHERT: One (1) of which
22 was interest rates were forecasted to increase, yes.
23 MR. BYRON WILLIAMS: So in effect, by
24 moving to a two (2) year bandwidth, MPI was betting
25 that interest rate would rise, agree?

1 MS. HEATHER REICHERT: As an insurance
2 company I can say that MPI doesn't bet. I think we
3 were, at that time, forecasting that interest rates
4 were going to increase. So from that we -- if we were
5 actually forecasting that within the financial model at
6 the time, which we weren't, then we would have been
7 forecasting a benefit that would have allowed us to --
8 well, we would have been forecasting a benefit in our
9 financial model.
10 But at the time that this happened the
11 Corporation was not forecasting the impact of interest
12 rates on its bonds or its claim liabilities within the
13 financial model that was presented in the General Rate
14 Application.
15
16 (BRIEF PAUSE)
17
18 MR. BYRON WILLIAMS: Ms. -- Ms.
19 Reichert, if I can direct your attention -- and, Diana,
20 if you can scroll down a little bit farther to the
21 table on the next page.
22 Ms. Reichert, what you'll see here is an
23 -- a quarter -- you'll agree is a quarter by quarter
24 analysis of fixed income duration, liability duration,
25 as well as the relationship between fixed assets and

1 aggregate claims liability?
2 Would that be fair?
3 MS. HEATHER REICHERT: Yes.
4 MR. BYRON WILLIAMS: And for you and
5 for Diana, we'll come to a related Information Request
6 in a couple moments, which I believe is CAC 3-23.
7 But Ms. Reichert, just to refresh your
8 memory, the -- the move to the two (2) year bandwidth
9 took place in -- in February of 2010.
10 Would that be fair?
11 MS. HEATHER REICHERT: It must have
12 been. Can you just scroll down a bit, Diana, where the
13 -- yes.
14 So yes, after February 2010 that would
15 be when we moved to the plus or minus two (2).
16 MR. BYRON WILLIAMS: And, Ms. Reichert,
17 as we -- reminding our -- and, Diana, if you could
18 scroll just up a little bit so we can see the headings?
19 Perfect. Thank you.
20 And, Ms. Reichert, if you need it
21 scrolled again you just tell her, okay?
22 Just to -- in the left-hand column we're
23 looking at the dates. In the second from the left-hand
24 column we're looking at the income duration. The third
25 column we're looking, I'll ask you to agree, at the

1 liability duration. The fourth, the variance. And
2 then the fifth, the -- the assets. And in the sixth,
3 the claims liabilities.
4 Would that be fair?
5 MS. HEATHER REICHERT: Yes, that is.
6 MR. BYRON WILLIAMS: And if we look,
7 for example, Ms. Reichert, to the May 2010 period,
8 would it be fair to say that the variance duration was
9 outside the two (2) year bond bound in that income --
10 there was a two point (2.) -- negative two point four
11 (2.4) variance?
12 Would that be fair?
13
14 (BRIEF PAUSE)
15
16 MS. HEATHER REICHERT: So if I can, the
17 second column, which is liability duration, so this
18 table has restated in -- prior to February or at
19 February 2010 -- oh, I'm sorry. Okay. So at February
20 2010 -- no. Yeah, it's okay.
21 So prior to February 2010, we were using
22 corporate liabilities. So this particular table, as I
23 understand it, just has the claims liability duration
24 at -- at the time that we did the -- did the switch-
25 over.

1 So I may have now messed up your entire
2 question, and I apologize for that. So if you want to
3 re -- repeat the question, I'll try again.
4 MR. BYRON WILLIAMS: You didn't mess it
5 up. I'm not sure you answered it, but that's okay.
6 What -- what you've indicated is that we are comparing
7 liability duration to income duration in this table,
8 agreed?
9 MS. HEATHER REICHERT: Correct.
10 MR. BYRON WILLIAMS: And post-February
11 2010, you're agreed that the liability duration in play
12 is claim liability duration, correct?
13 MS. HEATHER REICHERT: Correct. And on
14 this table -- yes. Yes. That -- that's what I'm
15 saying.
16 MR. BYRON WILLIAMS: So what I'm
17 suggesting to you -- let's pick another month. Let's -
18 - let's suggest in the quarter of August 2010, there
19 was a minus two point seven (2.7) variance duration as
20 compared to a 2 perc -- a minus two (2) year variance
21 duration, agreed?
22 MR. LUKE JOHNSTON: Just looking for a
23 reference to answer that.
24
25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: Okay. So in the
2 years -- pick some of those early years when it appears
3 that we are offside from the plus or minus two (2),
4 which I think is -- is the question that you're asking.
5 In those time periods, we were holding
6 cash, which obviously has a very short, zero
7 practically, duration, in order to fund alternative
8 investments because in 20 -- or 2008/'09, we had done
9 an asset/liability matching -- or management study that
10 recommended diversifying and going into other types of
11 investment vehicles.
12 So at this time, we were holding cash
13 which lowered the duration and makes it look like we
14 were offside. So subsequent to that, we determined
15 that it didn't make sense to include cash in our fixed-
16 income duration calculation, and it was removed. And I
17 don't know if one (1) of these -- yeah.
18 With the -- so I -- I -- we'll get the
19 reference on when that -- the cash was removed from the
20 income duration calculation. And then we were within
21 the minus two (2) in this case bandwidth.
22 MR. BYRON WILLIAMS: Ms. -- Ms.
23 Reichert, I'm -- I'm going to politely take issue with
24 you. And I'm going to suggest to you that these are
25 the calculations with the cash excluded, and that if we

1 turn to the response to CAC-3-23, we -- we will see the
2 calculations with the cash included. Oh, it's -- with
3 the cash included, yes.
4 MS. HEATHER REICHERT: Okay. So we can
5 go to that one (1) then. It was my understanding that
6 that did have cash included in those calculations.
7
8 (BRIEF PAUSE)
9
10 MR. BYRON WILLIAMS: Leave it right
11 here, please, Diana. This will assist.
12
13 (BRIEF PAUSE)
14
15 MR. BYRON WILLIAMS: So, Ms. Reichert,
16 just -- just to clarify, and we may want to take a
17 break and just resume this tomorrow. But am I correct
18 in suggesting to you that if we look -- let me back up.
19 In terms of the exclusion of certain
20 assets from the calculation, am I correct in suggesting
21 to you that between October 2010 and May 2012, certain
22 fixed assets average in the range of $180 million were
23 excluded from the duration calculation?
24 MS. HEATHER REICHERT: Yes, I see that
25 in the -- the top paragraph, which I guess is the

1 preamble to this particular IR. And --
2 MR. BYRON WILLIAMS: Yes, and if --
3 MS. HEATHER REICHERT: -- it's coming
4 from CAC-1-127.
5 MR. BYRON WILLIAMS: Yes. And if we
6 scroll down, you'll see -- scroll down to the question,
7 please, Diana -- that CAC is asking you in this
8 response to insert back in the -- the money held in --
9 in cash.
10 Do you see that, Ms. Reichert?
11 MS. HEATHER REICHERT: Yes.
12 MR. BYRON WILLIAMS: And if we can
13 scroll down you'll see the column "Variance Duration
14 With Unaffected Calculation," which is the sixth column
15 in.
16 Do you see that, Ms. Reichert?
17 MS. HEATHER REICHERT: Yes, I do.
18 MR. BYRON WILLIAMS: And there, when
19 you'll see, indeed, that for year, like two (2) --
20 November of 2010, for that quarter, the duration
21 including the cash was in the range of minus two point
22 nine-one (2.91).
23 Would that be fair?
24 MS. HEATHER REICHERT: Yes. That --
25 that would be fair. So if I can -- oops, I'm -- I'm

1 sorry. So in -- in the past, before we started to
2 forecast the impact of interest rates, the Corporation
3 may have been forecasting interest rates to increase
4 generally, and that would have been reflected in the --
5 the overall income, the yield on the respective bonds.
6 But the actual impact from changing
7 interest rates to the market value of those bonds was
8 not forecast and was not reflected. Neither was the
9 impact of changing interest rates on the discount rate
10 that was used to discount claims. Neither was that
11 forecasted. It was held at a constant. So the fact
12 that we were at minus two point nine (2.9), minus three
13 (3), minus one point eight (1.8), would not have
14 impacted our forecasts that were used for the general
15 rate application in those particular years.
16 Now that we are forecasting and are --
17 are watching and monitoring the impact of interest
18 rates on our claims liabilities as well as on our
19 bonds, we have to mitigate the risk, lower that
20 duration to minus one (1) so that we aren't taking as
21 much risk as the Corporation was taking back in these
22 years, although they weren't monitoring it to the
23 extent that we are monitoring -- monitoring it today.
24 So in those years -- because as I recall
25 from the -- the infamous graph of last year, even back

1 in 20 -- 2009, 2010, interest rates were forecasted to
2 increase, and they actually in fact decreased. And
3 that absolutely negatively impacted the net income of
4 MPI in those years.
5 So the only reason that over all those
6 years did not end up in being in massive negative
7 positions was that it was at that same time that the
8 twelve dollars ($12) per policy per year that was being
9 collected as it related to the implementation of the
10 PIPP program before the actuaries had any kind of
11 history in order to be able to know what to charge for
12 that -- the PIPP program, that twelve dollars ($12) a
13 year was -- was being collected, was being accumulated.
14 And it was right around the same time, in 2011, that
15 the significant rebate, the release of those reserves,
16 occurred and the release of about $150 million
17 occurred.
18 So at the same time that we were seeing
19 significant impact from interest rates not increasing
20 as expected, that was the same time that we were in
21 fact also seeing releases of claim reserves. So the
22 net impact to the Corporation, as was described last
23 year, was in fact masked between those two (2) events.
24 So now we are in a situation where we
25 are closely monitoring. We are forecasting the impact

of interest rates. And we have eliminated that twelve dollars ($12) per policy per year of coverage -- or -- or premium that was being collected previously for the PIPP program. So we don't have any excess reserves as we did accumulate in the five (5) years previous.

So that's just my read. We can look at all of this past history, But my -- my concern here today is what are we forecasting, what is the impact on our rate indication for '15/'16 and '16/'17 as it relates to the duration that we are managing to and the interest rates that we are forecasting.

MR. BYRON WILLIAMS: I -- I thank you for that, Ms. Reichert. You'll agree though it is germane and important to understand that if -- if the Corporation sets a tol -- risk tolerance level it is important to have comfort that it will adhere to it, agreed?

MS. HEATHER REICHERT: I agree that it is important when the Corporation is forecasting as we are now to stay within that plus or minus one (1) year bandwidth, that we monitor and try as much as possible to stay within that because of the impact it could have on our future income and -- and losses.

This is reflecting what actually happened in those years. There is a lot of variables.

1 As -- as you saw, I got confused between which ones had
2 cash in there. There's also floating rate notes that
3 were not included, and then not included. It was a
4 very dynamic period of the Corporation, as I understand
5 it.
6 So my focus and my concern now is what
7 we're forecasting for '15/'16 and '16/'17, that we
8 lower the duration to mitigate the risk in order to --
9 to ensure that we were not -- to protect the financial
10 viability of the Corporation.
11 MR. BYRON WILLIAMS: And, Ms. Reichert,
12 just to go back to the rather lengthy answer you gave a
13 couple questions ago, am I correct in characterizing
14 your evidence as being that the Corporation was taking
15 a bath on interest rates but that the -- the degree of
16 the financial bath it was taking was masked because of
17 the -- the PIPP side and the -- and the experience on
18 that side?
19 Would that be fair?
20 MS. HEATHER REICHERT: I definitely
21 didn't use the term 'bath'. But I --
22 MR. BYRON WILLIAMS: Really?
23 MS. HEATHER REICHERT: But I do think
24 what I said was there was a lot of different things
25 that were happening, not the least of which that we

1 were not forecasting the impact of -- of changing
2 interest rates.
3 So what was happening when we were in
4 fact suffering the downsided risk of decreasing
5 interest rates, what was also happening at the same
6 time was a release of claims. So those two (2) were
7 effect -- effectively off-setting one another at --
8 during that time period.
9 MR. BYRON WILLIAMS: And just to
10 clarify the record, if we can go back to CAC 1-146
11 Question F -- the table, please? Thank you.
12 Ms. Reichert, in your answer a while ago
13 on that you had speculated that the variance duration
14 outside the risk tolerance levels of the Corporation
15 was a factor of cash that was subsequently excluded.
16 You'll agree with me now that -- that this table
17 reflects the exclusion of that cash, will you?
18 MS. HEATHER REICHERT: I think between
19 all the backs and forth that, yes, I will concede that
20 this one appears not to -- sorry, which way am I saying
21 this -- appears not to include the cash in the
22 calculation of the fixed income duration, but may have
23 also included some other things that impacted on the
24 duration that were subsequently excluded.
25 MR. BYRON WILLIAMS: And we can see the

1 Corporation being out -- outside the variance duration
2 in a number of quarters, I'll suggest to you, including
3 November '12, November '13, and February '14, agreed?
4 MS. HEATHER REICHERT: Yes, slightly
5 exceeding the minus two (2) bandwidth in November 2012
6 and November 2013.
7 MR. BYRON WILLIAMS: Mr. Chair -- or
8 excuse me, Madam Chair, noting the time and that's kind
9 of a tortuous way perhaps to end the day, but that's
10 certainly a convenient breaking point for my patience,
11 if not for others.
12 MR. REGIS GOSSELIN: The -- the
13 decision to reduce the duration mismatch from two (2)
14 to one (1) was taken when?
15 MS. HEATHER REICHERT: We indicated to
16 our bond manager with the Department of Finance, it
17 would have been probably in and around this May -- this
18 May time frame, or right before. But we did give them
19 the -- the time frame of August 2014 to get to within
20 that -- that minus one (1) bandwidth just so that they
21 didn't take any real drastic action while getting to --
22 transition to that minus one (1).
23 So there was some, as you can see -- you
24 know, it came down quite a bit in -- in May of 2014,
25 but we did give them to August to get to within the one

(1).

MR. REGIS GOSSELIN: Now, in the face of declining interest rates, are you still at a one (1) year mismatch?

(BRIEF PAUSE)

MS. HEATHER REICHERT: The last information I had, we were still within the -- the minus one (1) bandwidth.

(BRIEF PAUSE)

THE CHAIRPERSON: That will end our day. So thank you very much, everyone, and I hope you have a good envying. Tomorrow will be a long day, so have a good sleep this evening.

(PANEL RETIRES)

--- Upon adjourning at 3:50 p.m.

1 Certified correct,

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6 Cheryl Lavigne, Ms.

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