MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION

2016/17 INSURANCE YEAR

Before Board Panel:

Karen Botting - Board Chairperson

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

October 15, 2015

Pages 1286 to 1632

1 APPEARANCES

2

3 Candace Grammond)Board Counsel

4 Kathleen McCandless)

5

6 Kathy Kalinowsky)MPI

7

8 Byron Williams)CAC (Manitoba)

9

10 Raymond Oakes)CMMG

11

12 Liz Kulyk (np))CAA Manitoba

13

14 Christian Monnin (np))Bike Winnipeg

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1 LIST OF EXHIBITS

LIST OF UNDERTAKINGS

LIST OF UNDERTAKINGS (Con't)

NO.	DESCRIPTION	PAGE NO.
40	MPI to advise, leaving aside RSR surcharges, whether or not the Board has ever approved a rate increase more than sought by Manitoba Public Insurance over the last twenty (20) years on the basis that the MPI rate sought was not break-even	1623

1 --- Upon commencing at 9:00 a.m.

2

3 THE CHAIRPERSON: Well, welcome,

4 everyone, to the hearings of the MPI GRA 2016/'17.

5 And I would like to welcome our guests. But before I

6 begin, we're -- we're going to start -- have a new

7 process today in regard to the hearing evidence, and

8 it's what we termed as an interactive joint testimony.

9 And I'm going to, at this moment, turn it over to Ms.

10 Grammond, the counsel for the PUB Board, to introduce

11 the process for us. Thank you.

12 MS. CANDACE GRAMMOND: Thank you,

13 Madam Chair. I'm just going to state for the record

14 the terms, if you will, or the process that we've

15 agreed on today.

16 Firstly, I would like to thank both MPI

17 and CAC on behalf of the Board for agreeing to try

18 this process. We're hopeful that it will very useful

19 for the panel in its understanding of the actuarial

20 issues and its deliberations, et cetera, so -- so

21 thank you for coming down this road with us. This is

22 a new process for PUB. And so we hope that it will go

23 smoothly today and it will be of benefit, but if there

24 are any hiccups, we ask everyone to bear with us.

25 So the following process was discussed

1 as between counsel and the parties before today, but
2 for the purposes of the record, I will go over those
3 at this time. The first step was the preparation of
4 an issues list. So that document which everyone
5 should have was initially prepared by the Board
6 advisors just as a starting point. And then both MPI
7 and CAC had the opportunity for review and input into
8 the document. And the issues list in its current form
9 is the work product of the joint efforts of MPI, PUB,
10 and CAC.
11 So the issues list sets out areas of
12 agreement with respect to the DCAT and other target
13 capital matters. It also sets out what areas are not
14 agreed upon, and for those, it provides the view of
15 both MPI and CAC.
16 So that will be entered as an exhibit.
17 I'm not fussed about whose exhibit it's going to be.
18 It could be a Board exhibit or it could -- it --
19 probably that makes the most sense, that it'll be the
20 next Board exhibit.
21 So with the issues list in hand and --
22 and having been agreed upon and -- and to be used as a
23 -- a bit of a guideline for today, what we will then
24 be looking for is to hear from each of Mr. Johnston
25 and Ms. Sherry. And at the very first or the very

1 outset, they will each have an opportunity to present
2 the details of their qualifications and experience,
3 should they wish to do so.
4 I don't know, Mr. Johnston, if -- if
5 you're going to do that, but that's up to you. We do
6 want the Board to hear -- or, I should say, CAC wants
7 the Board to hear a little bit about Ms. Sherry's
8 qualifications and experience. I believe this is the
9 first time or maybe the second time that Ms. Sherry's
10 testifying before the Board. So I think Mr. Williams
11 is going to guide her through providing the details of
12 her CV, if you will.
13 Once that part is done, we'll be
14 looking to each of Mr. Johnston and Ms. Sherry to
15 present their views on the various issues that are
16 here. We expect Mr. Johnston will go first, followed
17 by Ms. Sherry. When each of them are doing so, they
18 can comment upon the position taken by the other
19 person as they wish.
20 We will then be asking Mr. Johnston and
21 Ms. Sherry to, in essence, have a discussion or engage
22 in a dialogue as between them with respect to the
23 issues. They can ask each other questions, they can
24 respond, comment, and -- and so forth with respect to
25 all of the issues.

1 Typically, that part of the process
2 would take place without intervention. The only thing
3 we would ask is that, since you are both actuaries,
4 other than Mr. Pelly, you're the only actuaries in the
5 room, so please try to keep the conversation
6 understandable for non-actuaries, if you can.
7 And so if -- if there's anything that's
8 not understood, then somebody might ask that it be
9 clarified. But other than that, it -- it -- we're --
10 we want to hear the two (2) of you discuss the issues.
11 Once that discussion has taken place,
12 there will be the opportunity for questions. So I may
13 have some questions as Board counsel. Individual
14 panel members may have questions as they sometimes do
15 of witnesses.
16 Once those questions have been asked,
17 then both MPI and CAC counsel will be given the
18 opportunity to ask questions. So in -- if either
19 counsel wants to ask questions of their own witness,
20 it would be in the way of a -- a re-examination, and
21 in the way of cross-examination for the other party.
22 So Ms. Kalinowsky would go first on behalf of MPI,
23 followed by Mr. Williams on behalf of CAC.
24 I don't see any of the other
25 Intervenors in the room at the moment, but if any of

1 them should come later -- oh, okay. Sorry. I
2 couldn't see you, Mr. Oakes, back there. You're --
3 you're back behind a couple of layers.
4 So if -- if any of the Intervenors have
5 questions of either Mr. Johnston or Ms. Sherry, they
6 will then have the opportunity to do that. And once
7 those questions are all asked, if there have been any
8 new issues or if either Ms. Kalinowsky or Mr. Williams
9 feels that there needs to be some further re-exam or
10 follow-up, they'll say so, and -- and the Board will
11 consider that.
12 Once all of the questioning is done of
13 Ms. Sherry and Mr. Johnston, each of them can then
14 provide a brief final summary of their views if they
15 wish to do so. And then we'll conclude for today.
16 And we appreciate that Ms. Sherry is here for today
17 and today only. So the process that I've just
18 described needs to be gotten through before we leave
19 here today. So hopefully, that is something that we
20 can accomplish, and we'll try to be efficient with the
21 time.
22 So that is, in essence, the process
23 that was discussed prior to today and that we will
24 follow. So just going back, then, to the beginning,
25 we've got the issues list.

1 The very next thing would be for Mr.
2 Johnston to comment on his qualifications and
3 experience if he wishes to do so. Then we would have
4 Ms. Sherry do so, again, just with respect to
5 qualifications and experience. And then we'll go back
6 to Mr. Johnston for him to comment on the issues
7 before the Board.
8 And if at any point you need me to
9 clarify the next step, I'm happy to -- to do that.
10 THE CHAIRPERSON: Okay. Mr. Johnston,
11 are you going to begin?
12
13 MPI & CAC JOINT PANEL 1:
14
15 LUKE JOHNSTON, Previously Affirmed
16
17 MR. LUKE JOHNSTON: Yes, thank you.
18 And I'll do my best today to -- I think I'll have to
19 improvise here and there, but I may ask for assistance
20 here or there.
21 I'll -- I'll be relatively brief on my
22 qualifications. I've -- I've discussed this at the --
23 these hearings previously. I've been at Manitoba
24 Public Insurance as a actuary for thirteen (13) years,
25 and several years before that as a student. I became

1 a fellow of the Canadian Institute of Actuaries in
2 2006.
3 Everything we're talking about here is
4 essentially my day-to-day job. I set the rates. I
5 make the forecasts. I do the liability reviews. I
6 assess the risk. This is my reason for being at MPI.
7 So obviously, I have a very good understanding of
8 MPI's risks, and how they are or aren't applicable to
9 the Corporation. And obviously, I have a personal
10 interest in protecting MPI and its policyholders from
11 the types of risks that we're talking about in the --
12 in the DCAT report.
13 So that -- that concludes my opening
14 statements.
15 MR. BYRON WILLIAMS: Madam -- Madam
16 Chair, I'd -- I'd ask that Ms. Swear -- Ms. Sherry be
17 sworn or affirmed, if -- if we could start with that,
18 please?
19 THE CHAIRPERSON: Thank you, my
20 apologies. Mr. Christle will swear Ms. Sherry in.
21
22 ANDREA SHERRY, Sworn
23
24 THE CHAIRPERSON: Excuse me, does MPI
25 have any objections to --

1 MR. BYRON WILLIAMS: We are ging to --
2 what I would suggest, Madam Chair, is that we would
3 articulate Ms. Sherry's criteria, and then MPI would
4 certainly --
5 THE CHAIRPERSON: Okay. Thank you.
6 MR. BYRON WILLIAMS: -- be -- it's --
7 it's up to you in terms of process, but that would be
8 what we would normally do.
9 THE CHAIRPERSON: Yeah, we're fine.
10 Thank you.
11
12 EXAMINATION-IN-CHIEF BY MR. BYRON WILLIAMS (QUAL):
13 MR. BYRON WILLIAMS: And if I could
14 ask, Diana, to -- thank you. As usual, Diana
15 anticipates my wishes.
16 Good morning, Ms. Sherry.
17 MS. ANDREA SHERRY: Good morning.
18 MR. BYRON WILLIAMS: Are you enjoying
19 your holidays so far?
20 MS. ANDREA SHERRY: I am.
21 MR. BYRON WILLIAMS: Good. And I'm
22 going to ask you -- I'm not sure if the panel can hear
23 you, so just to make sure that you're speaking clearly
24 into the mic when you are talking. You can move it
25 around if you feel the need.

1 MS. ANDREA SHERRY: Let me know if you
2 can't hear me.
3 MR. BYRON WILLIAMS: Okay.
4 MS. ANDREA SHERRY: Okay?
5 MR. BYRON WILLIAMS: Can you hear her?
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: Ms. Sherry, we
10 won't spend a lot of time on your qualifications, but
11 in -- you are a fellow of the Canadian Institute of
12 Actuaries?
13 MS. ANDREA SHERRY: I am.
14 MR. BYRON WILLIAMS: Is that right?
15 MS. ANDREA SHERRY: Yeah.
16 MR. BYRON WILLIAMS: Okay. And you're
17 a fellow of the Casualty Actuarial Society?
18 MS. ANDREA SHERRY: I am.
19 MR. BYRON WILLIAMS: And you're also a
20 certified management accountant. Is that correct?
21 MS. ANDREA SHERRY: Yes.
22 MR. BYRON WILLIAMS: Okay. I'm going
23 to ask Diana to go to the second page of your
24 curriculum vitae, right at the bottom. We'll start
25 with your experience with Manitoba. And, Ms. Sherry,

1 you were with Manitoba Public Insurance from 1990 to
2 1998 with the final position you held there being an
3 associate actuary?
4 MS. ANDREA SHERRY: That's correct,
5 yeah.
6 MR. BYRON WILLIAMS: And you had a
7 role in the calculation of policy lia -- liabilities,
8 premiums, and claims?
9 MS. ANDREA SHERRY: Yeah.
10 MR. BYRON WILLIAMS: And you had a
11 role in the preparation of the claims forecasting
12 report?
13 MS. ANDREA SHERRY: I did, yeah.
14 MR. BYRON WILLIAMS: And you had the
15 great pleasure of assisting in the preparation of the
16 PUB Applications, as well. Is that right?
17 MS. ANDREA SHERRY: I did, yeah.
18 MR. BYRON WILLIAMS: Great. If we
19 could move up, Diana, to the top of this page to the
20 SGI? Ms. Sherry, from 2004 to 2008, you were with
21 Saskatchewan Government Insurance with your ultimate
22 role being their associate vice-president and
23 corporate actuary?
24 MS. ANDREA SHERRY: Assistant vice-
25 president.

1 MR. BYRON WILLIAMS: Oh, excuse me,
2 sorry. Assistant. And in -- in that position, you
3 were responsible for the actuarial proportion of the
4 rate application to the Saskatchewan rate panel for
5 changes in the auto funds Basic coverage rates?
6 MS. ANDREA SHERRY: Yes.
7 MR. BYRON WILLIAMS: And you were
8 responsible for regular rate indications and rate
9 filings in Alberta for the Saskatchewan Government
10 Insurance Canada Insurance Services Limited?
11 MS. ANDREA SHERRY: Yes, I was. Yeah.
12 MR. BYRON WILLIAMS: And you were the
13 valuation actuary for the Saskatchewan Auto Fund and
14 Saskatchewan Government Insurance Canada?
15 MS. ANDREA SHERRY: Yes. Yeah.
16 MR. BYRON WILLIAMS: Okay. Thank you.
17 Diana, if we could go to the next page towards the
18 bottom? The oth -- the next page -- oh, sorry. The
19 previous page, right there on the -- just down a
20 little bit more. Up a little bit more. Thank you.
21 And, Ms. Sherry, between 2008 and 2011,
22 you -- you served with Aviva, A-V-I-V-A, Canada Inc.,
23 both as vice president corporate actuary and vice
24 president Solvency II?
25 MS. ANDREA SHERRY: Yes. Yeah.

1 MR. BYRON WILLIAMS: And just ballpark
2 figures, the annual premiums written for Aviva would
3 be in the range of -- of what?
4 MS. ANDREA SHERRY: They've fallen a
5 little bit lately. I think it's about 3.8 billion
6 now.
7 MR. BYRON WILLIAMS: Okay.
8 MS. ANDREA SHERRY: Yeah.
9 MR. BYRON WILLIAMS: Thank you. And
10 in terms of your duties as vice president corporate
11 actuary, you managed two (2) teams, the capital and
12 investment compliance team and the corporate team.
13 Is that correct?
14 MS. ANDREA SHERRY: Yes, it is. Yeah.
15 MR. BYRON WILLIAMS: And among your
16 duties -- scroll down just a little bit, Diana. The
17 third bullet from the -- the bott -- the second bullet
18 from the bottom. That involved investment report --
19 porting and monitoring, including chair -- chairperson
20 of the credit committee?
21 MS. ANDREA SHERRY: That's correct.
22 MR. BYRON WILLIAMS: Going up three
23 (3) bullets. You were responsible for the continuous
24 monitoring of capital levels and in -- and the
25 investment portfolio?

1 MS. ANDREA SHERRY: That's right.
2 MR. BYRON WILLIAMS: And going up
3 another three (3) bullets. You were responsible for
4 the preparation of the capital stress testing results
5 and report to ensure the long-term viability of the
6 business plan?
7 MS. ANDREA SHERRY: True. Correct.
8 MR. BYRON WILLIAMS: And in addition,
9 you determined the trend loss ratio and other inputs
10 to the planning model.
11 Is that correct?
12 MS. ANDREA SHERRY: Yes, it is.
13 MR. BYRON WILLIAMS: Going to your
14 duties as vice president Solvis -- Solvency II, the
15 fourth bullet from the top. You were responsible for
16 economic capital projections and stress testing
17 scenarios?
18 MS. ANDREA SHERRY: Yes.
19 MR. BYRON WILLIAMS: The second
20 bullet. You worked with the enterprise risk
21 management framework to ensure the continued viability
22 of the company on a -- both a regulatory and economic
23 capital basis?
24 MS. ANDREA SHERRY: Yeah, that's true.
25 MR. BYRON WILLIAMS: And could you

1 tell us, in terms of Solvency II implementation, what
2 was Solvency II?
3 MS. ANDREA SHERRY: Solvency II is a
4 capital -- a regulatory capital regime that comes from
5 the UK. It's going to be -- I don't actually think
6 it's even in place to this date, but at the time when
7 I was working for Aviva Canada, Aviva Canada is owned
8 by a UK company.
9 So they were going to have to comply
10 with Solvency II in order for the UK company to pass
11 all of the regulatory requirements. So I was put in
12 charge of ensuring that Solvency II would be put into
13 place adequately in Canada.
14 MR. BYRON WILLIAMS: Okay.
15
16 (BRIEF PAUSE)
17
18 MR. BYRON WILLIAMS: And currently you
19 serve as vice president actuarially -- actuarial
20 pricing for Wawanesa Mutual?
21 MS. ANDREA SHERRY: Yes.
22 MR. BYRON WILLIAMS: And in terms of
23 the premiums written for that company, I wonder if you
24 could give us a ballpark figure?
25 MS. ANDREA SHERRY: Oh, I actually --

1 I should know this off the top of my head, since it's
2 my company. But we're smaller than Aviva. I think
3 we're close -- maybe 2 1/2 billion, close to three
4 (3).
5 MR. BYRON WILLIAMS: Okay. Thank you.
6 And you're responsible for a number of activities,
7 including the actuar -- actuarial pricing for all
8 jurisdictions across Canada and the United States?
9 MS. ANDREA SHERRY: Yes.
10 MR. BYRON WILLIAMS: Okay. Madam --
11 Madam Chair, in terms of the specific expertise for
12 which we seek to qualify Ms. Sherry, we're proposing
13 that she be qualified as an actuarial expert in the
14 property and casualty in -- insurance industry with
15 particular expertise in enterprise risk management,
16 capital, solvency, pricing, and reserving.
17 THE CHAIRPERSON: Thank you very much,
18 Mr. Williams. Ms. Kalinowsky, does MPI have any
19 objections to the qualifications of Ms. Sherry?
20 MS. KATHY KALINOWSKY: Good morning.
21 No, I don't have any objections.
22
23 RULING (QUAL):
24 THE CHAIRPERSON: Okay. Thank you
25 very much. Okay, now we'll begin with -- I believe

1 Mr. Johnston is going to make his presentation.
2
3 PRESENTATION BY LUKE JOHNSTON:
4 MR. LUKE JOHNSTON: If I could ask you
5 to bring the presentation made by Ms. Reichert and my
6 -- myself from the first day of the hearings. I
7 believe it's MPI -- I can't remember the exhibit
8 number, but...
9 MR. BYRON WILLIAMS: And, Mr.
10 Johnston, I truly apologize. Just so I -- I don't
11 ever speak again this morning, I neglected -- I'll
12 just indicate, Madam Chair, that Ms. Sherry had a
13 PowerPoint which the -- the Board secretary advises me
14 should be marked as CAC Exhibit 15. And, Mr.
15 Johnston, I'm sorry about that.
16
17 --- EXHIBIT NO. CAC-15: PowerPoint from Ms. Sherry
18
19 THE CHAIRPERSON: Thank you.
20 MS. KATHY KALINOWSKY: Maybe -- sorry,
21 if I could also -- it's Ka -- Ms. Kalinowsky here. If
22 I could also mention to Board counsel that she
23 mentioned about the issues list that she had prepared.
24 She mentioned that we should probably mark it as an
25 exhibit, and it was never actually provided with an

1 exhibit number.

2 So I have spoken.

3 MS. CANDACE GRAMMOND: It's PUB

4 Exhibit 17.

5 MS. KATHY KALINOWSKY: Okay, thank

6 you.

7 MR. LUKE JOHNSTON: Okay, thank you.

8 So I'll just explain my approach here. And someone

9 can stop me if -- if I'm going too far into it.

10 Obviously, the -- the Board has heard our prese -- the

11 Corporation's presentation, so I'm going to redo the

12 whole presentation. I'll -- I'm just going to

13 highlight a few items. And then I was going to make

14 some opening statements in -- in regards to what I'd

15 like to hear from Ms. Sherry today in regards to our

16 discussions.

17 And then my understanding is that a

18 little farther down I'll be able to specifically ask

19 those questions. Okay, thank you. If you could turn

20 to page -- sorry, slide 54. So again, I'll -- I'll do

21 this fairly quickly. Just to remind the Board that

22 the Corporation is again recommending the DCAT as the

23 lower total equity target. And our current proposal

24 is 231 million for that target. And that's designed

25 to reflect a one (1) in forty (40) year adversarial

1 per the modelling done in the DCAT process.
2 The next slide, please. And again,
3 important just to aga -- again remind the Board that
4 MPI has been -- I believe, had a fairly open-door
5 collaborative approach to this, at least in re -- in
6 recent years very much so. So this discussion's been
7 ongoing for -- since 2010.
8 We've had several technical
9 conferences. We've provided printed versions of the
10 model. We tried a DCAT collaborative process this
11 year. Done live demoing. One (1) of the things that
12 I -- I meant to discuss with the Board in -- in
13 previous discussions is that, as you know, the --
14 obviously, the DCAT's done by myself, an actuary.
15 It's also peer reviewed by another actuary. Our
16 auditing actuary looks at it. The two (2) actuaries
17 in this room review it.
18 So a lot of times what, unfortunately,
19 we hear in these hearings is the criticisms. I think
20 we need to recognize that there's a lot of positives
21 in the report, as well. So sometimes when we sit in
22 the room all day and we hear the critiques, it might
23 make it seem like this DCAT's just, like, a disaster
24 or something; there's always criticisms, right?
25 But I can tell you, and I think the

1 other actuaries would agree, if -- if you do actuarial
2 work and you hand it off to five (5) actuaries and ask
3 for their opinion they're going to have feedback. And
4 that's always going to be true today and ten (10)
5 years from now on the DCATs.
6 The next slide, please. Just
7 reiterating that we did do the collaborative process
8 primarily through email in February to -- through
9 September of this year. The next slide, please. I
10 won't go through these again. The ne -- the next
11 slide, please. And next slide.
12 This slide was just to show the Board
13 an example of a significant scenario before management
14 action, and that these results are purely out of the
15 models. And -- and if we believe that the modelling
16 is -- is accurate and plausible, then we should
17 believe the output from those models is -- is my view.
18 So this is an example, essentially a
19 four (4) year scenario where interest rates don't go
20 up, equities experience a decline -- and we provided
21 some examples of declines like that yesterday in our
22 cross with CMMG -- and a small claims increase.
23 So as I mentioned previously, there's
24 an infinite number of combinations of scenarios that
25 can occur, high claims, less extreme equity declines.

1 But whatever the case, we have scenarios pre-
2 management action that cause us to lose over $400
3 million over a four (4) year period.
4 Next slide. I suspect we'll talk about
5 management and regulatory action assumptions today.
6 Again, these are extremely important. If you -- in
7 the CAC evidence, there's some -- there's some
8 discussion about 10 percent rate increases. I've
9 already discussed my -- my trouble with those types of
10 assumptions.
11 This is what -- these are the
12 assumptions we utilize in our DCAT, maximum 2 percent
13 additional rebuilding fee, maximum combined increase
14 of 5 percent. Of course, if the Board has different
15 views on this in terms of how they expect to approach
16 scenarios like this, then -- then we'd -- we'd be
17 happy to incorporate them in the DCAT because that in
18 essence would be the most accurate portrayal of the
19 Board's intent in a scenario like this.
20 Next, please. So we run the -- of
21 course run the scenarios after management action, and
22 those are the results. And when we do that, we find
23 that there's a two (2) year scenario that can cause a
24 decline in the magnitude of 231 million. And again,
25 we're talking a scenario where just rates essentially

1 stay flat, you have an equity downturn, and claims are
2 -- have a minor over-budget.
3 When you're doing a DCAT, I don't
4 believe it matters if you're at a public or a private
5 company. You have these conditions, and nowhere does
6 it say a public insurer shall do this and a private
7 insurer -- so when I'm doing the DCAT, I'm doing what
8 I believe to be accepted actuarial practice.
9 And -- and again, I don't think it
10 matters that it's a monopoly. It just changes the
11 management action. It eliminates some risk factors
12 that are clearly not relevant to us, but it doesn't
13 change the rules that I utilize in a general sense to
14 assess financial con -- satisfactory future financial
15 condition.
16 So in -- as stated here, we're simply
17 looking for the adverse scenarios at the selected
18 probability level to maintain a positive total equity
19 balance over the period. And we want our base
20 scenario to stay above the regulator's minimum target.
21 As I stated just by saying, "the
22 regulator's target", that could be any jurisdiction
23 you're in and that regulator's target.
24 This slide is just showing how we
25 arrived at the 231 million, which essentially just

1 goes back and restates the -- the starting value at
2 two thirty-one (231) and shows that the scenario
3 brings the total equity to zero.
4 In regards to the MCT, I'll try to go
5 through this quickly. We're obviously putting this
6 forward as an industry standard test that's used by
7 literally all P&C companies in Canada. It is a risk-
8 based approach. It's objective.
9 We have -- definitely have a home-grown
10 collaborative DCAT here, so I think it's a good idea
11 that we have -- that we use this regulatory standard
12 test to give us another assessment of -- of the risk
13 level at MPI that's -- that's comparable to -- to
14 everyone else.
15 MPI's proposed using the approach in
16 its -- I guess kind of raw form in the sense that
17 we're calculating the -- the capital required under
18 the MCT test at 100 percent. And our approach is, in
19 view is that the risk factors being assessed in that
20 test at 100 percent exists whether we're public or
21 private. If -- we have equities, the private insurer
22 has equities. We have claims liabilities, so does a
23 private insurer.
24 So I don't -- there might be some
25 concern as to what probability those risk factors

1 represent, but the risks exist nonetheless. And our
2 view is that, in terms of the 100 percent calculation,
3 all those risks are relevant to -- to MPI.
4 We agree with the Board that the MCT
5 shouldn't be the only tool used to assess capital
6 targets, and we haven't proposed to do that. And I
7 believe I already -- I already talked about that. So
8 that -- just -- just to reiterate our approach, I
9 didn't want to spend a lot of time on that.
10 What -- at a high level now, I'd just
11 like to discuss what I'd like to hear from Ms. Sherry
12 and CAC today in regards to their recommendations.
13 And I just have a quick list that I'll -- that I'll go
14 through.
15 I'd like to know if -- if the CAC's
16 interest is in having -- simply having a low RSR, or
17 the best estimate possible RSR. Often it seems that
18 we continue to push this number lower, lower, lower,
19 lower, right. So that's -- that's concerning to me.
20 At some point, we push it so low that my -- my
21 professional standards kind of are -- are all -- are
22 violated. Like I can't accept such a scenario or
23 model any more. So we're -- we're reaching that
24 point.
25 I'd like to understand if CAC and Ms.

1 Sherry are interested in collaborating with MPI, or
2 continuing just to criticise the approach. So the
3 feedback is more than welcome, but we're trying to
4 find solutions. So if -- if my interest rate
5 scenario, if they don't believe it's credible, what --
6 what can we do about it. I'm -- I'm listening. I
7 think it's okay. You know, let's -- we have the
8 collaborative discussions. Let's -- let -- pick it
9 apart. Tell me -- you know, help me make it
10 acceptable to CAC.
11 I'd like to hear from Ms. Sherry if the
12 -- if the models and approaches that -- that CAC
13 proposes are consistent with the DCAT reports that she
14 might have done.
15 MR. REGIS GOSSELIN: Yeah, I -- I
16 guess I have to ask a question because, you know,
17 you've -- you've basically said a couple things that I
18 want to talk to you about. And I guess -- reaching a
19 point where you can't accept the scenario anymore.
20 So could you -- could you elaborate,
21 please, on that particular point?
22 MR. LUKE JOHNSTON: So a few example
23 were -- examples were -- I believe I -- I've made a
24 compromise, and the compromise -- I -- I made the
25 compromise because I thought it was a reasonable,

1 acceptable approach. So I didn't accept something
2 that I -- I couldn't sign my name to.
3 But in -- in the comment I was just
4 making -- like take inflation for example. We've
5 pretty much assumed that that's not a risk factor
6 anymore. And the -- the reason being is because our
7 model only looks at 1992 to present inflation, and
8 we've had discussions here that prior -- prior to
9 that, inflation was much larger and more variable.
10 And that's probably not reflective of today, so that
11 shouldn't be in MPI's DCAT.
12 So we agreed -- essentially agreed to
13 that approach but there's many other actuaries that
14 would not say that's the case, and they would model
15 inflation and much higher levels. And, for example, I
16 believe the -- the big risk scenario in -- in -- at
17 ICBC is, in fact, inflation. So -- and -- and the big
18 risk scenario in the MPI DCAT when Ernst & Young did
19 the report was inflation. So that's an -- an example.
20 We've eliminated pre-1956 equity data,
21 again, saying that that -- that's not going to happen
22 again. We've eliminated stagflation from the interest
23 rate history. We've had discussions here where low
24 interest rates that we're modelling were -- were said
25 to be completely imp -- implausible and unrealistic,

1 and then they happened several years in a row.
2 So what -- what I -- I think -- I
3 believe I've -- I've been doing coming here is saying
4 that I don't know. I don't know where interest rates
5 are going to go, right? But we need some kind of
6 model that reflects, you know, where they might go.
7 And so I don't come here and say, Yeah, interest rates
8 are for sure going to go up and they're never going to
9 stay -- stay low, you know, for two (2) or three (3)
10 years in a row. I say, I don't know. But I think we
11 should -- we'd better model that risk and understand
12 what it does.
13 And, of course, the plausibility of
14 it's going to be hard to measure, but it doesn't mean
15 I -- I don't measure it, right? So that's kind of
16 what I'm -- you know, you can't just say, Well, your
17 scenario is not credible, and so you don't accept it.
18 I've got -- I'm the actuary. I have to do -- I have
19 to tell MPI, like, what I think the risks are. So
20 that's not a solution for me. That's just kind of a
21 dead end, so.
22 Does that help with your question?
23 MR. REGIS GOSSELIN: Yeah, that's very
24 helpful. Thank you. And -- and I guess I -- I have
25 to comment on the issue of, you know, always dealing

1 with criticism. And I guess from -- from the
2 standpoint of -- of the Board, I mean, clearly we want
3 these proceedings to be respectful and fair. And, you
4 know, but -- but we -- robust discussion of the
5 issues, I think, you know, I -- I hope you don't
6 interpret robust discussion of the issues as being
7 criticism. But, you know, there's a difference.
8 Reasonable people can disagree.
9 And the role that we play here is to,
10 in the absence of the two (2) parties, coming up with
11 a -- a solution that's acceptable to -- to the Board.
12 The Board will have to rule. And so my hope today is
13 that, you know, we -- we clarify the positions of the
14 parties, and perhaps we can, you know, and then we'll
15 rule. But it has to be a robust assessment of the
16 issues. And no -- no holds barred, but respectful,
17 fair, so.
18 MR. LUKE JOHNSTON: And I -- I totally
19 agree with you. I -- even in relation to MPI
20 management who obviously doesn't spend all day doing
21 rates and DCATs with me, right? So they'll hit --
22 they'll sit here and -- and hear, maybe, questions on
23 rates and -- and then we'll go back and they'll say,
24 Well, what -- what are you doing with those rates? Or
25 what are you -- you know. And I'm, like, Well, these

1 are a few issues they found, and great we'll -- we'll
2 make them better and stuff.
3 But sometimes it gives the appearance
4 that there's a whole bunch of things wrong with the
5 DCAT, or there's a whole bunch of things -- right?
6 And the same, like, when Mr. Oakes was here talking
7 about motorcycle rates, he has a few issues that he,
8 like, looked at it. But in -- in a general sense, I
9 don't think Mr. Oakes is saying that the rate setting
10 method is bad. But, like, I don't want to put words
11 in his mouth.
12 But he's, you know -- but on -- when
13 you're here for a few hours talking about the issues
14 it looks like, Oh, my -- like, What are we doing? But
15 I just wanted to make sure the Board understands that
16 for the most part I think we're doing a very good job.
17 And thanks. So continuing on my list, which is --
18 THE CHAIRPERSON: Mr. Williams, is
19 that --
20 MR. BYRON WILLIAMS: Sorry. No, it's
21 -- I thought Mr. Johnston was done. Keep going and
22 then...
23 MR. LUKE JOHNSTON: I -- I'm
24 interested in hearing Ms. Sherry's view on why using
25 an industry standard like the MCT would be -- would be

1 problematic for her. And -- and there's been some
2 evidence on that, but it'll be helpful to have
3 discussions with her. And also why -- what makes 100
4 percent MCT not appropriate. So in terms of
5 calculating the risk factors in there, as I previously
6 said, why -- why -- what's so wrong about -- about
7 doing that?
8 Probably the biggest concern I have
9 with the -- with the CAC recommendation is that in the
10 evidence they're proposing the percentage of premium
11 method again. And which is sur -- very surprising to
12 me, because we've been talking about risk-based
13 measures for quite a while now. If -- if we -- if
14 we're looking at the percentage of premium method,
15 that's essentially implying that our lower RSR target
16 it 10 percent of premiums. So for sake of argument,
17 let's just say that's 85 to $90 million. That's about
18 a 25 percent MCT.
19 So everybody -- every private insurer
20 needs to have at least 150 percent MCT. The average
21 in excess of 200. I believe, Wawanesa, if you look at
22 their annual report, has close to 300 percent MCT. So
23 it's hard for me to understand how another actuary
24 could recommend a 25 percent MCT, so. And I -- I know
25 we're a monopoly. I -- I get it. If -- if MPI had a

1 300 percent MCT we'd need a billion dollars in Basic
2 capital.
3 So if -- if what I'm hearing is that --
4 if -- if this exact same company went from being
5 Manitoba Public Insurance to a private company with
6 all the same risks, we'd need to have an extra billion
7 dollars. Like -- like, what -- you know, like, if she
8 can help me understand that. So that would be a 300
9 percent MCT. You would need a billion more dollars in
10 capital. Like, that is kind of baffling to me. And
11 obviously, if there's a 200 percent MCT, we might be
12 750 or 800 million.
13 So how do you -- how do you get to
14 those two (2) numbers, right, and what -- what is --
15 if -- if Ms. Sherry does DCAT reports and she's doing
16 scenarios, what is she using in those reports that
17 suggest Wawanesa or anywhere else that she's worked
18 that they need a billion dollars in capital or -- or
19 700 million or whatever the number is and why is --
20 why are those risks so different than MPI? Like, we
21 don't -- that big number isn't just for competition;
22 maybe a higher risk level, whatever, but we'll -- I'd
23 like to discuss that.
24 The -- my next point is on some -- I
25 worry sometimes the evidence is distracting the Board

1 on -- in terms of the issue, and here's an example.
2 So on page 6 of the evidence from Ms. Sherry and Dr.
3 Simpson, it says:
4 "A public monopoly like MPI does not
5 need to plan for scenarios such as
6 other insurers taking over their
7 books of business."
8 And on page 7 it says:
9 "The adverse scenarios for most
10 federal private companies have to
11 plan for, such as British Columbia
12 earthquake, do not apply here."
13 So that -- I don't even know why that's
14 stated. Like, we're not modelling earthquakes. We're
15 not assuming, like, we're going to lose books of
16 business, so how it's even an argument, I'm just --
17 I'm at a loss. So we spent a lot of time making
18 things MPI specific, so I just -- I just don't
19 understand, so I'd like to talk about that.
20 And then really my last point without
21 getting into the details is, as I previously stated,
22 I'd like to understand if Ms. Sherry's willing to
23 share what she might do in her DCAT reports. I think
24 -- and I think that was the -- the point of the
25 collaborative exercise, right? So, okay, you don't

1 particular like MPI's equity decline model. Fine.
2 What -- what should we do? Do you have
3 -- do you have suggestions? What do you use in -- in
4 -- when you model it your -- like, as -- as an actuary
5 in other companies that you work for? That would be
6 very helpful to -- to know. But to date, I don't
7 really feel like that -- that I've received that.
8 And I guess my last question is: As a
9 professional, are you recommending a certain approach
10 for MPI to follow and a different one in -- in your
11 own practice, right? I don't know that to be true,
12 but I hope not, right? Like, if -- we shouldn't be,
13 you know, hammering down MPI's scenarios until
14 there's, like, no risk left whatsoever, and then
15 modelling this, like, 40 percent, like, worst case
16 scenario equity decline in your other practice, right?
17 So that would help -- help me to understand.
18 And that -- that's -- that concludes my
19 opening comments. Thanks.
20 THE CHAIRPERSON: Thank you very much,
21 Mr. Johnston.
22 Mr. Williams...?
23 MR. BYRON WILLIAMS: Just a point of
24 clarification. MPI and Mr. Johnston are welcome to
25 ask any questions of Ms. Sherry in terms of her

1 independent professional views, and their -- that's
2 what this process is about.
3 The reason CAC brings an independent
4 witness is to bring that -- their perspective. So I
5 just want to make it clear she doesn't speak for CAC.
6 We're bringing her in.
7 So he's asking -- some of his questions
8 seem to be, What's CAC's position? What's Ms.
9 Sherry's? Ask all you want in terms of how Ms.
10 Sherry's position is. Just in terms of CAC
11 (Manitoba), our client will make that clear at the
12 end. And I -- thank you.
13 THE CHAIRPERSON: Thank you, Mr.
14 Williams, for that clarification.
15 Ms. Sherry, would you like to do -- oh,
16 sorry.
17 MR. LUKE JOHNSTON: Maybe -- sorry.
18 Maybe Ms. Grammond can assist. I -- I meant -- when I
19 was giving my opening remarks, I was struggling with
20 whether I should address them to Ms. Sherry or to CAC.
21 So if the -- if -- if it should be Ms. Sherry in -- in
22 all -- in all cases, I'll -- I'll do that from this
23 point on.
24 THE CHAIRPERSON: Okay. Yes. Thank
25 you very much, Mr. Johnston.

1 Ms. Sherry...?

2

3 PRESENTATION BY MS. ANDREA SHERRY:

4 MS. ANDREA SHERRY: Good morning. So

5 I took a bit of a different approach than Luke did

6 today. Basically, I've got a presentation here, and

7 I'd like to walk through a little bit and explain

8 pieces of the evidence put forth by myself and Dr.

9 Simpson.

10 And I'll start -- if you go to slide 4,

11 I think, after my qualifications. There we go. So

12 really I wanted to start by saying: What was the

13 purpose of the evidence we put together?

14 And I see myself, my purpose in this

15 whole process, as providing the Board with questions,

16 giving them thought-provoking information, maybe

17 opening up areas to think about, looking at MPA --

18 MPI's rate application from a peer-review perspective

19 and just a questioning perspective, what is the best.

20 And hopefully, that gives the Public

21 Utilities Board some valuable information when they're

22 reviewing the application because I might have some

23 insights as an actuary that you may not.

24 And also, just because of my

25 experience, I've seen rate applications from MPI, I've

1 seen them from SGI, I've seen some of the processes to
2 get where MPI is today. So I'm hoping to help the
3 Board.
4 So in terms of the evidence that Dr.
5 Simpson and I put together, really, we felt that there
6 was so much discussion about the RSR, so much
7 discussion about the DCAT methodology that we wanted
8 to summarize. Where are we now? What issues perhaps
9 are still outstanding?
10 We wanted to discuss -- because a lot
11 of discussion has been around the DCAT, the purpose
12 for a private company, the purpose for a public
13 company. So we wanted to bring that together and then
14 discuss outstanding issues with the DCAT that we feel
15 -- I feel and Dr. Simpson feels -- are still
16 outstanding with the current DCAT as proposed, and
17 then bring up some theoretical questions.
18 And this may be -- I'm trying to think
19 of the right words, but it might cause people to jump
20 back the most in all of the evidence, sort of
21 discussing what is the purpose of the RSR. Is an RSR
22 really required?
23 So I want to explain why we brought
24 those up because they are very theoretical questions,
25 and -- and that's -- we wanted to bring them up as

1 theoretical questions and thought-provoking questions.
2 So if we go to the next slide, so this
3 slide can get people quite excited. But really, we're
4 bringing it up to get people thinking, the Board
5 thinking. An RSR, money held by a Crown corporation,
6 can create inter-generational inequities.
7 And I know there's been a lot of
8 banter. I've read the transcripts about inter-gen --
9 that term, "inter-generational inequities". And
10 really what it means is people come in and out of the
11 system. People pass away, people move to different
12 provinces, come in and out.
13 So if they put money into a corporation
14 and they leave, even -- they're never going to get any
15 benefit from that money when -- if and when a one (1)
16 in forty (40) year event occurs. But they've
17 contributed to it, and that's really what that term
18 means.
19 Now, I do fully recognize that, if
20 there wasn't an RSR, if we didn't have some cash set
21 aside for the bad years, volatility in rates would
22 result. And I realize that that's something that MPI
23 wants to avoid, and probably the Board wants to avoid.
24 It would also require an improvement in the
25 forecasting of MPI.

1 You know, and I know MPI is the first
2 to say they've -- there -- you can never get a budget
3 100 percent right. I can agree with that. I -- I
4 budget, too. But I do feel there are areas that could
5 be improved upon in their forecasting, and perhaps we
6 can get into that today.
7 So really, the key message is that the
8 size of the RSR is very important, because the bigger
9 the RSR is the more disadvantage really can be created
10 for the Manitoba economy, and really, the Manitoba
11 ratepayers, because then a Crown Corporation is
12 holding onto their money, right? I just -- and
13 another thing I want to stress with this is that the
14 RSR can't be seen as a substitute for good management,
15 and solid forecasting and rate making. I think that
16 has to be the stress -- the key.
17 So if we go to the next slide? So the
18 next issue is really: We decide we need an RSR. What
19 is the purpose of the RSR? And this is again
20 something that has come up in the past, and it's
21 really come up this year. I saw it in the rate
22 application. I've seen it in the transcripts. And
23 from my perspective, and I'm -- perhaps there are more
24 options, but these are the three (3) options that I
25 see for -- as the purpose of the RSR.

1 So the first is solvency. And I don't
2 see that as an issue for MPI. MPI cannot go
3 insolvent. And that has been stated in Board orders
4 in the past, that insolvency is not a plausible risk
5 for MPI. So the DCAT is done by private companies to
6 prevent just that, insolvency. So there's the
7 difference right there.
8 But going back to the purpose of the
9 RSR, the second possibility for the reason for the RSR
10 is variance from budget. And I noticed that that has
11 been put forth as the purpose of the RSR by MPI at
12 these hearings, and perhaps that is the purpose of the
13 RSR. I think that's for the Board to decide. But as
14 I have understood it, and history has stated, that was
15 not meant to be the purpose of the RSR.
16 Going back to the Kopstein Report of
17 1989, way back then -- there's a few quotes here. I'm
18 not going to read them. But basically since Kopstein,
19 and I think what Kopstein intended, the Board -- there
20 have been several Board orders and several statements
21 of the purpose of the RSR, and I'll just read it here:
22 "The stated purpose of the RSR is to
23 protect motorists from rate increases
24 made necessary by unexpected events,
25 and the losses arising from non-

1 recurring events or factors."
2 And if you look at that, and then you
3 look at the quote from Kopstein saying that:
4 "Unusual weather conditions and other
5 occurrences are an inherent part of
6 the insurance business."
7 Then that's -- that would suggest that
8 variance from budget is not what he intended as the
9 use of the RSR.
10 Okay. I'm going to the next slide. So
11 then we get to the: What is the optimal methodology
12 to set the range for the RSR? And there's just some
13 points here. So we want it to be consistent over
14 time. We want to -- you know, and I'm sure everybody
15 wants to decide on a methodology of presenting the
16 RSR, and once it's set, we would like it -- to keep it
17 consistent so that every year, we understand what it
18 is. There's not huge differences in methodologies to
19 avoid the ongoing questioning and conversations about
20 it.
21 But that means it has to be
22 transparent. So DCATs are -- can be difficult to
23 understand by people who don't work in the details of
24 that subject matter, but they have to be explainable
25 to Board members, even explainable to a certain extent

1 to the public about why we would hold that much money.
2 And I think the DCAT can be that transparent.
3 We want -- and it -- going back to my
4 earlier point, we really want a range that recognizes
5 the tradeoff, right, between rate stability and a --
6 the negative impact that could be caused by holding
7 excess ratepayers' money. So a smaller range may mean
8 extracting money from the economy when unforeseen
9 events occur, but the -- this may be preferable to
10 permanently removing a sum from the economy. And
11 that's up for the -- to the Board to decide.
12 We also want the methodology to
13 recognize the difference in risk profile that exists
14 between a private company and a public monopoly. And
15 there are differences. Private companies can go
16 insolvent, and I think that was the point of the
17 discussion that Luke brought up in the evidence. We
18 write many different products, many different
19 coverages in many different jurisdictions. We have to
20 take the competitive marketplace into account. We
21 can't lose our whole book of business. And basically,
22 the optimal methodology, it has to be evidence-based
23 and set by reasonable risk tolerances.
24 So the next slide suggests: Is DCAT
25 the solution? And I have never said that I don't like

1 the DCAT. I like the DCAT. I'm an actuary. I do
2 them. I think they're very useful. And I think if a
3 company uses them as they should be used, they can
4 bring up different risks to the company, and a company
5 can better understand what their biggest risks are.
6 Because sometimes they might not know. And then they
7 find out what their biggest risks are and they can
8 mitigate those risks. So I think it's a very useful
9 process.
10 It's also, for private companies, has
11 to be done. We report to the office of the
12 Superintendent of Financial Institutions, so we have
13 to do a DCAT. And we have to give it to OSFI. We
14 also do various stress testing that OSFI requires.
15 And we use the DCAT to set our MCT target, which I'll
16 get into a little bit later.
17 So private insurance companies,
18 basically, we use it to determine if the one (1) in a
19 hundred year, one (1) in five hundred (500) year event
20 were to incur (sic), and like the BC earthquake, would
21 we be solvent? And that's a very different thing from
22 what we're talking about with MPI. However, I'm not
23 saying the DCAT shouldn't be used by MPI. I think
24 it's a very valuable tool, and it could be the answer
25 that -- for the RSR.

1 So on the next slide I just talk about
2 -- I think there are some unresolved issues with the
3 MP -- or with the DCAT. I -- my opinion is that the
4 DCAT range, or the RSR range should be based on DCAT
5 scenario at different -- to scenarios at different
6 probability levels. So I know the Board, and there
7 are several quotes from the Board -- excuse me --
8 about the one (1) in forty (40) is the minimum target,
9 or the minimum level of the range for the RSR. What
10 I'm suggesting is that the one (1) in forty (40)
11 should be the target. So that is the level at which
12 we should try to stay around.
13 And I'm suggesting that we look at
14 different results, like the -- and this hasn't been
15 done, so I can't tell you what I think the range
16 should be. But I think it should be analyzed looking
17 at the one (1) in twenty (20) to the one (1) in one
18 hundred (100), and see what a reasonable range with
19 those scenarios would look like. I'm not suggesting a
20 one (1) in a hundred year event. I don't think that
21 that's reasonable for a monopoly to hold a one (1) in
22 a hundred year event results.
23 I do think that the range has to be
24 fairly small, because based on my earlier arguments,
25 that this is ratepayers' money that is being held.

1 And so I think we have to try to stay within a smaller
2 range because of that. I do not accept a hundred
3 percent MCT as the upper end of the RSR range. I
4 think there's been a lot of discussion about that, and
5 I think the possibility of hitting that level is so
6 small that there's no justification for MPI to hold
7 that much.
8 And as I pointed out earlier, it's not
9 -- what I am suggesting is not outside of normal
10 practice. Private companies actually use the DCAT
11 results to set their MCT target. And the MCT target
12 for a private company is the target level of the -- of
13 capital that they don't want to drop below. So they
14 might say, We never want to drop below 185 percent
15 MCT, because that would create too much risk for our
16 company's solvency. So what I'm suggesting is
17 standard practice.
18 So on the next slide, just a few
19 points. And I know we'll talk about this more. And
20 I'm not going to tell you that I have all the
21 wonderful answers to some of these questions. But I
22 do think the equity decline scenario, I think it
23 should have been based on the four (4) year scenario.
24 I just think that the three (3) year scenario
25 overstates the adverse nature, because it doesn't

1 include the rebound that happens in the fourth year.
2 I think that's a pretty simple statement.
3 The next slide is the interest rate
4 decline scenario. So we don't feel that it relies
5 completely on historical evidence because the
6 historical evidence just doesn't have the sustained
7 low interest rate period that we're experiencing right
8 now. What we're experiencing right now is -- it's
9 just not in the history, so it's very difficult.
10 It -- I feel -- I feel Luke's pain
11 here. It is very difficult to predict what's going to
12 happen now, and all the banks have been wrong for the
13 last few years. So it is difficult to predict.
14 However, I think that the prediction that is being
15 made is not realistic either. I think the floor that
16 is being suggested is -- overstates what the actual
17 floor would be simply because it was chosen based on
18 monthly figures, and the DCAT is an annual process.
19 So the last point, just a question, and
20 you know what, maybe we can discuss this today, we'll
21 get some answers or get some thoughts on it, but in
22 the combined scenario, the table there shows the last
23 year we were -- the difference from base. So this is
24 the difference from base scenario on a total equity
25 basis. Last year was two hundred and thirteen (213).

1 This year is two thirty-seven (237), so that's an
2 increase of 24 million, and yet the interest rate
3 scenario went down 77 million. And I know that a good
4 portion of that is due to the ALM process that MPI
5 went through, but I still -- I don't understand why
6 the combined went up there.
7 So that's an overview of the evidence,
8 why we did it and what our concerns are, what we're
9 hoping to bring to the Board's attention. So that
10 would end my presentation.
11 THE CHAIRPERSON: Thank you very much,
12 Ms. Sherry.
13 I believe the next part of the process
14 is that you're going to have a chance to ask each
15 other questions. So we could start with Mr. Johnston.
16 If you'd -- wanted to start with your questions? And
17 I guess it's going to be a dialogue, so I'm not sure,
18 we've never done this before, but we'll see how that
19 unfolds.
20 MR. LUKE JOHNSTON: Just one (1)
21 moment, please.
22 THE CHAIRPERSON: Before you start,
23 Mr. Johnston...
24 MR. REGIS GOSSELIN: I have a
25 question, Ms. Sherry, and it's to do with the

1 statement that a hundred percent of the MCT result as
2 the upper end of the range given the one (1) in five
3 thousand (5,000) year likelihood. Now, where did that
4 come from?
5 MS. ANDREA SHERRY: Well, there was an
6 -- there was an Information Request to -- in regards
7 to that where it was stated that a 100 percent MCT
8 result would be equivalent to about a one (1) in five
9 thousand (5,000) year event. And Luke maybe can
10 clarify that, but that's where that statement came
11 from.
12 Do we know -- I don't know what -- I
13 don't remember the Information Request.
14
15 DIALOGUE BETWEEN MR. LUKE JOHNSTON AND MS. ANDREA
16 SHERRY:
17 MR. LUKE JOHNSTON: The -- the comment
18 is just in regards that the -- the scenario was reran,
19 didn't produce a -- an adverse result that equated to
20 the MCT, so none of the five thousand (5,000)
21 simulations that we ran with management action, so
22 reasonable enough to say zero out of five thousand
23 (5,000), yeah.
24 THE CHAIRPERSON: Okay, Mr. Johnston,
25 did you want to begin your questioning or dialogue?

1 MR. LUKE JOHNSTON: If I could just
2 have thirty (30) seconds, maybe?
3
4 (BRIEF PAUSE)
5
6 MR. LUKE JOHNSTON: Okay, so I think
7 we'll figure this out gradually as we go. I'm usually
8 just answering the questions. This is weird. Like,
9 maybe Kathy -- so yeah, maybe -- maybe -- I know Ms.
10 Kalinowsky will have questions, too, so maybe just
11 some of the items that I -- I brought up in my initial
12 discussions.
13 So I'd like to understand if -- if you
14 can share at all if the DCAT scenarios you used, if
15 you, like, in your own practice or companies that you
16 worked for, how they compare to MPI's, and -- and kind
17 of related to the Board's question.
18 Like, I think that we've collaborated
19 or -- or even compromised on some of the risk factors
20 to -- to meet the -- to be in agreement with everybody
21 involved. And I'm curious if -- if -- how you rate
22 MPI's scenarios in terms of the modelling relative to
23 another -- your own DCATs.
24 And maybe as an example, Ernst & Young,
25 when they did their DCAT report, the scenarios were

1 much more adverse. And -- and part of -- one (1) of
2 the reasons we did bring it in house is because we
3 said we could make them more MPI relevant.
4 But, I don't know, maybe -- maybe just
5 some general comments on that, if you don't mind?
6 MS. ANDREA SHERRY: Sure. So
7 obviously, there are things that you wouldn't model
8 that we model, right? The BC earthquake is the
9 biggest event that can probably happen to P&C
10 insurance companies in Canada, so that one gets a lot
11 of attention because that is probably the only one
12 that could bring companies down.
13 So -- but having said that, that's sort
14 of irrelevant here. We look at pretty much the same
15 risks, otherwise, that you do. We look at equity
16 decline, and your modelling on that is excellent. I
17 have -- at Aviva, we did very similar type things in
18 terms of modelling the historical performance and
19 history, what could happen to equities over time.
20 Interest rates -- and you know what, I
21 haven't -- Aviva did very detailed DCAT modelling, and
22 we also had an internal modelling because of Solvency
23 II regulation. So we did do all sorts of
24 distributions and projections and things of that
25 nature that you are trying to do -- well, you are

1 doing.
2 But I was not there during this time.
3 So this time is very unusual, and I'm not exactly sure
4 what they are doing with that -- this situation now.
5 I can say that at other insurance
6 companies, they would probably just make an
7 assumption. And -- and, yes, it would be adverse. It
8 would be probably more adverse than what you're
9 suggesting because of -- and I guess part of that is
10 because, although it is a very big risk, it's usually
11 not the biggest, so.
12 MR. LUKE JOHNSTON: I -- I guess my --
13 yeah. My concern with our internal DCAT and -- and
14 one (1) of -- and as we've discussed, is MPI proposes
15 this MCT upper target. If you look at what the other
16 private insurers are holding in their capital targets,
17 it makes me concerned that they're running scenarios
18 that -- that might -- might have a lot more risk than
19 our scenarios, right?
20 And so have we -- my concern, and -- is
21 that: Have we pulled these back too far? Like are --
22 MS. ANDREA SHERRY: No.
23 MR. LUKE JOHNSTON: No? No.
24 MS. ANDREA SHERRY: Sorry.
25 MR. LUKE JOHNSTON: Okay.

1 MS. ANDREA SHERRY: No. I think that
2 the equity decline, as an example, what you're
3 modelling is very similar to what a private insurance
4 company would model. So I'm not concerned there.
5 MR. REGIS GOSSELIN: So -- so I missed
6 your point, Ms. Sherry. The interest rate scenario is
7 one that seems extreme. Is that -- is that --
8 MS. ANDREA SHERRY: No, no.
9 MR. REGIS GOSSELIN: Okay.
10 MS. ANDREA SHERRY: No. I was
11 actually saying -- speaking about the equity scenario
12 --
13 MR. REGIS GOSSELIN: Right.
14 MS. ANDREA SHERRY: -- and that it
15 would be similar to what I would model, the adverse
16 scenario.
17 MR. REGIS GOSSELIN: But -- but you
18 said something else about --
19 MS. ANDREA SHERRY: The interest rate?
20 MR. REGIS GOSSELIN: Yes.
21 MS. ANDREA SHERRY: Well, the interest
22 rate is a tough one, and I don't dispute that. In our
23 current environment, it is very difficult to project
24 interest rates and say what the worst canse -- case
25 scenario could possibly be, just because we're so low,

1 it's hard to imagine going any lower.
2 MR. REGIS GOSSELIN: And we had some
3 disagreements with -- with Professor Simpson on that
4 very issue, because at the time, he was telling us
5 rates couldn't go that low. I cited a case where he
6 had negative interest rates, and they've stayed that
7 negative in that period. So -- so the --
8 MS. ANDREA SHERRY: Well, there's a
9 natural floor. There's a natural floor to interest
10 rates. For them to go negative would be -- like, real
11 interest rates to go negative, I don't expect that to
12 happen.
13 MR. LUKE JOHNSTON: Okay. So maybe
14 we'll -- maybe we'll ask about interest rates. Is it
15 -- is it true that -- to -- private companies are --
16 are maybe just using economic scenario generators, or
17 things like that?
18 MS. ANDREA SHERRY: Yeah, they are.
19 MR. LUKE JOHNSTON: Okay. So is that
20 -- I guess in the environment that -- that I'm in
21 here, I don't think an economic scenario generator
22 works where I just show -- come in and say, Well, this
23 is what the economic scenario generator said. Sorry I
24 don't know the details of that. It was given to me by
25 a pria -- you know, an independent company.

1 Is that something that if -- if we did
2 that here, that you would see as a positive relative
3 to what we're doing right now?
4 MS. ANDREA SHERRY: If you're asking
5 me personally, I think it would be -- I think it would
6 be fine. I think it would -- could be very useful.
7 I'm not sure if the Board would find that as useful.
8 But, I mean, even if you use a -- an
9 economic scenario generator it is still somewhat
10 explainable because you can show the results of the
11 model, and there's assumptions built into the model
12 that are explainable. So just -- I mean, I feel like
13 they're as explainable as say discussing a gamma
14 distribution for losses, right. It's complicated.
15 MR. LUKE JOHNSTON: Yeah. I guess the
16 -- my struggle with the interest rate scenario
17 criticism, sorry, is that all we're doing is saying
18 how much have hist -- historically have interest rates
19 changed over, you know, one (1) year or two (2) year
20 periods.
21 And a lot of our interest rate
22 scenarios now, I know there's a floor and that if
23 we're not at the floor it implies that -- that we
24 would drop to that floor, but to a large extent we're
25 really just saying, There's a risk that interest rates

1 will stay low, or -- or flat. You know, they're not -
2 - like a significant amount above the -- the floor
3 assumption right now.
4 So I'm struggling why our -- our
5 scenarios are seen as completely like not credible
6 when really we're -- we're really just saying that
7 they could stay flat based on how historical interest
8 rates have kind of moved up or down. So maybe you
9 could help -- help me there.
10 MS. ANDREA SHERRY: Well -- no, and as
11 I've said I feel your pain there. It's a tough
12 environment to -- to forecast interest rates in. But
13 I think one thing that could be improved is to look at
14 the annual interest rate changes as opposed to the
15 monthly. That -- that was just one statement we made.
16 And in our -- I understand your use of
17 the floor -- a floor, and I don't really think you --
18 that's a tough one to get around. But on the other
19 hand it's also one of your most adverse scenarios. So
20 I think use of that has to be taken with caution. And
21 I think that's our point.
22 MR. LUKE JOHNSTON: So a couple
23 comments on that. So when -- when we're modelling
24 interest rates we are modelling annually, but we just
25 look at the rolling one (1) year. So when it says

1 'monthly' it's the rolling -- you know, as of January,
2 February, March, April, and that gives us more --
3 obviously more rolling twelve (12) month numbers of
4 which to build the model. So maybe there's some
5 confusion around that, but --
6 MS. ANDREA SHERRY: Right.
7 MR. LUKE JOHNSTON: -- if -- if
8 necessary I could find that Information Request where
9 we responded to that.
10 MS. ANDREA SHERRY: Right, but I think
11 it still exaggerates the lowest annual to do it that
12 way.
13 MR. LUKE JOHNSTON: Well, I guess the
14 way we look at it is we say, Here's all the twelve
15 (12) -- you know, here's the rolling twelve (12) month
16 numbers throughout all the history we're allowed to
17 use. And we do the same thing for equities.
18 So if -- if equities have declined 10
19 percent over some twelve (12) month period before, why
20 can't it happen again starting today with this -- and
21 -- for this next twelve (12) -- twelve (12) months.
22 Whether the twelve (12) months was February to
23 February, or March to March, or -- so that -- that's
24 really all we're doing.
25 And if we -- if we don't do rolling

1 averages like that and we're only using, you know, a
2 few -- a few decades of data we might be building a
3 model on like twenty-four (24) data points. Like
4 that's not much of a model.
5 MS. ANDREA SHERRY: Yeah, I know it is
6 difficult with less data points, but that was our
7 concern --
8 MR. LUKE JOHNSTON: Yeah.
9 MS. ANDREA SHERRY: -- was it --
10 MR. LUKE JOHNSTON: No, that's fine --
11 MS. ANDREA SHERRY: -- exaggerates, or
12 brings it down more than we thought it could be, or
13 should be. Yeah.
14 MR. LUKE JOHNSTON: I -- I guess the
15 other thing, too, that -- we need something to -- to
16 put a -- we -- we need some kind of floor on interest
17 rates. I need an assumption of some kind. So if --
18 if interest rates were higher, our model may not come
19 anywhere close to the floor because we'd be modelling
20 historical movements, and maybe they would have to
21 drop two (2) or three hundred (300) basis points
22 depending on where we were. But -- but today we're
23 really not dropping that much. Like, we're -- we're
24 already almost at the floor.
25 So it's really hard for me to put out a

1 scenario and say that -- that it's not plausible that
2 we could just stay there for one (1), two (2), three
3 (3), or four (4) years. Because really we -- we have
4 alr -- we're in it. We're -- we're essentially in a
5 sustained low interest rate environment.
6 The -- the reason that -- I think what
7 makes MPI different than a private insurer is that
8 when we're making our forecasts we're banking on that
9 interest rate increase to happen. So maybe for a
10 private insurer they might say, Look at this
11 particular snapshot in time, and say, Here's your
12 assets and liabilities. And -- and here's an
13 assessment of your interest rate risk based on this
14 snapshot.
15 But when we use the bank forecasts and
16 we project these interest rates to go up, we are
17 banking on that in the rates to happen. And we might
18 be asking for a -- a zero when it would be a -- a plus
19 two (2) or a plus three (3) when they don't
20 materialize. And that's where the -- the losses come
21 from. It's not necessarily that our ALM is, you know,
22 doing a really bad job. But we've -- we've asked,
23 maybe, for 3 percent or 4 percent less rate than we
24 need, and we're not getting the revenue either. So --
25 and it adds up. So that -- I don't know if that's

1 helpful with some of the interest rate stuff, but it's
2 -- it's a little different, like, with -- with MPI.
3 In regards to the equity de -- decline
4 scenarios, I -- I understand your point about rebounds
5 and we've gone back and forth on this in -- in
6 previous hearings and such. My understanding of DCAT
7 reports is that whatever you state your -- your time
8 horizon to be, you need to test that you don't
9 essentially fall below zero total equity at any point
10 in time during that period.
11 So why -- why is that relevant? So in
12 -- in the evidence that -- that you have it seems to
13 imply that we should just use the four (4) year
14 cumulative equity returns as the model.
15 Is that -- is that right?
16 MS. ANDREA SHERRY: Well, I -- yeah.
17 And I realize that the -- I think we do need to be
18 consistent. I don't think it does. I don't think we
19 should be jumping between different time periods
20 between scenarios. That's my personal opinion.
21 MR. LUKE JOHNSTON: Okay.
22 MS. ANDREA SHERRY: And I know that
23 you were asked to do scenarios with different time
24 periods, so that's not necessarily -- like, that's not
25 a criticism of your report. It's just I feel that we

1 should be using the four (4) year. That's my personal
2 opinion.
3 MR. LUKE JOHNSTON: That's your
4 personal view. Okay. So maybe I can help explain
5 mine then. If -- let's say we look at all four (4)
6 year periods. And I'm making these numbers up, but
7 just for -- as an example. One (1) in forty (40)
8 years, the four (4) year total equity return is, we'll
9 say, minus 5 percent or something. Just -- just for -
10 - so over any four (4) year period, one (1) in forty
11 (40) years will do as bad as negative five (5).
12 But if we look at any one (1) year
13 period, while there's going to be some bigger events
14 there, some stock market crashes, and -- and stuff.
15 So it wouldn't be surprising that a one (1) year
16 event, one (1) in forty (40) years, you might see a
17 minus twenty-five (25).
18 MS. ANDREA SHERRY: Yeah.
19 MR. LUKE JOHNSTON: Right? And so in
20 -- in our DCAT step 1 is -- okay, year 1. What's a
21 one (1) in forty (40) equity event? It's minus
22 twenty-five (25)? Okay. Does that eliminate all our
23 total equity? Yes or no? And how much is that worth?
24 Okay. So we -- we can look at that result and we put
25 in the table, right?

1 And then step 2, okay. Well, let's
2 look at two (2) year equity declines. Okay. And now
3 -- now they have the rebound, like you -- like you've
4 mentioned. So maybe a two (2) year equity return, one
5 (1) in forty (40), it's negative 15 percent. So it's
6 not as bad because it's had time to recovery. The
7 same thing. Repeat. Do we fall below zero on two (2)
8 year events at one (1) in forty (40) year equity
9 losses? Yes or no. No. Good. It's still
10 satisfactory. Let -- let's check the impact of that
11 to see if it's the biggest scenario.
12 Repeat for three (3) years, repeat for
13 four (4) years. So I guess what I'm hearing is, you
14 can correct me if I'm wrong, is that you don't -- your
15 personal opinion is that you -- you would like to use
16 the -- just the four (4) year cumulative equity return
17 to -- in the model or -- and not do the propo --
18 approach that I just discussed?
19 MS. ANDREA SHERRY: I don't think it's
20 a bad thing to show the results, if for anything else
21 but interest and to understand the results. But I
22 feel that since we've chosen four (4) year periods for
23 the other adverse scenarios, that we should look at
24 the equity decline as well over four (4) years. And
25 because the -- I think that the rebound does have to

1 be taken into account; otherwise, it overstates the
2 adverse nature.
3 MR. LUKE JOHNSTON: This is a good
4 point of discussion. So if I use all two (2) year
5 scenarios -- two (2) year cumulative scenarios, how
6 does that incorporate rebounds?
7 MS. ANDREA SHERRY: We are missing the
8 rebound that would -- could occur in the third and
9 fourth year, right --
10 MR. LUKE JOHNSTON: Okay.
11 MS. ANDREA SHERRY: -- and is that
12 valid then to ignore that?
13 MR. LUKE JOHNSTON: So maybe I'll put
14 it a different way. If you're doing a DCAT and you
15 find a two (2) year equity decline scenario that
16 causes your total equity to fall below zero, can you
17 give a satisfactory financial condition?
18 MS. ANDREA SHERRY: In two (2) years?
19 MR. LUKE JOHNSTON: Yeah.
20 MS. ANDREA SHERRY: Are you -- you're
21 asking from a private perspective?
22 MR. LUKE JOHNSTON: I'm asking just
23 from just doing DCATs. Like, I -- I totally get your
24 point about the rebound. But I'm just saying I know -
25 - I know that equities rebound, but I need to know

1 what happens in a one (1) year or a two (2) year
2 scenario and make sure that I can still give a
3 satisfactory financial -- or give -- give my opinion
4 that the total equity's going to stay above zero in
5 all one (1) in forty (40) scenarios. That's -- that's
6 my issue with that approach. That's -- that's really
7 all -- the only difference there.
8 MS. ANDREA SHERRY: Right. Well, in
9 the private world, the last DCAT I did, we have a
10 target. We have an MCT target. So we model the
11 adverse event to happen at the first -- at the
12 beginning of the first full year that we're modelling
13 for. Okay, so there's the stub year, which is the
14 rest of the current year. And then the first full
15 year we model the event that's going to happen, so.
16 And then we model what's going to happen after.
17 So you have the equity drop, and then
18 what happens? So we might -- our MCT might drop
19 below our target in that first year when the event
20 perhaps occurs, but then taking the rebound into
21 account, it will go back up.
22 MR. LUKE JOHNSTON: So what if in that
23 first year your MCT was negative?
24 MS. ANDREA SHERRY: From a private
25 perspective?

1 MR. LUKE JOHNSTON: Yeah.
2 MS. ANDREA SHERRY: A negative MCT?
3 MR. LUKE JOHNSTON: Like, if you're --
4 you had no money. You had your -- and it indicated
5 that you'd be completely insolvent if -- if you had
6 the --
7 MS. ANDREA SHERRY: We -- we'd drop
8 below one fifty (150). If we drop below one fifty
9 (150), we -- that's not a good thing. And we --
10 MR. LUKE JOHNSTON: Right.
11 MS. ANDREA SHERRY: That would be
12 taken as a serious risk and we would be doing
13 something about it. And what -- so again, from my
14 perspective, if I -- let -- let's say we -- we take a
15 four (4) year scenario, per my example, that's a
16 negative 5 percent total return over four (4) years.
17 The first year is negative forty (40). And then it
18 recovers and recovers and recovers say 10 percent at a
19 time, whatever that works out to be.
20 If the first year MPI has a no --
21 negative total equity balance, do I not have to give
22 an opinion that the financial condition's not
23 satisfactory?
24 MS. ANDREA SHERRY: Well, I think this
25 points out one (1) of the difference between a private

1 and a public company, you know. And it also talks to
2 rate stability that we're discussing, as well. So you
3 have this scenario, and in the first year you drop
4 negative, right? But then you can see by the end of
5 the next year it's rebound, so all of the sudden
6 you're positive again.
7 Are you going to take a rate increase
8 to build up the RSR to protect yourself against that
9 one (1) year of a one (1) in forty (40) year event?
10 Do you know what I'm saying? And then the next year,
11 oh, we've got more cash than we thought we were going
12 to have because it rebounded. And you're -- remember,
13 we're modelling a one (1) in forty (40) year event --
14 MR. LUKE JOHNSTON: I completely --
15 MS. ANDREA SHERRY: -- so it probably
16 won't happen.
17 MR. LUKE JOHNSTON: Yeah.
18 MS. ANDREA SHERRY: I mean, it could.
19 MR. LUKE JOHNSTON: I completely
20 agree. I guess what -- that that is a consideration.
21 Like, and -- and when you're -- in your example you
22 provided you're talking about the scenario just falls
23 below 150 percent MCTs being a concern to you, right?
24 And we're talking that we don't have any money at all.
25 Like, we -- we're a negative -- we're negative total

1 equity, right? Like, we haven't fallen below 366 --
2 366 million, we're in -- like, 90 million in the
3 negative, right, so.
4 MS. ANDREA SHERRY: Right, on a
5 possibility that something might occur, right?
6 MR. LUKE JOHNSTON: Right. And if we
7 believe the --
8 MS. ANDREA SHERRY: So --
9 MR. LUKE JOHNSTON: -- the equity
10 scenarios that we -- I think we all agree on, how can
11 I say that that's not plausible, right? Like that's
12 what I'm kind of --
13 MS. ANDREA SHERRY: Right. But I -- I
14 think that's something you're going to have to be very
15 careful with. You might say that when you drop into
16 the total -- I mean, depending which years you're
17 looking at. But if in that one (1) year you drop
18 negative but you project you'll be back in the
19 positive the next year, you know --
20 MR. LUKE JOHNSTON: Yeah.
21 MS. ANDREA SHERRY: -- you're a public
22 company.
23 MR. LUKE JOHNSTON: No, I understand.
24 MS. ANDREA SHERRY: How do you
25 increase rates knowing that you'd have a rebound if

1 that event even occurred? It's -- it's a very --
2 MR. LUKE JOHNSTON: And -- and that's
3 -- that's a totally valid point. And -- and when we
4 had interactions about management action and MPI said,
5 We can't -- like we're not comfortable doing automated
6 management action.
7 And that's a perfect example why
8 because let's say that the stock market does crash
9 right -- right now, and the Board asks us to make a
10 new forecast for break-even rates in '16/'17. We're
11 going to continue forecasting our 7.4 percent equity
12 return in the rates, right?
13 So we -- we might update our forecast
14 for break-even rates and say, No, it's still break-
15 even, even though the stock market just crashed, you
16 know. It's still fine from a break-even perspective.
17 Why not look at capital and say, Oh, do we have too
18 low of an RSR? Do we need to -- to have an RSR
19 rebuilding fee? That's true.
20 But a lot of these scenarios don't
21 impact the rate proposal at all. Like and the same
22 with like a bad winter or something. If -- if I -- if
23 we had one (1) bad winter and then I came here and
24 said, Well, all -- we need to raise the forecast
25 because of that, people would say, That's -- that's

1 crazy, Luke. That's one (1) bad year. You're
2 supposed to take a longer-term average.
3 So those decisions are -- are very
4 difficult to make in the DCAT, yeah.
5 MR. REGIS GOSSELIN: Ms. Sherry, you
6 know, beyond -- beyond the obvious attraction of
7 having symmetrical approaches to each of those adverse
8 scenarios, you know, everybody be on four (4) -- all
9 of them being on four (4) years, it seems to me that
10 un -- underpinning that view of yours is the belief
11 that the fourth year will be a good year, you know.
12 In other words, that'll bring up the --
13 MS. ANDREA SHERRY: Well, it's the
14 nature of the -- the nature -- it's what history would
15 tell us would happen, I guess, in the fourth year.
16 MR. REGIS GOSSELIN: But it -- there
17 is a belief there that the fourth year would be a
18 better year than -- than the years before that.
19 MS. ANDREA SHERRY: For -- well, there
20 would be more of a rebound, I guess. So if equities
21 drop, right, and we -- it's happened, unfortunately,
22 but, yeah, they've dropped and then they -- they come
23 back up slowly, not as slowly as you might think.
24 They don't tend to stay down to extreme levels for
25 very long.

1 MR. REGIS GOSSELIN: And -- and, Mr.
2 Johnston, three (3) years as opposed to four (4)
3 years, like I'm -- I'm not getting it. What -- what's
4 the objection there?
5 MR. LUKE JOHNSTON: Yeah. I honestly
6 don't understand the confusion either because all
7 we're doing is taking really like a model of the
8 actual equity returns and just doing one (1) year at a
9 time, two (2) years at a time, three (3) years at a
10 time, right?
11 And so in the -- in that example, when
12 I was saying, you know, We'll check the one (1) year
13 results to see how it impacts and the two (2), right?
14 So the three (3) year happened to be the worst of --
15 of the -- of the group, right?
16 And so you've got to remember too --
17 again, this is -- this is somewhat specific to MPI.
18 We have a budget for equity returns. So we're
19 expecting to get to seven (7) -- I think it's 7.4
20 percent a year.
21 So I can't remember the number. Let's
22 just say that's $50 million of investment income a
23 year, and I don't know the real number.
24 So you're expecting to get, say $150
25 million of investment income from equities, and now

1 you get a return of negative 5 percent over three (3)
2 years. So you've lost that portion and the additional
3 5 percent of your starting value. So the -- our --
4 our forecasting has a lot to do with it, too. We're
5 not getting that money, yeah.
6 MS. ANDREA SHERRY: I think your
7 question was -- if I can just step in, your questions
8 was: What is the beef with going to four (4) years,
9 essentially, right?
10 And -- and I think we -- you -- you run
11 all of the scenarios on the different time periods,
12 and then you take the most adverse. And so the most
13 adverse was the three (3) years in this particular
14 case.
15 And what Dr. Simpson and I are
16 suggesting is that we should be looking at the four
17 (4) year. Because the equity scenario is one of the
18 most adverse, and to not include the four (4) year
19 actually overstates the adverse nature of that
20 scenario. That's our argument. But we've asked -- I
21 think Luke just runs all of them, right, and...
22 MR. LUKE JOHNSTON: Yeah. I -- I just
23 run all of the scenarios, and look for the --
24 essentially the -- the low point. It has to be --
25 whether it's one (1) year, two (2) year, three (3) --

it has to be a one (1) in forty (40) scenario.

And my -- my argument there is that I need to know when it reaches its low point. That's what -- that's what I'm after, the -- has it hit zero. We don't want it to hit zero in a one (1) in four (4) year event. So that's all we're doing when we're checking those four (4) tiers. Yeah.

THE CHAIRPERSON: Mr. Johnston, are you going to continue in that same questioning, or...

MR. LUKE JOHNSTON: I was going to go to a different subject, yeah.

THE CHAIRPERSON: Well, maybe -- it's almost 10:30. Maybe it would be a nice time to take a break. So we could take a fifteen (15) minute break, and return a little before quarter to. Thank you.

--- Upon recessing at 10:28 a.m.

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

THE CHAIRPERSON: I think we're ready to begin again with this new process. I -- I think people are finding it very interesting, so thank you very much.

I also wanted to remind everybody, we're going to go a little longer today. We're having

1 a late lunch at 12:30, so our lunch is going to be
2 from 12:30 to 1:30, just as a reminder. So I guess
3 we'll continue, and thank you very much, Mr. Johnston.
4 MR. LUKE JOHNSTON: Okay. Thank you.
5
6 CONTINUED DIALOGUE BETWEEN MR. LUKE JOHNSTON AND MS.
7 ANDREA SHERRY:
8 MR. LUKE JOHNSTON: I wanted to move
9 to inflation modelling now. Would you be willing to
10 share how you model inflation in -- in DCAT reports
11 that -- that you've done, or -- it is one we struggle
12 with a lot here at -- at MPI in our -- in our
13 collaborative discussions.
14 MS. ANDREA SHERRY: Well, when I was
15 at SGI we actually didn't -- hadn't started doing DCAT
16 work yet, so I would love to be able to give you that
17 comparison but I can't because I wasn't there at the
18 time. I know they do DCAT now.
19 In other areas, Aviva and Wawanesa, we
20 do look at inflation. And we would tie -- inflation
21 would be tied to interest rates, generally speaking.
22 We would do a scenario based on that.
23 MR. LUKE JOHNSTON: The -- the reason
24 -- well, I'm -- I was going to ask anyways but the --
25 the reason I ask is that the way we model inflation

1 now makes it almost irrelevant because we're using
2 that 1992-to-present data, and inflation has been so
3 stable and hovering around two (2). I know Mr. Pelly
4 has asked me questions, too, and I'm not sure if he
5 likes my answer very much but I've essentially said,
6 If you're modelling 2.4 percent inflation you can't
7 even really tell that anything happened, right.
8 So I'd be curious if you think that
9 MPI's DCAT is maybe understating inflation risk, and
10 if -- if there's any suggestions you might have on how
11 to make that scenario better. It seems to be one of
12 interest to Mr. Pelly, as well.
13 MS. ANDREA SHERRY: Yeah. I mean,
14 interest rates and inflation rates are tied, and I
15 think you're -- in this environment you're going to
16 have the same problem forecasting inflation as you do
17 interest rates. I mean -- I mean, you could just do a
18 scenario, you know, throw 5 percent inflation on it or
19 something to see what happens, but is that relevant or
20 -- at this point.
21 I mean, even if you go back further
22 you're going to run into the same problem as you do
23 with interest rates, so.
24 MR. LUKE JOHNSTON: I guess my -- my -
25 - maybe my question is: If -- if you were doing this

1 DCAT report and you saw our -- our inflation
2 assumptions basic -- basically saying that MPI doesn't
3 think it has any inflation risk given how we model,
4 would -- would -- do you think you'd be able to sign
5 off on a DCAT report like that? And that's -- that's
6 obviously that I -- that I worry about.
7 MS. ANDREA SHERRY: Yeah, I think that
8 -- and again, I think a private company and a public
9 company are different things, different animals. I
10 know -- I'm trying to remember this, and Brian would
11 probably remember better than me. But there was a
12 interest rate scenario -- stress-testing scenarios
13 that OSFI required companies to do a couple of years
14 ago. And it was to see if interest rates went up
15 significantly.
16 And I would say that you would tie that
17 to inflation, right? Just use your Fisher equation,
18 right? So as a private company we would do something
19 to see what would happen, those two (2) tied together
20 though, right?
21 MR. LUKE JOHNSTON: Yeah. No, I
22 understand. One (1) -- one (1) thing you've just
23 mentioned there, and -- and I think you've mentioned
24 it a couple other times is that you said, correct me
25 if I'm wrong, that inflation modelling would be

1 different in a private company.

2 And I just -- if that's what you said,

3 I -- like, this is true of -- of our modelling, and

4 then the MCT and anything like that. I don't

5 understand why it's different. Like, I could -- you

6 know, why can't we just take the -- if -- if we think,

7 you know, inflation risk is like this over here in --

8 in a private company, why isn't it...?

9 MS. ANDREA SHERRY: Well, I think that

10 you are using the DCAT scenarios to -- to determine

11 the -- the level of the RSR, which will in turn

12 determine rates of a public company. Private

13 companies don't do that. I mean, I might -- I can run

14 any DCAT scenario I want, and I can use it to

15 determine what our big risks are, and to think about

16 that, and to mitigate those risks.

17 So I might run a crazy adverse scenario

18 just to see what would happen if inflation went up 5

19 percent, and interest -- you know, I could do that.

20 But I'm not going to turn around and use that to set

21 my rates anywhere. That is purely a test of solvency

22 on a company, right?

23 So what you're doing, is you're tying

24 the DCAT to rates. So in order to do that, and in

25 order for the Board to be comfortable with that, your

1 scenarios have to be based on something really solid,
2 right? I -- I can do anything I want in -- in the
3 private world and run it and see what happens. But
4 you have to have a basis for what you run. And
5 that's, I think, what I was saying. Is so -- because
6 you have so many problems with the interest rate
7 scenario right now, because of the environment, you're
8 going to have the same problem with the inflation
9 scenario.
10 MR. LUKE JOHNSTON: Is --
11 MS. ANDREA SHERRY: How do you --
12 right? The current environment is just...
13 MR. LUKE JOHNSTON: So actuaries in a
14 private company just run whatever they want? Like, I
15 -- I don't understand that.
16 MS. ANDREA SHERRY: Well, no. Okay.
17 Let's clarify then. So there's certain risks that
18 obviously we test and are submitted. We do our DCAT
19 report that is submitted to OSFI, and we submit our
20 most adverse scenarios to OSFI. And those scenarios
21 have to be plausible. Okay? So -- but that doesn't
22 mean we don't run some other things just to see --
23 MR. LUKE JOHNSTON: Sure. Like a
24 stress test and --
25 MS. ANDREA SHERRY: -- what would

1 happen for internal purposes, right?
2 MR. LUKE JOHNSTON: Okay.
3 MS. ANDREA SHERRY: And the interest
4 rates going up significantly would just probably not
5 be a plausible scenario at this point.
6 MR. LUKE JOHNSTON: Okay. And you --
7 you said that our RSR is tied to rates and fore -- and
8 maybe forecasts, and whatev -- if -- if it's tied to
9 fore -- forecasting it's tied to rates, et cetera.
10 Doesn't that make it more important for us? Doesn't
11 that mean that we should really make sure we have an
12 RSR because it's tied to rates? It sounds like in the
13 -- in the private sector that there's a -- there's
14 just an enormous amount of money being held in
15 capital, and it has really little impact on your rates
16 you're hold -- like -- like, an example, like, if MPI
17 had, you know, five hundred (500) to a billion dollars
18 in the bank it would be almost -- how could we say it
19 affects rates? We'd have so much money we could just
20 withstand almost anything that happens.
21 So to me it's almost, for the reason
22 you stated, it's even more important. Because if
23 we're wrong about any of this stuff, or -- or the --
24 then it's a problem. Or if it's all in our forecast
25 and it's not accurate it's a -- it's a rating issue.

1 Would that -- would you agree with
2 that, or...?
3 MS. ANDREA SHERRY: Well, I wouldn't
4 say it's more important, because when a public --
5 private company runs the DCAT we're talking about
6 solvency, right? A private company can disappear.
7 And so when we run our DCATs it's with that in mind.
8 We want to know what would make us insolvent. What
9 could -- what could happen that could make us
10 insolvent.
11 When you are running it, it's to
12 determine essentially how much money you need to hold
13 so that rates don't -- aren't volatile. But that --
14 would you say that's accurate?
15 MR. LUKE JOHNSTON: Well -- well,
16 actually, like, our -- our DCAT proposal is really
17 saying how much money do we need to hold. So our --
18 we can talk about insolvency, but we're saying
19 essentially the same thing that other DCATs say, what
20 adverse scenarios might require you to fall, you know,
21 below zero in total equity.
22 So our -- our minimum target is just
23 saying in one (1) -- one (1) in forty (40) year events
24 we'll maintain total equity above zero, at least
25 that's the intent. So --

1 MS. ANDREA SHERRY: Right. So it is a
2 very different purpose, and that's important. And I
3 know you want to do a DCAT that is best practice,
4 industry standard, et cetera, but you have to keep in
5 mind it's a different purpose that you are using it
6 for than what I would use it for.
7 MR. LUKE JOHNSTON: So why does MPI
8 not want to maintain total equity above zero? Like,
9 why -- why should I not care about that? Like, that's
10 what I'm kind of -- like, why isn't that equally
11 important to me? Like, we've all -- in the DCAT --
12 MS. ANDREA SHERRY: Yeah.
13 MR. LUKE JOHNSTON: -- we already have
14 the considerations of being a monopoly. Like, we
15 don't lose any business. We apply management action
16 almost instantly and we get it, like, no question,
17 it's...
18 So I'm struggling with why I should
19 just kind of throw out that assumption and say, oh,
20 it's -- you know, solvency doesn't matter to me. What
21 -- what matters then? Like, what -- if -- if I don't
22 care that our -- our financial position isn't
23 negative, then what -- what should I care about?
24 That's kind of what I'm struggling with.
25 MS. ANDREA SHERRY: Well, and I think

1 that's -- the thing is, you know, we were talking
2 about the three (3) -- the number of years, right, in
3 a scenario.
4 So I think that if a scenario shows
5 you're going to drop below zero in one (1) year but
6 rebound two (2) years or a year later, then, you know,
7 talk about volatility in rates, right, because you're
8 going to put through a rate increase, and then next --
9 the next year you should decrease rates, right, to
10 keep that. That's what that model would be telling
11 you.
12 So you have to be careful with that.
13 And I think that, you know, really if -- if MPI were
14 to drop below zero, let's say the one (1) in forty
15 (40) one (1) year event happened and you dropped below
16 zero. It is my opinion that MPI would not go
17 insolvent and MPI has money put aside and that if they
18 knew a rebound was coming or suspected the rebound was
19 coming, then they could count on that occurring.
20 I think the Board would have to decide
21 that, of course, but that's why I'm so -- I guess
22 that's where I'm going with the -- if you just look at
23 the one (1) year and it says you go below zero, but
24 then the next year it shows that you're going up,
25 yeah, how do you increase rates in that first year? I

1 don't see that.

2 MR. LUKE JOHNSTON: Yeah, well, I

3 think if -- if we got to a situation where we were

4 below zero in total equity, that that would -- it

5 wouldn't matter what was re -- rebounding. It'd be

6 such a poor financial position that we would consider

7 a surcharge, or at least MPI would come forward with a

8 surcharge at that point; it -- it'd be hard to imagine

9 how we wouldn't.

10 I just -- yeah, like, I -- I understand

11 the view that -- that we don't have the same solvency

12 considerations in -- in -- relative to a private

13 insurer, but I'm just -- I'm trying to understand why

14 it shouldn't -- it's not relevant to us to have -- not

15 have enough say assets to cover the liabilities or --

16 or why that should just be assumed that we have ex --

17 like, kind of -- like, you implied we had extra money

18 somewhere that we were going to use.

19 MS. ANDREA SHERRY: Well, you have

20 large amounts of reserves is what I was getting at.

21 So it's not that you would be -- if a rebound was

22 expected to occur, then you would survive that period

23 of time. But again, we're talking about scenarios.

24 We're not talking about the real world

25 at this time, right?

1 MR. LUKE JOHNSTON: Yeah.
2 MS. ANDREA SHERRY: And that's what
3 the DCAT is, it's a scenario. It's the maybe, it
4 might. And how much do you hold for the might and for
5 the maybe?
6 MR. LUKE JOHNSTON: So is the DCAT --
7 do you think doing a DCAT in -- for MPI is -- is not -
8 - is invalid, like?
9 MS. ANDREA SHERRY: No, I don't.
10 MR. LUKE JOHNSTON: No. And do the
11 conditions of the report be -- become of a normal
12 opinion on a DCAT? Do they become invalid? Because -
13 - or a public insurer?
14 MS. ANDREA SHERRY: Well, that's a
15 question I have to ask for you, is the appointed
16 actuary of private companies have to sign the DCAT
17 report to go to -- for it to go OSFI. That's the way
18 it works. You are not regulated by OSFI.
19 MR. LUKE JOHNSTON: Correct.
20 MS. ANDREA SHERRY: You are not
21 required to do a DCAT.
22 MR. LUKE JOHNSTON: Not by the
23 regulator, no.
24 MS. ANDREA SHERRY: No. And so you
25 are not actually required to sign it as an actuary.

1 MR. LUKE JOHNSTON: That's -- that's
2 correct. The only -- we're doing the DCAT as a form
3 of industry standard, best practice, and all of the
4 guidance and standards on the DCAT is what we're
5 trying to follow as best as possible, obviously.
6 MS. ANDREA SHERRY: Yeah.
7 MR. LUKE JOHNSTON: But I -- reading
8 the DCAT standards and -- and educational notes, I
9 don't -- that's what I'm -- I'm kind of wondering
10 because it seems to imply that it's different -- it's
11 -- it's different for MPI all the time when we're --
12 we're doing a -- a DCAT.
13 And I just see same risks, I see rules
14 that actuaries have to follow. I'm just trying to
15 understand why I don't --
16 MS. ANDREA SHERRY: Well, it's not
17 necessarily --
18 MR. LUKE JOHNSTON: -- do the same
19 thing --
20 MS. ANDREA SHERRY: Yeah, I'm not
21 disagreeing --
22 MR. LUKE JOHNSTON: -- as everybody
23 else.
24 MS. ANDREA SHERRY: -- that you could
25 -- that -- absolutely, follow best practice. Go

1 through the DCAT process following industry standards,
2 choosing your scenarios.
3 However, I think that the result is
4 going to be used in a different way, right, because
5 your result, whatever your result is, will flow
6 through to what you charge ratepayers. Ultimately it
7 will.
8 So those results have to be looked at a
9 little bit differently than a private company whose
10 results of the DCAT will not be used in that way.
11 MR. LUKE JOHNSTON: Okay. Well, maybe
12 help -- help me understand that. So how -- if -- if
13 the Board were to rule on the DCAT to be 231 million
14 minimum, how will that -- how does that affect the
15 rates in this application. I -- I'm confused about
16 that.
17 MS. ANDREA SHERRY: Well, you're using
18 the results to say whether you have enough in the RSR.
19 And that flows through to whether there is an RSR
20 surcharge or not or a rebate or whatever the case may
21 be. Your DCAT is tied to how much rate increase
22 you'll be asking for. It just is.
23 MR. LUKE JOHNSTON: Yeah.
24 MS. ANDREA SHERRY: I mean --
25 MR. LUKE JOHNSTON: I'm just --

1 MS. ANDREA SHERRY: -- and this year
2 you're not asking for any, but that's this year.
3 Every year will be different.
4 MR. LUKE JOHNSTON: Right. But as
5 long as we're over that number or in our range, we
6 never have to ask for anything, right? Like that --
7 that's -- so we're trying -- we're saying --
8 MS. ANDREA SHERRY: Right.
9 MR. LUKE JOHNSTON: -- Give us a -- a
10 minimum level of protection as per the DCAT, which
11 we're trying to do collaborative -- collaboratively,
12 MPI specific, all -- all those things. And then give
13 us a range and then we never have to ask -- not never,
14 sorry -- we don't have to ask ratepayers for rebates
15 and surcharges as often as we would with a small tight
16 range that --
17 MS. ANDREA SHERRY: Right. And -- and
18 that's -- that was part of the purpose of the evidence
19 that Dr. Simpson and I prepared is to give the Board
20 food for thought. You're right, the higher the RSR
21 range is or the bigger it is, the less rate volatility
22 because MPI will hold so much money that the chance
23 that they will ever need more is very small.
24 However, that's not like a private
25 company. That is ratepayer, Manitoba taxpayers' money

1 that is being held by a -- a Crown corporation. Is
2 that right? And that's -- there is the tradeoff.
3 In my personal opinion, there is a
4 tradeoff between how much MPI holds and the benefit to
5 society or not, right?
6 MR. LUKE JOHNSTON: So who --
7 MS. ANDREA SHERRY: So that's --
8 that's not my decision to make. That's just the
9 question that I'm putting forth.
10 MR. LUKE JOHNSTON: So whose money is
11 -- is like Wawanesa holding? Like -- and -- and why
12 should they hold that much money? And -- and if you -
13 - and I'll just add one (1) more thing to that. If
14 you thought you had deficient capital at Wawanesa, how
15 would you go about getting it?
16 MS. ANDREA SHERRY: I think that you
17 can't compare a private company that is in an open,
18 competitive landscape with a -- with a Crown
19 corporation because essentially you exist because of
20 the taxpayers of Manitoba, the ratepayers of Manitoba.
21 You were created to -- and I know you
22 were created to keep rates low, and I understand that.
23 In other jurisdictions, it's open competition, so a
24 private company in a -- you know, auto isn't doing so
25 well right now, I can tell you that. We're -- we're

1 actually losing money a lot in auto in other
2 jurisdictions.
3 So the money that Wawanesa holds is a
4 little bit different because we're a mutual company,
5 so it's a little bit different. But, I mean, if
6 you're talking about the stock companies, private
7 companies, they exist to make money, I mean, and if
8 they don't make money, they are sold or closed because
9 they have to dividend to their shareholders, right?
10 So it's a completely different landscape.
11 We have to take into -- so many things
12 into consideration when we set our rates besides just
13 profitability, because if we raise our rates too much,
14 we lose all our policy holders, right? That's not
15 going to happen at MPI.
16 MR. LUKE JOHNSTON: I -- I understand
17 the point. I guess what I'm struggling with is, as
18 you said, we don't make a profit. We don't transfer
19 funds to the government. If we have excesses, we
20 return them. Why is it so kind of out there to think
21 that maybe we should have a -- a reasonable capital
22 provision to manage the risks that we have that -- you
23 know, all the other risks that -- that we have that
24 you also would have at a private company in terms of
25 assets and liabilities, and -- and the fact that we're

1 asking for a number, like, so much lower than what the
2 average P&C insurer holds?
3 I just am just really struggling with
4 why that's seen as so, you know, strange for us to do.
5 Like, isn't it -- wouldn't -- as -- as a Manitoban,
6 wouldn't you want to know that MPI -- MPI has -- you
7 know, has, like, some financial prudence in terms of
8 protecting itself from scenarios and rate changes from
9 those scenarios, and that we're not just operating at,
10 like -- hoovering around zero all the time? Like --
11 MS. ANDREA SHERRY: Well, I think --
12 like, there's an important point to be made, too, in
13 that private companies have to hold a certain amount
14 of capital or else OSFI moves in and takes them over.
15 So, you know, to say that we hold -- hold lots more,
16 right -- and we do -- you know, we made the point
17 earlier, Wawanesa's MCT is about 300 percent, which is
18 -- but you have to understand that Wawanesa is a
19 mutual company. We have no where to go if we run out
20 of money, okay?
21 So if the BC earthquake happens, we
22 can't go to our shareholders, or a mother company, or
23 anybody else. We can't sell shares. We can't do
24 anything to get more money. It's -- we either have
25 enough money, or we're insolvent. That's it.

1 If you look at the Avivas of the world,
2 they are running at about -- I think it was one
3 seventy-five (175), one eighty-five (185) MCT, because
4 they are a stock company. So the -- all the extra
5 money they have, up to the mother ship, right? So
6 they have to run very, very tight to their target MCT.
7 Yeah, they're still higher, but they're
8 only higher -- like, they're only holding one seventy-
9 five (175) or one eight-five (185) MCT because OSFI
10 wants them -- makes them. And if they had it their
11 way, they'd run at a hundred because they want all
12 that money. They want a -- right? So they follow the
13 MCT OSFI requirements, but that's it. Not by choice,
14 because they have to.
15 MR. LUKE JOHNSTON: So when -- my
16 understanding, maybe you can correct me if I'm wrong,
17 is that the regulator has a -- a supervisory target of
18 150 percent, and I -- and I thought most companies did
19 their internal risk assessment and actually wanted
20 more than that, even.
21 MS. ANDREA SHERRY: Pardon me, sorry?
22 MR. LUKE JOHNSTON: So maybe I'll
23 frame it in -- into MPI. So the -- a private
24 federally regul -- regulated insurer has a supervisory
25 target of 150 percent MCT. And like you said, they

1 don't get a choice in that, but --
2 MS. ANDREA SHERRY: Right.
3 MR. LUKE JOHNSTON: -- too bad. You
4 have to have that. My question was: I thought most
5 people did DCATs or other internal risk assessments
6 that said they needed even more than the regulatory
7 target, not the opposite. Is that -- is that true?
8 MS. ANDREA SHERRY: Well, we do.
9 Okay, so maybe I wasn't clear, but what private
10 companies do, and I think this is interesting and I
11 think I mentioned it in my opening remarks, but, is --
12 yeah.
13 So at a hundred percent MCT, OSFI moves
14 into a private company. Basically they take over, and
15 there's a high chance they'll go insolvent. A hundred
16 and fifty (150) percent is what MCT -- or, sorry, OSFI
17 will move in, but it -- they're not taking you over
18 yet, but they will be there. They will -- you have to
19 get yourself turned around.
20 But what private companies also do is -
21 - and the companies that I've worked with use the DCAT
22 methodology to set a target MCT level. So the target
23 is generally -- we do not -- as a company, we do not
24 want to go below that level. Going below that level
25 is dangerous, and should set up warning signs across

1 the company that capital is low. We got to do
2 something.
3 And when a company -- so you have to
4 send that into OSFI, so they know what your target is.
5 And if you go below target, OSFI does not move in, but
6 they do require you to have a plan, present a plan to
7 them of how you're going to get back above your
8 target.
9 So does that answer your question?
10 MR. LUKE JOHNSTON: I guess --
11 MS. ANDREA SHERRY: Okay.
12 MR. LUKE JOHNSTON: -- yeah, like, I -
13 - I get that. And does that change how you do a DCAT
14 report? If, like, the DCAT standards are -- are
15 fairly clear. I --
16 MS. ANDREA SHERRY: I should --
17 MR. LUKE JOHNSTON: -- my
18 understanding is 95 to 99 percent confidence is -- is
19 the -- in theory, the goal in terms of the scenarios?
20 MS. ANDREA SHERRY: Yeah, one (1) in a
21 hundred --
22 MR. LUKE JOHNSTON: Yeah.
23 MS. ANDREA SHERRY: -- typically.
24 MR. LUKE JOHNSTON: And so is that --
25 I get the regulatory concerns, but does that aff --

1 affect your risk assessment, other than to summarize
2 what the MCT level would be under all the different
3 risk scenarios?
4 MS. ANDREA SHERRY: No. When we do a
5 DCAT, basically, you don't want to go below your
6 target, I think would be -- and if -- you know, to my
7 earlier point, if I was doing a DCAT and I saw that
8 in one (1) scenario in year 1, the year that the hit
9 happens, we drop below our target, but then in year --
10 but we don't drop below one fifty (150). So we're in
11 between one fifty (150) and target, but then the next
12 year we're above target, that would be satisfactory.
13 MR. LUKE JOHNSTON: M-hm.
14 MS. ANDREA SHERRY: Is that what you
15 were asking?
16 MR. LUKE JOHNSTON: And what if --
17 what if the -- that example you just gave, your --
18 your total equity position fell below zero?
19 MS. ANDREA SHERRY: Oh, it --
20 MR. LUKE JOHNSTON: That would never
21 happen?
22 MS. ANDREA SHERRY: -- that would not
23 be acceptable. Though I -- I --
24 MR. LUKE JOHNSTON: Would you be able
25 to just --

1 MS. ANDREA SHERRY: -- know your point
2 and -- but I think my counter-point and, you know,
3 that's sort of what we've been bantering about, right,
4 is that in a private company, we would never -- if the
5 DCAT result showed us going even below one fifty (150)
6 --
7 MR. LUKE JOHNSTON: M-hm.
8 MS. ANDREA SHERRY: -- that's not a
9 good thing. Okay? That's -- that's a, we need to do
10 something about this risk, whatever it is. We need to
11 find more reinsurance. We need to stop writing in a -
12 - a certain area because our losses are too high. The
13 BC earthquake, we need to pull out of BC. Companies
14 have done that, literally pulled out of an area
15 because their DCATs show that it was the highest risk
16 for them.
17 So -- but this -- this is where I think
18 there is a fundamental difference in risk profile
19 between a private company and a public one. And
20 that's where we have to be careful in interpreting the
21 results. Well, not just interpreting the results. I
22 think you've done a good job of risk profile. I think
23 the DCAT is a good report. I think there's a few
24 outstanding issues. But we have to be careful how --
25 because the results of that flow into the RSR. And

1 that's where the big question comes, right, is how big
2 should the RSR be?
3 If you drop below zero in total equity
4 one (1) year, you know, does that justify another
5 hundred million dollars in an RSR, knowing that if you
6 do it for the next year, it -- it goes back up? And
7 keeping in mind that these are one (1) in forty (40)
8 year scenarios. So it's not like this is going to
9 happen tomorrow. This might happen once in forty (40)
10 years. And the people that are going to pay to --
11 that hundred million dollars extra, right, could be
12 dead, or could have moved out of province by the time
13 this event happens. So is that fair? It's a question
14 for you guys.
15 MR. LUKE JOHNSTON: Well -- okay. So
16 you're -- would I be able to -- would -- would I --
17 would I be able to sign off on our DCAT if I was
18 following accepted actuarial practice, if I had a
19 scenario fall below zero when --
20 MS. ANDREA SHERRY: You don't have to
21 sign off.
22 MR. LUKE JOHNSTON: But I -- I'm
23 giving an actuarial opinion. I know I don't have to
24 sign off to the -- the federal regulator, but I'm
25 giving a professional opinion. Like, I can't -- and

1 I'm -- and I say -- I'm saying I'm following actuarial
2 standards of practice. I can't say, Well, yeah, that
3 happened and, you know, that -- that should concern me
4 when I'm doing a DCAT. But, you know, don't worry
5 about it, because it's just MPI. You know?
6 Like -- and so how do I do my -- like,
7 give a professional opinion and then -- and
8 incorporate some of the ideas that you've just talked
9 about with the equity returns and stuff?
10 MS. ANDREA SHERRY: Yeah, and I guess
11 that's my point. And -- is that there is no
12 requirement for you to sign off on -- on any -- and I
13 -- and another question, then, is, okay, if we're
14 going to -- if signing off is a requirement for you,
15 then we need to take a closer look at the number and
16 types of scenarios that you're running. Because I
17 don't know how, you know, going back to that one (1)
18 year event, the one (1) year drops below. The next
19 year shows it above. How do -- you know, how does --
20 how do you increase rates for that one (1) year
21 knowing there's a rebound, knowing your model shows
22 there's a rebound?
23 So then the DCAT needs to be changed to
24 only model four (4) years then, or, you know, some
25 other change has to take place, I feel.

1 MR. LUKE JOHNSTON: I gue -- I know --
2 I guess a couple comments. If this Board asks me to
3 sign off -- prepare a DCAT and sign it off, then
4 that's all the -- that's the only request I need. I
5 don't need OSFI to tell me that. If -- if the Board
6 wants me to sign off on any actuarial matter and --
7 and ask me to do it following accepted actuarial
8 practice, I don't know how that is invalid for me, as
9 a professional actuary, so.
10 MS. ANDREA SHERRY: I don't know the
11 history of that, to be quite honest, so I -- I don't
12 know. Did the Board ask you to sign off on the DCAT,
13 or...?
14 MR. LUKE JOHNSTON: No, it's just a --
15 a hypothetical. But I'm -- but if the -- if the Board
16 says they want to use a DCAT-based RSR target, then I
17 think they expect the actuary to sign off on it and --
18 and follow accepted actuarial practice. That's --
19 that's why --
20 MS. ANDREA SHERRY: Okay, well, that
21 con -- that confuses me because you don't use
22 actuarial-accepted practice in your rate making. So I
23 think that you have recognized that MPI is different,
24 right?
25 MR. LUKE JOHNSTON: M-hm. Oh we

1 absolutely have, yeah.

2 MS. ANDREA SHERRY: So I think that's

3 the contradiction.

4 MR. REGIS GOSSELIN: Sorry, you said

5 you -- you don't have to follow actuarially-acceptable

6 practice. I didn't hear that -- what was that point

7 you just made?

8 MS. ANDREA SHERRY: Well, I just said

9 that, in other areas of the rate application, it is

10 recognized that MPI is different and in their rate-

11 making technique is different than a private company,

12 so I don't -- I think that it can be different in the

13 application of the DCAT, as well.

14 MR. LUKE JOHNSTON: I -- I guess my

15 response to that is, it is. Like, I -- the DCAT's

16 completely different than -- than -- but I don't -- I

17 don't -- I'm not pretending we need 150 percent MCT or

18 -- or, you know, it's all MPI specific. So is rate

19 making. But it doesn't mean that before I'm asked to

20 put my name beside the work, that I -- I shouldn't say

21 that it follows accepted actuarial practice, and so

22 rate making is a good example.

23 I've spoke here saying that ours is

24 different, but I -- we -- we like the -- the

25 particular aspect that it's different -- it -- it is

1 different than actuarial accepted practice, and so we
2 say that and -- and say where it does follow and that
3 for the -- like, the break-even objective, for
4 example, it's different.
5 But -- and the DCAT, I -- I think is --
6 is the same thing. We're clearly not pretending to be
7 a private insurer and -- when we're doing this DCAT.
8 MS. ANDREA SHERRY: And I guess --
9 MR. LUKE JOHNSTON: So it's hard for
10 me to understand, yeah.
11 MS. ANDREA SHERRY: Well, no, I think
12 it's pretty simple. I mean, we all recognize MPI is
13 different, right? And so you just said, Yeah, the
14 DCAT recognized that MPI is different because they've
15 got different risks, obviously.
16 MR. LUKE JOHNSTON: M-hm.
17 MS. ANDREA SHERRY: The business that
18 you run is different than any other private company.
19 I know there's public ones that are similar. But --
20 so to say that you feel that you have to sign off on a
21 DCAT the same way that a private company-appointed
22 actuary would sign off on a DCAT is sort of
23 counterintuitive, because private companies don't use
24 a DCAT for what you're using it for, we simply don't,
25 so.

1 And I find it contradictory because
2 we're saying we have to use accepted actuarial
3 practice in the DCAT and signing off on the DCAT, and
4 yet there are other areas of the application that do
5 not use accepted actuarial practice, and that's okay.
6 So I think we need to -- that's my sort
7 of point, is that if you say you can't sign the DCAT
8 because it goes below zero in one (1) year for an
9 adverse event, then don't sign the DCAT, I mean, as
10 the appoint -- as an appointed actuary would sign a
11 DCAT.
12 MR. LUKE JOHNSTON: Okay, I think I
13 under --
14 MS. ANDREA SHERRY: I --
15 MR. LUKE JOHNSTON: Yeah, no, I just -
16 - I'm -- I'm trying to understand why I'd want to make
17 that -- that compromise in that particular spot. And
18 -- and I -- I guess I think if the Board said, You
19 know what, Mr. Johnston, we don't like your DCAT, we
20 want Andrea Sherry to do the DCAT now, and how would
21 that change -- like, how would your approach change
22 from doing a properly accepted actuarial practice DCAT
23 like that?
24 MS. ANDREA SHERRY: Yeah, no, I'm not
25 saying -- I think -- yeah, I -- I don't want to

1 confuse things. Like, I am saying go forward with the
2 DCAT as an actuary using best practice, right? Use
3 accepted actuarial practices in doing it, but the
4 concern comes with signing it, right?
5 If it goes -- signing that it's
6 satisfactory financial condition if the total equity
7 drops below zero in any of the adverse events is --
8 that's the concern.
9 MR. LUKE JOHNSTON: And what is --
10 what is the concern with that relative to how that
11 opinion is -- is given?
12 MS. ANDREA SHERRY: Right. So you
13 can't -- you can't give an unqualified opinion if that
14 happens.
15 MR. LUKE JOHNSTON: Okay.
16 MS. ANDREA SHERRY: Is that --
17 MR. LUKE JOHNSTON: Yeah. And that --
18 that's what I'm saying. And --
19 MS. ANDREA SHERRY: Right. But I --
20 but I think that's a very tricky thing is all I'm
21 saying, and -- and -- like, I hope we're being clear
22 on sort of this conversation, but it's -- that is the
23 tricky point, right? The sticking point is if any of
24 the adverse scenarios go belew -- below zero total
25 equity, Luke cannot say and -- sign and say that he is

1 satisfied that MPI has satisfactory financial
2 condition.
3 And I guess my concern with that is
4 that if we're running these scenarios with all
5 different time periods, and in one (1) year it goes
6 below zero, right, and then you see a rebound, if you
7 run that same scenario using the same historical
8 distributions and stuff but you run it for a longer
9 period and it goes above zero, then you're going to
10 give a rate increase, or you're not -- right? Like,
11 it's all tied.
12 And that's my point with -- that has to
13 be considered as a public company that there will be a
14 rebound, that you don't need that rate increase.
15 MR. LUKE JOHNSTON: We're just talking
16 about this -- we're just talking about equities.
17 Like, equities alone isn't even the -- the reason for
18 the DCAT target. Like, so I'm struggling with -- with
19 that characterization --
20 MS. ANDREA SHERRY: Well, we can talk
21 about anything --
22 MR. LUKE JOHNSTON: -- yeah, no, I --
23 I hear you.
24 MS. ANDREA SHERRY: -- right --
25 MR. LUKE JOHNSTON: Like -- like,

1 yeah, I'm -- I'm -- I guess -- like, we're -- there --
2 there's a lot of the talk happening about, you know,
3 DCAT's insolvency test for a private company, MCT's
4 insolvency test.
5 But what you're telling me here, I
6 think, is -- what I'm hearing is -- is in private
7 practice, you -- let -- let's pretend MPI's MCT's at
8 150 percent is like $500 million, okay? You're
9 telling me that if we fell -- had anything that
10 indicated we fell below 150 percent MCT, a private
11 company would be in panic mode.
12 MS. ANDREA SHERRY: Yeah.
13 MR. LUKE JOHNSTON: Right? And here's
14 MPI saying, We're just worried about falling below
15 zero on all these MPI-specific scenarios, and we think
16 we need two hundred and thirty-one (231) minimum to
17 protect us from that. Like, why -- why is that such a
18 -- a bad -- that's seen as a bad thing, or -- or too
19 much, or --
20 MS. ANDREA SHERRY: Yeah.
21 MR. LUKE JOHNSTON: -- it's really
22 hard for me to -- to grasp --
23 MS. ANDREA SHERRY: Yeah.
24 MR. LUKE JOHNSTON: -- and -- and I --
25 I realize that we're a monopoly, and we have a

1 different mandate than -- and conditions than a
2 private insurer, but I -- I really don't understand
3 why it's not seen as appropriate for us to hold a -- a
4 reasonable amount of capital. I just -- it's not --
5 MS. ANDREA SHERRY: I honestly think
6 that the comparison to private companies is -- is
7 pretty irrelevant. I mean --
8 MR. LUKE JOHNSTON: It's irrelevant or
9 relevant?
10 MS. ANDREA SHERRY: Irrelevant.
11 MR. LUKE JOHNSTON: Yeah, okay. And
12 how -- how so?
13 MS. ANDREA SHERRY: The -- the only
14 way it's -- well, because it's a totally different
15 business. It's totally different regulation. If
16 Wawanesa goes broke, not only do we low -- lose
17 thousands of jobs across the country, we can't pay
18 policyholders. It would be disastrous if -- if a huge
19 catastrophe event occurred, and we could not pay our
20 policyholders. That would be disastrous to the
21 economy.
22 It's -- you know, the regulators came
23 in and said, We can't have that happen, and that's why
24 we have to hold so much capital. I mean --
25 MR. LUKE JOHNSTON: M-hm.

1 MS. ANDREA SHERRY: -- that's the name
2 of the game. I mean -- so now we're talking about a
3 Manitoba-specific auto company that is backed by the
4 full power of the Provincial government. If MPI's
5 total equity drops below -- or goes negative, I think
6 we really -- you have to ask yourself, What's the
7 worst thing that can happen? What's going to happen
8 there?
9 And I know there's concern, I've read
10 the transcripts about privatization, but again, that's
11 a separate discussion. But if MPI went below zero,
12 there's a few possibilities, right? They think it's
13 going to rebound the next year, okay? If that's the
14 case, then that has to be taken into account.
15 If they just go -- are in a bad spot,
16 and this whole autonomous car thing -- maybe not
17 autonomous car, but cars change so much, expenses go
18 up so much, it's crazy, boom, it all of a sudden
19 happens, it goes below zero, MPIC can raise rates. No
20 problem.
21 I mean, government/political problem,
22 maybe but a private company can't do that. If
23 Wawanesa goes and raises their rates, we're going to
24 lose a whole bunch of policyholders and we might be
25 done anyways. So they can raise their rates. They --

if they think there is going to be a rebound, they can wait that out.

MR. LUKE JOHNSTON: M-hm.

MS. ANDREA SHERRY: And I hate to bring it up, but there is extension in SRE which has been making a lot of money, and that is also paid -- money paid by the ratepayers of Manitoba and it also only exists because of Basic. So there is all of this other area that MPI would have those possibilities to turn things around.

MR. LUKE JOHNSTON: And -- and --

MS. ANDREA SHERRY: So how do you compare that, I guess is what I'm saying --

MR. LUKE JOHNSTON: M-hm.

MS. ANDREA SHERRY: -- to a private company? It's -- it's just -- it's a different world. I think the practices -- best practices can be the same to a point, but there is a difference.

MR. LUKE JOHNSTON: No question. We -- we're asking for a minimum of 231 million, not, like, a billion dollars. Like -- like, we're -- we're asking for something lower. We're recognizing that we have the ability to have rate increases immediately. So what I think I'm -- how I think I'm responding to that is that I -- I feel we've already identified the

1 differences. We're not pretending that we need to be
2 over 200 percent MCT at all, right?
3 MS. ANDREA SHERRY: Right. I guess
4 though, you know, and this -- this goes to the upper
5 level, too, you know, if you go from 40 (forty) -- one
6 (1) in forty (40) year event to a hundred percent MCT,
7 that's quite the range. That's a lot of money to be
8 held over what could be, like, a hundred years, two
9 hundred (200) years, right, because you're never -- if
10 that event, right, doesn't occur, then you're just
11 holding that money, and how is that best for the
12 economy?
13 MR. LUKE JOHNSTON: So how -- I guess
14 my response to that is how -- MPI's asking to always
15 be below what the lowest amount is that anyone else
16 holds, including SGI and ICBC. We're asking for our
17 upper target to be the regulatory kind of test 100
18 percent. We're not even -- we're not asking to hold
19 that much money. We're just asking that, give us some
20 kind of workable range and, hey, why not peg the upper
21 bound to this hundred percent MCT, which is nowhere
22 close to -- like, we're not trying to be a private
23 company and -- you know, like, but -- but it -- do you
24 not agree that it gives at least some kind of
25 objective comparable measure that -- that the Board

1 could use in addition to just the -- the internal
2 DCAT?
3 MS. ANDREA SHERRY: Well, I just don't
4 think the 100 percent MCT is the --
5 MR. LUKE JOHNSTON: However -- yeah,
6 okay.
7 MS. ANDREA SHERRY: -- way to go here
8 as the upper bound, and I think I've been pretty clear
9 on why not. I think it makes more sense to use the
10 DCAT scenarios.
11 MR. LUKE JOHNSTON: So why not -- what
12 -- what invalidates 100 percent MCT I guess is my
13 question?
14 MS. ANDREA SHERRY: What validates it
15 is really the better question. I -- I just don't see
16 why you go to all this trouble, right, to create this
17 DCAT, and then all of the sudden a hundred MCT out of
18 nowhere. How does that -- how does that tie? It's --
19 it's -- like, and the event that would get you there
20 isn't even within really a realm of --
21 MR. LUKE JOHNSTON: So the MCT isn't
22 valid? Like, I'm -- I'm struggling, right.
23 MS. ANDREA SHERRY: Oh, the MCT --
24 MR. LUKE JOHNSTON: So what is the --
25 what is -- you're saying, What validates it. What --

1 what validates the MCT in general as a test? Like,
2 how can -- I've -- I've said to the Board here, How
3 can I come and tell you that don't -- you know, the
4 MCT isn't a good test for MPI. Like, everybody else
5 uses it. Like, who --
6 MS. ANDREA SHERRY: The MCT is
7 basically a result of your financial statements,
8 right? So you have a set of financial statements and
9 the MCT just comes out of that.
10 MR. LUKE JOHNSTON: But it's tied to
11 the risk that you have. So if we were to --
12 MS. ANDREA SHERRY: It is.
13 MR. LUKE JOHNSTON: -- right, like,
14 suddenly go into 50 or 60 percent equities, our MCT
15 would -- would go up if -- if our --
16 MS. ANDREA SHERRY: Right, but --
17 MR. LUKE JOHNSTON: -- if our
18 liability profile changed our MCT would change.
19 MS. ANDREA SHERRY: But why would a --
20 okay, so there's two (2) questions I have with that.
21 And again, you've gone to all this trouble. You've
22 built a DCAT. We've spent a whole bunch of time
23 getting to where we are, which is not bad, right?
24 MR. LUKE JOHNSTON: M-hm.
25 MS. ANDREA SHERRY: So why are we

1 going to just chuck that instead of using the
2 scenarios that you have for your upper target?
3 Because the MCT -- I mean, you could take any of your
4 DCAT scenarios and create an MCT from that, right?
5 Because --
6 MR. LUKE JOHNSTON: Yeah.
7 MS. ANDREA SHERRY: -- your DCAT
8 scenarios have a set of financial statements related
9 to those scenarios. So you could create MCTs from
10 those.
11 MR. LUKE JOHNSTON: M-hm.
12 MS. ANDREA SHERRY: So, I mean, really
13 it's irrelevant. Like, the outcome of an adverse
14 scenario can be tied to a certain MCT. So you could
15 really put the adverse scenario in either -- either
16 number, right?
17 MR. LUKE JOHNSTON: M-hm.
18 MS. ANDREA SHERRY: You could say
19 total equity MCT. But we've -- I think that's
20 unnecessary. I think it adds another step, and
21 perhaps another complication. I like the MCT because
22 I work with it. I understand it. But we've spent so
23 much time talking about the output of DCATs and total
24 equity that I feel like we're in a place where we
25 should stay in that place. So now we've got total

1 equity, so why wouldn't we -- I just -- I don't
2 understand why we jump to a hundred percent MCT when
3 we've got this methodology we could use instead.
4 MR. LUKE JOHNSTON: So could we just
5 use the MCT? Like, maybe we should just have a
6 hundred percent MCT and just get rid of the DCAT. And
7 then -- and then we'd know for sure that we're totally
8 in line with what everyone else is doing? Like, that
9 -- that's a -- that's a possibility.
10 And -- and given all the problems we've
11 had settling on a -- on a DCAT result, maybe that
12 would make things a lot easier. We could just update
13 it, and then I wouldn't have to go through all of the
14 collaborative processes, and -- and change the
15 scenarios all the time, and -- and go through all the
16 details. And that -- that would be real easy for
17 everybody to understand. Like, we could -- we could
18 do that.
19 Is that -- is that an option?
20 MS. ANDREA SHERRY: Well, I would
21 suggest that that wouldn't be accepted.
22 MR. LUKE JOHNSTON: I don't know.
23 MS. ANDREA SHERRY: And I think you
24 know it wouldn't be accepted.
25 MR. LUKE JOHNSTON: Well, other places

1 do it.

2 MS. ANDREA SHERRY: Well, I think --

3 yeah, I know other places do it. But I also know that

4 -- I mean, I left SGI not that many years ago. And

5 they hadn't even started on a DCAT. It was like this

6 thing that -- at least for the auto fund, they had

7 other private companies. But for the auto fund we

8 hadn't started a DCAT. And I know that they have one

9 now.

10 So I feel like, if anything, you're,

11 you know, doing well in your development of risk

12 management, which is really the way, I think, that MPI

13 wanted to go with the DCAT, right? So I -- I would

14 definitely not suggest you throw out all that work and

15 go to something so simplistic. And besides, I think

16 that a hundred percent MCT would be ridiculously high.

17 And I have no opinion -- I'm not going to state any

18 opinion on whether SGI is too high or not. But --

19 MR. LUKE JOHNSTON: Yeah. And --

20 MS. ANDREA SHERRY: -- that's what

21 they've gone with. I also think it's important to

22 note that SGI does not have a process like the Public

23 Utilities Board processes. They have a panel. And

24 their rate applications, at the time that I was there,

25 were about twenty (20) pages and extremely high level.

1 So they did not review -- they were not reviewed like
2 what is done here. And I personally think this is a
3 better process, so.
4 MS. SUSAN PROVEN: Well, that's --
5 MS. ANDREA SHERRY: That's only my
6 opinion, right?
7 MS. SUSAN PROVEN: -- could I ask a
8 question of you, Ms. Sherry, then? That this is a
9 better process, there's no doubt. And we do view, I
10 think, in our province that we don't want to run a
11 risk. And we're sort of not as lucky as your company.
12 If, you know, you were facing a -- you said an
13 earthquake in British Columbia, you might pull out.
14 You could just pull out of the high risk type stuff.
15 So here, I mean, we do have to handle
16 the risks. And I guess I'm curious, because although
17 we sort of settled or we seem to have reached
18 agreement on, you know, what's necessary to keep us
19 out of trouble on the low range, it's this high range.
20 What -- what should the amount be capped at? And that
21 seems to be a struggle. And -- and you say it
22 shouldn't be a hundred percent the MCT.
23 Well, what do you think it should be?
24 What would be reasonable given the fact that people do
25 own this company? The people of this province own it.

1 And that reserve is their money. Albeit it's not
2 available to them if it's being kept for these adverse
3 scenarios. But we still like to -- most of us have
4 money in the bank in case something horrible happens.
5 So what do you think would be
6 reasonable?
7 MS. ANDREA SHERRY: Well, I think the
8 numbers were not presented, so -- some of them were.
9 But we should -- I think we should look at the
10 scenarios, the results of the scenarios. As I
11 suggested look from a hundred and twenty (120) year
12 events, all the way up to one (1) in a hundred year
13 events, and get a range using that, rather than --
14 personally, I think I'm just saying 100 percent MCT is
15 arbitrary. It's -- we've got this model. Let's use
16 the model. What does it say?
17 And then it'll be for the Board to
18 decide what level you want to protect against, right?
19 Do we want to protect against a one (1) in sixty (60)
20 year event or -- and what is that range then? To me,
21 that makes sense.
22 MS. SUSAN PROVEN: But -- but we had
23 sort of suggested one (1) in forty (40).
24 MS. ANDREA SHERRY: Well, one (1) in
25 forty (40) was suggested several times in the Board

1 orders, and I recognize that. And so Dr. Simpson and
2 I did suggest that the one (1) in forty (40) should be
3 the target.
4 So the range could encompass like a one
5 (1) in twenty (20) year event to a one (1) in sixty
6 (60) year event, say, depending how big you want that
7 to be and -- and what kind of events you want to
8 protect against.
9 MR. REGIS GOSSELIN: So could you
10 educate us about the MCT a little bit? You know --
11 MS. ANDREA SHERRY: Sure.
12 MR. REGIS GOSSELIN: -- to Mr.
13 Johnston's point, I mean, it does address risks. But
14 could you educate us a bit about that MCT test? I
15 mean, you're using it all the time, so you would be
16 able to tell us in some detail the -- the pros and
17 cons of that test. So perhaps you could spend some
18 time on that.
19 MS. ANDREA SHERRY: Okay. I'll try to
20 give you a summary of it. I don't -- I don't have it
21 with me, but the MCT is used by the Office of the
22 Superintendent of Financial Institutions to regulate
23 all financially regulated companies. So they produce
24 an MCT that they send to OSFI, and OSFI watches that
25 MCT to ensure that it's not dropping unduly, things

1 like that.

2 So the way the MCT is calculated -- and

3 it's -- it is evolving over time. It has evolved

4 significantly over the years. They add different

5 tests to it, and I think in -- they have a long-term

6 vision of it being more model driven than it is right

7 now, say.

8 And one (1) example of that is your

9 book of business -- and I know MPI's auto, but let's

10 take another company that writes personal property

11 insurance, commercial property insurance, auto in

12 different provinces.

13 There will be a table of factors that

14 you have to apply to the reserves that you have for

15 those coverages, and you have to hold that much more

16 money.

17 So let's say you hold $1 million for

18 auto liability claims in Ontario. You -- they might

19 say, You know what, that's a factor of 10 percent, so

20 you have to hold another hundred thousand dollars

21 ($100,000) on top of your case reserves, your IBNR.

22 You have to add this much to it. Sorry.

23 So that's one (1) example of -- it's

24 kind of like a table-drive calculation which is not

25 the best probably. It's always better to set distribu

1 -- do distributions and things like that.

2 So the MCT just tries to take all of

3 the risks that a P&C company faces and calculate some

4 sort of amount that has to be held to protect against

5 those risks up and above other holdings the company

6 has.

7 Does that make sense? So --

8 MR. REGIS GOSSELIN: It does make

9 sense, but the -- you know, then the next question is:

10 What's wrong with that? What's wrong with using that

11 as a test for MPI? Like, I mean, I get your point

12 about, you know, not being a private company and so on

13 and so forth.

14 But what's wrong with 100 percent of

15 MCT as the upper end beyond the fact that, you know,

16 there may be more money involved in -- in the reserves

17 of MPI? But let's talk about the quality of the test

18 itself.

19 MS. ANDREA SHERRY: The quality of the

20 test. Well, peop -- different people would have

21 different feelings about that. A lot of companies

22 really don't like it because it is very sort of table

23 driven. And now, with internal modelling, companies

24 feel that they can quantify their risk better than the

25 MCT would say.

1 So what's wrong? But the MCT, it's --
2 it's an industry standard. It's used by OSFI. It's
3 evolving, it's getting better. I don't think there's
4 anything wrong with it.
5 You know, there's parts of it I don't
6 like, but there's nothing wrong with it in terms of a
7 test for a private insurance company because the risk
8 profile for a private insurance company is different.
9 If we don't have enough money, we go broke. There
10 could be disastrous consequences to a large insurance
11 company going broke in Canada.
12 I'm not saying that MPI going broke
13 would be great, but I -- the consequences -- well,
14 first of all it's impossible. It would have to be the
15 government deciding to close them down. And it would
16 not be as disastrous a consequence to --
17 MR. REGIS GOSSELIN: Yeah, I get that
18 --
19 MS. ANDREA SHERRY: -- the Canadian
20 economy.
21 MR. REGIS GOSSELIN: -- point, but let
22 -- let's look -- look -- put ourselves in a position
23 of the -- the OSFI, okay.
24 MS. ANDREA SHERRY: Okay.
25 MR. REGIS GOSSELIN: They're --

they're a regulator. And they're looking at the MCT and they're saying, Okay, 150 percent is aligned. So why is it a hundred and fifty (150) and not one seventy-five (175), or one twenty-five (125), or -- you know --

MS. ANDREA SHERRY: Why do they do that?

MR. REGIS GOSSELIN: No -- no, I -- how do they settle on one fifty (150) as being the threshold over one seventy-five (175)? And that's kind of the position we're in here now because look at it from our perspective.

So you have the DCAT telling you that it's about point six (.6) of -- of the MCT. It may -- that may flow a little bit but it's about point six (.6) of the MCT. But it -- it's based on data that -- being generated using, I think, acceptable actuarial principles and --

MS. ANDREA SHERRY: Yeah.

MR. REGIS GOSSELIN: -- practices. So now we're saying, Okay, upper end. So we do the DCAT for the upper end. We get point eight (.8), point nine (.9). It's not 100 percent but it's -- you know.

So I guess the point is: What is wrong with the MCT in setting at 100 percent in the absence

1 of data that tells us we don't know what the upper end
2 is? Like we don't know what the --
3 MS. ANDREA SHERRY: Well, I think --
4 okay. So an event -- 100 percent of the MCT in the
5 case of MPI would be an event that did not occur in
6 one (1) in five thousand (5,000) simulations. I think
7 that's what the IR is say -- says.
8 MR. LUKE JOHNSTON: Just to -- just to
9 qualify that, that's based of course on the models
10 that were developed in the collaborative process.
11 That might not be reality, right? That's just -- we
12 talked about some of the models we built, and some of
13 the compromises we made. When those models are run,
14 yes, that's true it did -- that didn't occur.
15 And that's again with -- with
16 management action assumed. Without management action
17 it can definitely be bigger than three sixty-six
18 (366), but with management action which of course is
19 possible it's -- it's less. None of the five thousand
20 (5,000) hit, so that's great.
21 MS. ANDREA SHERRY: Okay. So that
22 begs the question: Do we want to hold that -- enough
23 money for a one (1) in five thousand (5,000) year
24 event, or however we want to qualify that, taking that
25 out of the economy? Is that something that is

1 acceptable? And that's not my question to answer.
2 But to me, it seems we have a DCAT. We know what the
3 risks are to the Corporation. We can see in the
4 adverse scenarios what they are. So it would make
5 more sense to me to use the DCAT for both the bottom
6 and the upper range.
7 Now, 100 percent MCT, I'm trying to
8 think. There was nothing in the DCATs that I've ran
9 that would get my company to go below 100 percent MCT.
10 And that's largely because we protect against those
11 risks, right, with reinsurance and all sorts of stuff.
12 So if we didn't have that then obviously we would, but
13 -- so I can't -- 100 percent MCT, why is it valid for
14 private and not for public? I -- I -- it's just a
15 completely different risk profile.
16 I don't -- and the DCAT that Luke has
17 prepared is more valid to MPI's profile. Yeah. Is
18 that -- I don't know if I answered your question,
19 but...
20 MR. REGIS GOSSELIN: We are looking at
21 a threshold, and -- and it's -- you know, you -- you -
22 - a regulator probably doesn't want to be arbitrary
23 about setting a threshold.
24 MS. ANDREA SHERRY: Yeah.
25 MR. REGIS GOSSELIN: And so, you know,

in the absence of better data, you know, you -- you have to deal with the -- the cards you're dealt with. And so I think their position is, Let's do some more testing and let's get a higher probability level, and, you know, we'll -- we'll get a number, and I don't disagree with that.

What I'm suggesting is that in the absence of that number, we -- you know, we have to make some decisions around what would represent the most suitable threshold for us given where we are at the moment.

MS. ANDREA SHERRY: Yeah.

MR. REGIS GOSSELIN: And...

MS. ANDREA SHERRY: No, I definitely understand that. And I just feel like the -- that this DCAT scenario should be used rather than the 100 percent MCT. So it think that's probably too large.

MR. REGIS GOSSELIN: Well, I wonder if you could clarify a couple of things for me? And, you know, based -- based on the debate, and I probably should have asked that earlier. But you went on -- back and forth around interest rate versus inflation rate.

Could you explain the point of contention there? I --

1 MS. ANDREA SHERRY: Well --
2 MR. REGIS GOSSELIN: -- I kind of lost
3 you along that discussion, and...
4 MS. ANDREA SHERRY: I kind of -- I
5 wasn't really in that discussion too much, to be quite
6 honest with you. I think it was more between the
7 PUB's actuarial adviser and Luke in terms of the
8 inflation scenarios. But I think that the bottom line
9 was that MPI does not model inflation, and other pr --
10 public companies, inflation is one (1) of their
11 biggest risks. It shows up as one (1) of their
12 biggest risks.
13 And, you know, I think our comments --
14 I think we actually agreed with each other pretty much
15 that interest rates and inflation are tied. Interest
16 rates are extremely low right now and they've --
17 they're staying low. Nobody knows. So inflation's
18 really low. So it's not turning up as one (1) of the
19 biggest risks for the company.
20 Is that --
21 MR. LUKE JOHNSTON: Yeah, I -- I can
22 add to it. Like, really the -- the issue from my
23 perspective is I -- I'll talk to other actuaries and
24 they'll model higher inflation rates. And we've
25 settled on using the 1992 to present look back period

1 of -- for inflation. And when you look back on that
2 period it essentially just averages about 2 percent,
3 and just kind of varies slightly around that number.
4 So if that's your model, like, what are
5 you -- what risk do you have, right? Like, you've
6 based your -- your model on that period. And so even
7 what we're saying, even when we have the low interest
8 rates we're still having, like, on average 2 percent
9 inflation it seems all the time. You know, it
10 fluctuates around two (2), but even when there are the
11 ten (10) year bonds running in the 1 something
12 percent, we're still having 2 percent actual
13 inflation. So it's -- it's really conf -- it is -- it
14 is confusing for me to -- to model.
15 But based on that look back period what
16 am I to model other than 2 percent inflation? And --
17 and when -- even when we do a distribution around that
18 it suggests that you -- 2 1/2 to 3 percent inflation
19 is not very plausible based on that period, right?
20 But again, that's -- again I'm not saying that the
21 DCAT is wrong, but it has -- you know, it -- it's a
22 function of the models that you choose.
23 So, for sure, if -- if Mr. Pelly said,
24 You know what? I think everybody else is modelling 5
25 or 6 percent inflation and MPI needs to do that, and

1 here's the reason why, and we agreed. Then, yeah,
2 that would be a new scenario that you have to
3 consider.
4 MR. REGIS GOSSELIN: Okay. I guess
5 another question I wanted to ask Ms. Sherry is that
6 this Board has struggled in the past with interest
7 rate forecasting. And I'm interested to know how a
8 private sector company deals with interest rate
9 forecasts.
10 Could -- could you -- could you educate
11 us about that please?
12 MS. ANDREA SHERRY: Well, I think we
13 would do largely what Luke has been doing. We would
14 do largely what MPI has been doing. You know, and in
15 this particular environment it's tough. So I would
16 suggest -- I can't -- there was a -- a stress test
17 that OSFI made us do a couple of years ago. And it
18 was for -- I think it was, like, a hundred and fifty
19 (150) basis points in interest rates. I'm looking at
20 Brian, because he probably remembers this.
21 But in our standard kind of stress test
22 we'll run, just to say, a hundred and fifty (150)
23 basis point increase in interest rates as part of a
24 regular scenario. But is that based on solid history
25 at this point? Probably not. Yeah. So I -- I've

never said that Luke's job in terms of interest rate forecasting is poor. I don't think that's the case. But I think we're in a tough environment. And so, you know, really our discussion has been around how low can it go, right? What's the floor in terms of running it out?

MR. REGIS GOSSELIN: But you would be concerned about an increase in interest rates as -- as much as MPI is, wouldn't you?

MS. ANDREA SHERRY: M-hm. Absolutely.

MR. REGIS GOSSELIN: So how -- what do you do? What -- what do you do in a private company to address potential --

MS. ANDREA SHERRY: What do we do about interest rate risk?

MR. REGIS GOSSELIN: Yeah, to forecast interest rate risk, and what number do you use? At the end of the day you must be using a number.

MS. ANDREA SHERRY: Yeah. Well, the last one I saw was a hundred and fifty (150) basis point increase as the -- I think it was a hundred and fifty (150) basis points. We ran a scenario with that.

And again, that really wasn't based on any beautiful model like I would prefer it would be.

1 It was just based on, Let's see what happens at a
2 hundred and fifty (150). That's sort of a valid -- it
3 doesn't seem like that much actually, right? A
4 hundred and fifty (150) basis points is only 1.5
5 percent, and that's not much.
6 MR. REGIS GOSSELIN: But you're
7 addressing it as an actuary, and I'm -- I'm wondering
8 from a -- from a premium setting standpoint, how do
9 you address it? You know, looking at the financial
10 profile of the company and you don't want to make --
11 you want to make a profit next year, how do you --
12 MS. ANDREA SHERRY: We use -- in our
13 rate setting, we use the discount rate that the
14 appointed actuary uses. So --
15 MR. LUKE JOHNSTON: Maybe I -- if you
16 don't mind, would it be true that -- you probably
17 don't have the liability profile that MPI has as a --
18 in -- so like a typical P&C insurer, I -- I think, it
19 would have maybe a one (1) to two (2) year duration of
20 liabilities.
21 Would that be fair?
22 MS. ANDREA SHERRY: I can't remember.
23 I think --
24 MR. LUKE JOHNSTON: Less than two (2)
25 I'm thinking, but --

1 MS. ANDREA SHERRY: Well, slightly
2 over two (2).
3 MR. LUKE JOHNSTON: Slightly over two
4 (2)? Okay. So --
5 MS. ANDREA SHERRY: -- yeah.
6 MR. LUKE JOHNSTON: -- the sensitivity
7 is much different, and I don't --
8 MS. ANDREA SHERRY: Well --
9 MR. LUKE JOHNSTON: -- know how you in
10 -- invest, like, but --
11 MS. ANDREA SHERRY: Yeah.
12 MR. LUKE JOHNSTON: -- but --
13 MS. ANDREA SHERRY: No, that's -- you
14 say that, but, I mean, if you look at Ontario auto,
15 for example, it's very long duration. We have long
16 duration lines, but just on average, it is shorter
17 overall because personal property is very short and
18 commercial property is very short.
19 MR. LUKE JOHNSTON: Yeah. Just to
20 highlight, there's probably some uniqueness to MPI and
21 SGI in that regard, yeah.
22 MR. REGIS GOSSELIN: Now, Ms. Sherry
23 made a point a number of times, the same point, that
24 you are not following actuarially accepted practices
25 in some of your work.

1 And I -- could you -- could you tell us
2 where you're not so that we -- we understand what's
3 going on?
4 MR. LUKE JOHNSTON: Yeah. That's
5 really the -- the basis of the -- I can't remember the
6 AI, but -- but we file -- that's the section saying,
7 Here's what the rates would be per actuarial
8 standards.
9 And then we disclose that they -- they
10 don't follow for, you know, a couple of different
11 reasons. And then we actually even suggest that
12 there's some other ways you could adjust rates to --
13 to make them follow actuarial practice.
14 But kind of the conclusion that at
15 least I arrived at there is I have no issue with the -
16 - with how we set net income to be zero over time. I
17 think that's a good thing. So I still think the
18 Corporation would like to continue to do that because
19 it seems to have worked over time.
20 But we -- we could -- we might want to
21 tweak the rate-setting processing in the future if we
22 wanted to have -- be able to sign off. But all other
23 aspects of it follow actuarial standards of practice,
24 just a couple of components don't.
25 MR. REGIS GOSSELIN: Ms. Sherry, one

1 (1) -- one (1) of the -- one (1) of the elements that
2 is causing MPI to say there should be another
3 threshold, it should be at a fairly robust level for -
4 - from their perspective.
5 And so part of the consequences of that
6 would be constraining the regulator if we accept the
7 notion, constraining the regulator from rebating
8 retained earnings in cases where they exceed the
9 maximum, okay?
10 So, you know, part of the evidence that
11 we've seen is that, by constraining the rebates, you -
12 - you get less variability and volatility in -- in the
13 RSR. I'm -- I'm paraphrasing, but that's --
14 MS. ANDREA SHERRY: M-hm.
15 MR. REGIS GOSSELIN: -- one (1) of the
16 consequences.
17 MS. ANDREA SHERRY: Yeah.
18 MR. REGIS GOSSELIN: So in the work
19 that you did, did you consider that at all? I mean,
20 do -- did you consider this -- the aspect of rebating
21 as part of the analysis that you did?
22 MS. ANDREA SHERRY: Well, I'm going to
23 restate the question just to make sure I understand.
24 So basically, the argument here is that the RSR should
25 be this big so that we can reduce any volatility in

1 rates.

2 But it -- it also constrains the

3 regulator because there will be no rebating or

4 anything until they hit that upper level, right?

5 And I guess I didn't -- I mean, that's

6 sort of the whole question I'm throwing out there, the

7 whole equity argument, is: How big should the RSR be?

8 Because there will be no rebates. If -- if the range

9 of the RSR is very large, then your hands are tied.

10 There are no rebates. The money held is the money

11 held. So that's why I'm throwing caution that it

12 shouldn't be a huge range, because otherwise, there's

13 -- there's that balance, right, between holding money

14 forever and just to avoid any rate increase at all.

15 MR. REGIS GOSSELIN: Yeah, it seems to

16 me that part of your analysis you -- you've stressed

17 the point intergenerational inequity equity. You

18 know, and that's only one (1) of the rate making

19 principles that we have to be concerned about as a

20 board. And one (1) of them -- you know, another one

21 (1) that comes to mind immediately is, you know,

22 avoiding rate shock. I mean, part of the issue that

23 we have as a board is making sure that there's some

24 degree of rate stability within the province.

25 MS. ANDREA SHERRY: Yeah.

1 MR. REGIS GOSSELIN: So we are
2 struggling with the notion of, you know, how to you
3 marry rebates to rate stability because one (1) -- one
4 (1) year the rate payers get a rate increase and the
5 next year they get a rebate.
6 MS. ANDREA SHERRY: Yeah.
7 MR. REGIS GOSSELIN: So --
8 MS. ANDREA SHERRY: Yeah.
9 MR. REGIS GOSSELIN: So did you
10 consider that as part -- I mean, you -- you did stress
11 inter -- intergenerational inequity as a rate -- as --
12 as a concern, but there are other concerns. And I --
13 I wonder to what extent you consider those other --
14 other rate making principles?
15 MS. ANDREA SHERRY: Yeah. No. And I
16 understand that it's a -- there's got to be a balance
17 between those two (2) things. And I understand that -
18 - and I know -- I've read Dan's transcripts, you know,
19 you've got to be a careful to a certain extent about
20 perception. Perception is important. But I honestly
21 believe that perception is only important to a point,
22 right, and then it's -- if your average Manitoban
23 citizen does not know or understand that MPI's holding
24 a bunch of their money, then that's not fair either,
25 is it?

1 So it's -- we've got to find a balance.
2 And this is all just my opinion that -- and I said it
3 earlier. I think that the forecasting has to improve
4 at MPI; I don't think it's top level. We can discuss
5 that. But I think that there is more work that could
6 be done in that area to make forecasting more
7 accurate. And if that happens, that helps the range
8 of the RSR, it can tighter, as well.
9 So I don't want to suggest rate
10 instability is a good thing, but neither is a huge RSR
11 pot of money sitting there just to make sure that
12 there's never going to be a rate increase. And to be
13 quite honest, a rate increase of 2 percent, I think
14 Manitobans can handle that, right? So it's the -- the
15 10 percent we want to avoid, or the 15.
16 And if an event occurred that required
17 that large of a rate increase, it would have to be
18 some event, right? And Manitobans would know about
19 that event and probably understand what happened, so.
20 And then I feel like the Board would have some choices
21 whether to put in that 15 percent in one (1) year or
22 ease it in, as well.
23 Does that answer your question? Does
24 that help?
25 MR. REGIS GOSSELIN: Well, it does.

1 Yeah, you did answer my question because you obviously
2 -- let's -- let's move on. So you did make the
3 statement that forecasting needs to be improved, so
4 let's talk about that.
5 MS. ANDREA SHERRY: Open up a can of
6 worms there. Okay.
7 MR. REGIS GOSSELIN: In what way does
8 forecasting need to be improved at MPI?
9 MS. ANDREA SHERRY: Okay, well -- and,
10 you know, maybe this -- I could ask Luke about this
11 because I -- I have brought it up in IRs in the past.
12 And I do think that -- and I've asked this before, so
13 maybe I'll just ask Luke the question.
14 How do you perform your trending
15 procedures at MPI for -- and I'm talking about in the
16 claims incurred section of the rate app?
17 MR. LUKE JOHNSTON: I'm kind of at a
18 loss to -- to respond, to -- to say how -- that it's
19 described in -- in quite a bit of detail in that
20 section, but --
21 MS. ANDREA SHERRY: I'm only asking to
22 make sure I understand.
23 MR. LUKE JOHNSTON: Oh, yeah, no,
24 like, I -- it's not -- it's not intended to be rude or
25 anything because I do think we do go into quite a bit

1 of detail in terms of how we forecast. At a high
2 level, something like collision, we'll -- we'll split
3 it into component parts.
4 Like, first of all, the claim or
5 accounts, the type of claim, the, you know, total loss
6 or repair, and we have to make some sort of a
7 frequency forecast, and that's tied to -- generally to
8 historical experience unless there's some kind of
9 trend.
10 And -- and if we go -- I don't think we
11 need to but if we go to the -- the claims incurred
12 section you'll see that in this particular Application
13 we have a trend that total losses are going to
14 increase, and repairs frequency is going to decrease.
15 So that would be an example of -- of how we use trends
16 on -- on the frequency side.
17 And then on the severity side, again
18 pull the history. Split the claim types, and -- and
19 repair and total loss. We do a deeper dive with the
20 business in terms of labour, material rates, et
21 cetera. But again in general we'll graph it out.
22 Look at the trend, and try to predict something
23 reasonable based on that -- based on that trend.
24 Then, of course, the two (2) -- frequency times
25 severity multiplied together gives you your incurred

1 forecast.

2 So that's a really oversimplification

3 of what we do. For something like PIPP where there's

4 much more at stake in terms of the length of the claim

5 and -- and the dollars of individual claims, we go

6 into the details.

7 But -- yeah, like -- so whether Ms.

8 Sherry is able to explain the specifics of what she's

9 looking for here, or -- or through some other process,

10 I'm open to either.

11 MS. ANDREA SHERRY: Yeah. No, I just

12 wanted to make sure I understood because when I look

13 at the claims incurred section, you do what you said.

14 And you look at the historical losses, and you break

15 it usually into -- well, I think always into frequency

16 and severity. In some cases, like collision, you

17 break it into total -- to repair and total loss, those

18 two (2).

19 MR. LUKE JOHNSTON: Right.

20 MS. ANDREA SHERRY: And in all cases

21 that I can recall, you use some sort of average of the

22 historical losses. Perhaps with growth applied for a

23 year, but it's -- it's just simple averages -- I'm

24 missing something.

25 MR. LUKE JOHNSTON: Like -- like so

1 per -- per my example, we might -- we might graph
2 something out and -- and show the trend line through
3 it and say, You know what, this is -- seems to be a
4 reasonable fit to the history, growing about three and
5 a half (3 1/2), 4 percent a year. I have no reason to
6 think that that wouldn't continue, or something.
7 MS. ANDREA SHERRY: Yeah. I --
8 MR. LUKE JOHNSTON: So --
9 MS. ANDREA SHERRY: -- sorry.
10 MR. LUKE JOHNSTON: -- absolutely
11 averages are used, but -- but for sure other, you
12 know, trend-fitting exercises. Whatever we think is
13 the most accurate way to make the forecast is...
14 MS. ANDREA SHERRY: See, I can't
15 recall a single case in the claims incurred section
16 where it doesn't say that it's based on some sort of
17 average of the history, and perhaps with growth
18 applied. And -- unless I missed one. I can't
19 remember one. Definitely possible. But in most cases
20 that's the situation.
21 And I guess I have an issue with that
22 in terms of MPIC has all this beautiful data, all this
23 historical data. You're talking about a fairly stable
24 pool of risks in Manitoba. So I will tell you that as
25 a pricing actuary, when I do trending I fit my

1 distribution -- my history of losses, frequency,
2 severity, loss cost.
3 I fit it to several different
4 distributions and I look at the fit of the
5 distribution to the losses. And I look at different
6 years. I look at three (3), five (5), ten (10) years
7 all data. I look at annual, semi-annual, monthly
8 data. So I have -- this all comes out, and I have
9 maybe a hundred turn lines too chose from, to look at,
10 analyze, choose from.
11 And I -- I just feel that that would
12 help in the case of MPI to actually take a look at
13 some -- some distributions and some fit. That would
14 be one area -- where you asked where I thought it
15 could be improved, that's one area because trend is
16 huge.
17 Trend in terms of -- trends impact on a
18 rate indication is massive. I can't think of an
19 example off the top of my head, but it's the biggest
20 assumption we make. So -- I make when I do a rate
21 indication. Loss development would be more important
22 probably to MPI because of the long-term nature of the
23 business, but -- so that's one (1) thing.
24 Did you have any questions on that or
25 comments?

1 MR. LUKE JOHNSTON: Other than to say
2 I'm -- I'm at a loss. I really am. If there's -- as
3 I've said right in my opening comments to Mr.
4 Williams, if there is anything in here -- in this
5 entire rate application on a forecasting basis that he
6 doesn't think is transparent, or accurate, or best
7 estimate please let me know.
8 Like, I'm just -- just to put a little
9 bit of context around it. We do an entire stochastic
10 modelling section where we model the full distribution
11 of every single coverage that we have, and the range
12 that we think that -- that, you know, those coverages
13 can take in losses over five (5) year periods. It's
14 pretty hard to say that we're not modelling that
15 extensively.
16 If you go to page -- if you wouldn't
17 mind going to page 32 of claims incurred in Volume II.
18 This is a simplification, right? Like, we're -- we
19 have to pick a forecast. We have to make a best
20 estimate. This isn't a distributional rate proposal.
21 This is a point estimate rate proposal and you have to
22 pick something. This is just an example of how, one
23 (1) of many, we have to pick some sort of trend.
24 And -- and on this graph you're seeing
25 collision repairs at the top. And the dotted line

1 shows our trend forward. And we're saying, Yeah, that
2 is look like -- it does look like it's trending down.
3 And on the bottom trending up. And this is really
4 repeated over and over again. And, of course, we're
5 going to look at different models to how to do this.
6 But the one (1) we're going to put in the rate app is
7 the one (1) we picked, right? We're not -- we're
8 going to say here's a hundred trends that we selected.
9 And we're going to say, No, we used the
10 -- you know, the fit between the historical data and -
11 - and we like the forecast for these reasons, and
12 that's what's in the rate app, so. Maybe we're just
13 at a bit of a disconnect here in terms of what is
14 shown in here in -- in the claims incurred versus what
15 Ms. Sherry might do in the office. But I -- I really
16 struggle to find the -- an issue here.
17 MS. ANDREA SHERRY: Actually, if you
18 can go down from here. I think it's down. I don't
19 have the -- keep going, keep going, keep going.
20 There. Okay. Keep going actually. I think it's
21 later. I'm just looking for the place where it says
22 the actual or the choice. So I think that's thirty-
23 eight (38) or thirty-nine (39). Yeah. There we go.
24 Go down. Now, what does it say there? Sorry. Can
25 you stop? Oh. It doesn't really say it there.

1 But these -- if you go up a little bit
2 back to that table. I believe the thirty-two ninety-
3 four (3,294) -- oh, no, sorry. You have to go back
4 up. Sorry about this. Give me a minute here to find
5 my spot. Keep going up. I'm just looking for the
6 places where in the claims incurred forecast it talks
7 about how things were selected. Go on up. I didn't
8 bring it with me.
9
10 (BRIEF PAUSE)
11
12 MS. ANDREA SHERRY: Sorry. You can
13 keep going. I'm watching for it. There. Can you
14 stop there?
15 MR. LUKE JOHNSTON: We do monthly data
16 as well.
17 MS. ANDREA SHERRY: Yeah. If I can --
18 can I take a minute to find it, or -- I don't have the
19 --
20 MR. LUKE JOHNSTON: Do you mind if I
21 speak to something while you're looking for something
22 -- what you're looking for?
23 MS. ANDREA SHERRY: As long as you
24 don't expect me to pay attention.
25 MR. BYRON WILLIAMS: Can -- can I just

1 -- Mr. Johnston, just because the dialogue's important
2 and -- to the Chair.
3 MR. LUKE JOHNSTON: Yeah.
4 MR. BYRON WILLIAMS: If --
5 MR. LUKE JOHNSTON: Yeah, that's fair.
6 Yeah, if -- maybe I can just ask to go to a page so I
7 can prep to speak when Ms. Sherry is ready.
8 MS. ANDREA SHERRY: Sure.
9 MR. LUKE JOHNSTON: If we could go to
10 claims incurred thirty-six (36) while -- while Ms.
11 Sherry's looking for her information. And I just have
12 a really brief comment, and then I'll let you go.
13
14 (BRIEF PAUSE)
15
16 MS. ANDREA SHERRY: Okay. Go ahead.
17 MR. LUKE JOHNSTON: Okay. Thanks.
18 So it's -- it's not easy communicating as the actuary
19 sometimes. I think everyone's aware of that. We
20 typically use graphs like this for the management
21 because spitting out a bunch of trend numbers and
22 stuff isn't -- isn't going to give much meaning to
23 anybody. But seeing it on the screen, it -- I think
24 it does.
25 So in this particular case, again,

1 you've got -- total loss is the green and the repairs
2 is the red and the blue is the combined. We want to
3 pick assumptions that we think are appropriate and
4 then see it. Like is it -- does that look right,
5 right?
6 And -- and you can see that maybe for
7 collision, as a good example, is around 2009 it seemed
8 to take a different path. And we're now -- we've now
9 incorporated that path into the forecast.
10 And when we're -- we're doing our
11 explanations for our -- our management about why did
12 this happen, if you scroll maybe back a few pages --
13 the other way, sorry -- we -- we'll say, Hey, it's --
14 you know, the domestic versus imports.
15 Or if you keep scrolling, total losses,
16 you know, we're trying to give management an
17 explanation of why it happened. So you can see why
18 maybe I'm -- I'm struggling with what -- what's
19 missing. What -- what could I do to that forecast to
20 make it better on the severity side?
21 MS. ANDREA SHERRY: Okay. So we're
22 going to -- can we take a look at page 11 of this?
23 Okay. If you go down a little bit. Okay. There we
24 go.
25 Claim counts for forecast based on the

1 all-year trend line is shown in the above table. So
2 it was just an all-year trend. The 2015/'16 severity
3 is based on the five (5) year average.
4 My point is that a lot of the trends
5 chosen are based on simple averages or linear trends,
6 and you can do better. And that's my point. If -- if
7 you fit the losses to distributions and do what
8 processes I described earlier behind the scenes and
9 use those trends in your rate making, then I think
10 that should be in the claims incurred section of the
11 application. But I don't think you do.
12 Like I see what you do, Luke, but you
13 don't do what -- the process I described earlier.
14 MR. LUKE JOHNSTON: And -- and that's
15 fine. It's possible that I don't do all the things
16 that you do, but on the graphs that I've shown, I --
17 is there value added to -- to do that? If --
18 MS. ANDREA SHERRY: Well --
19 MR. LUKE JOHNSTON: -- like I can
20 calculate numbers till -- forever and -- and hire a
21 lot of actuaries. But if -- if, when we graph this
22 out, tell me that that's not -- it doesn't look like a
23 reasonable forecast.
24 And -- and that's what I'm telling
25 management and that's what I'm telling the -- the

1 Board when I -- when I come here. We think that's a
2 best estimate. Whether we fit it to a hundred (100)
3 different trend lines, I -- I don't really care, to be
4 honest.
5 MR. REGIS GOSSELIN: But the -- but
6 the point that Ms. Sherry's making is that, you know -
7 - and I guess you could educate me about this. I kind
8 of assume that we're kind of seeing the tip of the
9 iceberg of the work that -- that goes with this --
10 this data.
11 In other words, you do a bunch of work
12 at -- back -- back at the office and you come in and
13 you say, This is what we think is -- you know, is
14 information that's germane to a decision you have to
15 make.
16 And I guess what you're saying, though,
17 is you're saying that, you know, this is -- we could
18 do a bunch of work, but we think this trend line is
19 valid based on just looking at the data. There's a
20 disconnect there.
21 Am I missing something?
22 MR. LUKE JOHNSTON: Yeah, like even
23 when we do -- and I made this mistake earlier in my
24 career. There might be fifty (50) assumptions that
25 feed into a forecast, and you think you make all fifty

1 (50) correct. And then you show up at executive and
2 you put it on a graph and it looks ridiculous, right?
3 Like you multiplied them all out and
4 you got a terrible forecast. So we do a lot of
5 analysis and we go into painful detail on -- well it's
6 particularly on the physical damage side. But at the
7 -- at the end of the day, it -- it's got to look
8 right, too, right?
9 So like we -- we're telling -- we're
10 for sure telling a story and a claims incurred one
11 that people want to read and understand and -- and
12 such. So may -- maybe what I can do is -- is talk to
13 Ms. Sherry here or -- or -- at another time and say
14 what is it that -- that you think we could do to make
15 this better. And I'm -- I'm always open to that.
16
17 (BRIEF PAUSE)
18
19 MR. LUKE JOHNSTON: I don't -- I don't
20 have -- I just have a couple more questions. And then
21 I have no other questions.
22 MS. ANDREA SHERRY: Did you want me to
23 keep going on --
24 MR. LUKE JOHNSTON: Sure.
25 MS. ANDREA SHERRY: -- the other

1 things though, or how should we handle that?
2 MR. LUKE JOHNSTON: I'm sorry. I -- I
3 thought you were done.
4 MS. ANDREA SHERRY: No, that's okay.
5 MR. LUKE JOHNSTON: Yeah, yeah.
6 MS. ANDREA SHERRY: I wasn't sure if I
7 should talk or not. But there's a few other areas I
8 think they can improve. I think that the physical
9 damage forecast could be improved. And I feel like
10 I'm going to be opposed on this, but the -- MPI has
11 software, and I'm certainly not an expert on physical
12 damage issues, but has software where they collect all
13 sorts of information and data on repairs to vehicles
14 and how much they cost and very, very detailed.
15 Now, years ago, when I was at MPI, we
16 used those deta -- we used a whole -- we brought in
17 physical damage expertise into our claims forecasting
18 methodologies, and we used that to forecast our
19 physical damage claims. And I feel like that's gone
20 away. And I think that should be brought back.
21 Collision is huge. And the accuracy of collision has
22 to be -- has to be worked on is my opinion.
23 MR. LUKE JOHNSTON: No disagreement
24 that it's an important forecast. Just to tell you
25 what -- what is going on in that regard, we do

1 continue to look at, as -- as I mentioned, the de --
2 the detailed components of every claim, so parts,
3 labour, material, tax I believe are the main pieces.
4 And the intent is to incorporate the -- that
5 information in this document, as well. So there'll be
6 a third break with -- at the risk of getting into too
7 much detail, another breakdown of another level below
8 because you're -- you're absolutely correct, vehicle
9 technology is -- is one (1) of many concerns we have
10 on the physical damage side, so we need to understand
11 that.
12 The other piece that we looked at in
13 support of this application is my model year. So with
14 -- with severity going up, is this a new model year
15 technology issue or is this a general severity trend
16 issue for all vehicles, right. And -- and for this
17 application, we -- we found that it was more of a
18 general severity trend, but going forward, absolutely.
19 We talk about self-driving cars and all this, like.
20 It's quite possible that their severity trends are
21 completely different than -- than our older fleet, so
22 I -- I don't disagree at all about the importance of -
23 - of physical damage forecasting.
24 MS. ANITA NEVILLE: Question, Mr.
25 Johnston. How do you factor in -- in the collision

1 forecasting changes of -- in policy or practice
2 internal to the organization?
3 MR. LUKE JOHNSTON: That's -- that's a
4 very good question. It comes up often on the injury
5 side, too.
6 MS. ANITA NEVILLE: Sorry, I can't
7 hear you.
8 MR. LUKE JOHNSTON: On -- on the -- on
9 the injury side, too, it's important. So if -- maybe
10 you said -- I'll use injury as an example, we weren't
11 paying certain types of claims before we were denying
12 them. And now we said, you know what, we have a new
13 policy that we are going to pay for that or -- and
14 such.
15 So if it's a clear coverage change, we
16 have to attempt to go back and -- and restate figures,
17 which is obviously difficult. If it's something
18 completely new, we have to make an estimate, and then
19 revise that estimate. So a good example would be say
20 the -- it's not applicable to Basic, but the vandalism
21 change. We have to look at all the claims we have and
22 say, okay, what do we think is going to happen to
23 extension line.
24 On policy-related changes, like, maybe
25 on how you handle the claims, that's definitely

1 important to the actuary because -- I'm following on
2 the development. So when we pull data monthly on
3 physical damage and injury claims development and we
4 ask questions if -- if it doesn't follow the normal
5 patterns, so the -- the really bad winter we had a
6 couple years ago, we had backlogs for three (3) or
7 four (4) months long. It became instantly apparent in
8 the actuarial data that -- that something had changed
9 in our claims handling, so we had to make an estimate
10 in the forecast.
11 MS. ANITA NEVILLE: One of -- one of
12 the factors that you appear to consider in the
13 collision claims is the rental of a car, replacement
14 car. And I'm not sure in my own mind how that's
15 reconciled with a collision and the changing --
16 there's certainly trends in that.
17 MR. LUKE JOHNSTON: Definitely.
18 There's -- if we scroll to -- this might be helpful --
19 claims incurred -- let me just find the page. Page
20 46. And if you could just show the graph.
21 So here's an example where the green
22 line is loss of use frequency, and so it's been fairly
23 consistent. And then it had a big drop in the last
24 year, and that -- our forecast is tied to collision
25 obviously but we also think that, and -- and know,

1 that they've been more aggressive internally on
2 turnover time and the amount of loss of use.
3 So you can see, at least from a more
4 recent average we brought the forecast down a little
5 bit cautiously. Most of the decline in the current
6 year relates to just having less collisions, but point
7 two three (.23) would be lower than most of the years
8 prior -- prior to that year.
9 So I -- I think to your question, it's
10 a little bit of looking at what actually happened, and
11 -- and kind of -- to the extent that we can cautiously
12 include it into the forecast as we get more and more
13 evidence that it's true.
14 MS. ANITA NEVILLE: But is that a
15 result -- or the loss of use here, is that a result of
16 an internal policy change or procedure change? I'm
17 not sure. And -- and I guess I relate it back to the
18 trending. How -- how do you put that -- or factor
19 that into the forecasting?
20 MR. LUKE JOHNSTON: It's not always
21 easy, for sure. And -- and I know that a portion of
22 that decline is related to improved benchmarking and
23 tracking that -- that the physical damage area has
24 done on loss of use. I -- I can't recall the exact
25 proportion of that but you're right.

1 We have to try to understand, and talk
2 to the -- that's why the business is invited to these
3 meetings -- these claims forecasting meetings. Is
4 this a permanent state now? Is this how you're going
5 to manage loss of use claims going forward
6 permanently, or is this just fluctuations around your
7 normal behaviour? Did you change your policy? All
8 that.
9 And to the extent that we have
10 certainty, we can book it into the forecast. To the
11 extent that we don't, we tend to phase it in as -- as
12 we get more data. Yeah.
13 MS. ANITA NEVILLE: Thank you.
14 THE CHAIRPERSON: Ms. Sherry, did you
15 have more...
16 MS. ANDREA SHERRY: I have one more,
17 and I think I'm going to throw it out as a question
18 again to Luke: Is -- weekly indemnity and accident
19 benefits other indexed are obviously the lines with
20 the most IBNR.
21 Is that right? I think so.
22 MR. LUKE JOHNSTON: That's right. And
23 -- and just the most claims liabilities in general.
24 The vast majority of our liabilities.
25 MS. ANDREA SHERRY: Right. Question

1 for you: Do you -- and -- and -- do you feel that
2 they are going to have negative development in the
3 future years, I guess in the tail?
4 MR. LUKE JOHNSTON: I wish I knew the
5 answer to that question. I think it's -- save me a
6 lot of risk in the -- in the --
7 MS. ANDREA SHERRY: I'm just asking
8 for our opinion, I guess.
9 MR. LUKE JOHNSTON: Yeah. No, it's --
10 MS. ANDREA SHERRY: Your judgmental
11 opinion if -- because we -- none of us know for sure.
12 That's a given. But...
13 MR. REGIS GOSSELIN: Could you repeat
14 your question, Ms. Sherry, please? I -- I'm just --
15 MS. ANDREA SHERRY: I'm just asking if
16 Luke feels that there will be negative development in
17 the tail of the longer tailed lines. So what that
18 basically means is that IBNR will go down for the
19 older years as years develop.
20 MR. LUKE JOHNSTON: So you can -- if -
21 - if you want you can tie this to the conversation we
22 had the other day about the mortality table. And we
23 were saying what are your expectations vers -- versus
24 how many claims actually open and close? What about
25 the re -- relapses that are happening?

1 So our approach is to -- once the claim
2 is ten (10) years old, we -- we put it on the -- the
3 mortality table, so to speak, a tabular reserving.
4 And ag -- again, just what we've been doing is -- is
5 adjusting those figures based on how they actually
6 develop positively or negatively.
7 To date we -- we've provided an exhibit
8 that shows that we've had some favourable development
9 in -- in those claims that we've recognized. Not a
10 real significant amount. Like, we're talking -- if --
11 if they just -- if the -- if our forecast just kind of
12 stayed the same we'd have just no development. Just
13 the claims incurred would stay consistent. We're
14 getting slight negative development, which we're
15 starting to recognize.
16 So on the one (1) end, I obviously see
17 the mortality table that we looked at, and we're
18 having some favourable experience. So that would tell
19 me that maybe we have a potential for some more
20 favourable development. On the other hand, we have
21 relapses occurring. And to what extent will those con
22 -- continue to happen?
23 And then on the -- on the personal care
24 side particularly, what will the needs of the
25 claimants be as they age? A lot of them we talked

1 about are living at mom and dad's house. And maybe
2 not -- not paying out a lot of personal care to them.
3 But what -- what happens when mom and dad aren't
4 around any more, right? Do you suddenly go after
5 thirty (30) years where you've hardly paid any
6 personal care, and then you're paying for everything
7 immediately? So that's a risk I -- I also worry
8 about. And that's something that we rely on case
9 managers to -- to help us assess on a claimant by
10 claimant basis.
11 MS. ANDREA SHERRY: Yeah, that's
12 helpful. Yeah. And, you know, I hesitated before I
13 asked the question, because it's always a judgment
14 call and it's -- and I didn't want to put you on the
15 spot. But I also -- I just want to emphasize, and I
16 guess this is on the -- my list here, is because
17 whatever is decided there flows directly into the rate
18 indication.
19 So if there is excess IBNR held, I
20 guess that's the way to put it, that goes directly
21 into the rate indication and that's very key. One (1)
22 more question on this. And I've asked IRs about this,
23 so I'll ask you now.
24 MR. LUKE JOHNSTON: Can I just say one
25 (1) thing on that? May -- maybe you -- you can help

me understand. But -- so if -- let's say we have another year of data, and it says favourable development. And -- and I -- we add to that assumption that we say it's going to be lower. The impact of that would really be just to release some of the money we're holding in claims liabilities. So --

MS. ANDREA SHERRY: Yeah.

MR. LUKE JOHNSTON: -- we real -- right?

MS. ANDREA SHERRY: M-hm.

MR. LUKE JOHNSTON: So it -- it might not affect rates at all. Like, if -- if it lowers the ultimate -- if it lowers our annual estimates slightly, then it -- it could feed on the --

MS. ANDREA SHERRY: It should if you're releasing reserves, right?

MR. LUKE JOHNSTON: Yeah. What was that? Talk louder?

MS. ANDREA SHERRY: I talked over you. No, I talked over you. Sorry.

MR. LUKE JOHNSTON: Oh.

MS. ANDREA SHERRY: That was my bad.

MR. LUKE JOHNSTON: We've got a whole synchronized routine going. The -- yeah, like, it's just -- I don't want to get too deep here, but when

1 you change the tail assumption right now on PIPP,
2 you're going to change the ultimate for twenty (20)
3 years of PIPP.
4 So if that's a five hundred thousand
5 dollar ($500,000) change, you might release $10
6 million in -- into net income, so to speak that year.
7 But you'd only have a five hundred thousand dollar
8 ($500,000) in your forecast. So you're -- you're
9 correct. But just so the -- we understand how that --
10 that all works.
11 MS. ANDREA SHERRY: Well, on the way
12 that you're doing rate indications, though, right? It
13 would actually impact it quite significantly, right?
14 Because you're doing fiscal year basis, so --
15 MR. LUKE JOHNSTON: That's all
16 prospective, though, so there wouldn't be a -- a -- to
17 the extent that we do a -- we're about to do a
18 actuarial review right now. If -- if we decide to
19 lower some of our assumptions and we release $20
20 million, that just flows into net income. It's not
21 like the 20 million is forecasted two (2) or three (3)
22 years out, in -- in the rate -- the rating years.
23 That's all. And that's fine.
24 MS. ANDREA SHERRY: Yeah, but you're -
25 - you use fiscal year income statements to break even?

1 So does it not impact your indication?
2 MR. LUKE JOHNSTON: No. No, it
3 wouldn't. So if -- the Board's already set rates for
4 this year.
5 MS. ANDREA SHERRY: Okay.
6 MR. LUKE JOHNSTON: So when we make
7 our presentation to the Board, I'm not presenting that
8 forecast to release money necessarily on the IBNR
9 because we have a special case this year where we're
10 lowering the interest rate PFAD, and that's included.
11 But this -- the rates in this year are
12 set. To the extent that we have favourable or
13 unfavourable development in the actuarial report, it
14 just affects the net income from that year. And any
15 deviations will just flow into re -- retained
16 earnings.
17 MS. ANDREA SHERRY: Right. It would
18 flow into retained earnings. I'm just trying to make
19 sure I understand this, and I should, but -- because
20 if you reduce your claims incurred number on your
21 income statement by $100 million, you go around next
22 year to do your rates, right? Your retained earnings
23 are $100 million higher, so your break-even point is
24 obviously going to change.
25 MR. LUKE JOHNSTON: Yeah. Like

1 anything -- any actual that changes -- like if our
2 equities go down and now we're applying it to a lower
3 number or if we have more or less claims, the number--
4 MS. ANDREA SHERRY: Right. So it
5 would definitely impact the next year's rate
6 indication, though, if you didn't -- as compared to
7 not doing anything.
8 MR. LUKE JOHNSTON: Yes. Any -- like
9 any new base line is going to change the fore -- the
10 forecast. Just -- I guess my point was that there's
11 some changes that have -- that are large, like -- like
12 a change to a -- a tail factor.
13 And an actuarial report might release
14 $20 million, but only change claims incurred going
15 toward by a small amount because that's a point-in-
16 time change and then going forward, just looking at
17 the forecasts of new accident years, yeah.
18 MS. ANDREA SHERRY: But it does go
19 into retained earnings, right? So that all --
20 MR. LUKE JOHNSTON: That's right,
21 yeah. Investment income, essentially, yeah.
22 MS. ANDREA SHERRY: And then it'll
23 impact the ultimates that you use to forecast as it
24 does, however it does, yeah.
25 MR. LUKE JOHNSTON: Absolutely, yeah.

1 New revised figures will -- will change the forecast
2 for sure.
3 MS. ANDREA SHERRY: Okay. So just one
4 (1) more question this one. So -- and I guess I bring
5 it up because it's just -- it's so big. It's so
6 important. And in prior IRs, I've asked if you've
7 ever talked to any other jurisdictions to try to do --
8 get a handle on your tail factor.
9 And I always ask because when I was at
10 SGI, we had similar coverages. And because we didn't
11 know what the tail factor would be, we went to Quebec.
12 And they gave us beautiful data to use to help us set
13 a tail factor.
14 And I've just asked in the past why you
15 won't consider that because they were very -- they
16 were fine to share the data. And they've been around
17 for a long, long time, so their tail factor was
18 useful. I'm not sure if they still do that, so -- but
19 they did when I was there.
20 MR. LUKE JOHNSTON: Yeah. We -- we
21 talk more often with -- with SGI than we do with
22 Quebec. Maybe just have a better relationship there
23 or --
24 MS. ANDREA SHERRY: Or similar. I
25 think you're more similar to SGI than Quebec.

1 MR. LUKE JOHNSTON: We're -- we're
2 similar, for sure, yeah. I -- I -- that's -- that's
3 true. We're -- we're comfortable with the approach
4 that we have to -- to modify that -- the mortality
5 experience as -- as it becomes available.
6 We have talked to SGI about their
7 mortality table. I can't recall the result of it, but
8 I -- I get your -- your point that we could work
9 closer with SGI and -- and Quebec to see if their
10 experience is doing the same as ours, particularly in
11 their relapse and -- and extended area that we don't
12 have data on, yeah. I'm -- I accept that.
13 MS. ANDREA SHERRY: Okay. That's all
14 I had on that.
15 THE CHAIRPERSON: Okay. Thank you
16 very much. I'm just looking at the time, and I know
17 some people have an important meeting at 12:30. So
18 I'm going to start the lunch hour -- lunch break now,
19 and we'll return around 1:30. Thank you very much.
20
21 --- Upon recessing at 12:32 p.m.
22 --- Upon resuming at 1:34 p.m.
23
24 THE CHAIRPERSON: Well, welcome back.
25 I hope you enjoyed your lunch. We're going to resume

1 with our dialogue. And I believe Mr. Johnston has a
2 few questions of Ms. Sherry, and I believe she has
3 some in reverse, so we'll -- we'll carry on with the
4 dialogue. Thank you.
5 MR. LUKE JOHNSTON: Yes, of course
6 being mindful of the time because there's several
7 other things that have to happen today. I -- I just
8 have two (2) questions remaining from -- from the
9 discussions that have happened to this point.
10 The first one was on this
11 intergenerational inequity idea, and my question is --
12 well, maybe I'll tell you my view and then tell -- you
13 can say if you agree or -- or disagree. I would think
14 MPI has relative to other insurers the lowest level of
15 intergenerational equity that you could have, and I
16 can tell you why I think that.
17 We don't make any profit. All our
18 customers are in this Province, and a few -- like a
19 significant portion of them stay in this Province. We
20 have a -- you know, we don't take the money and pay it
21 out to shareholders. They are the shareholders, so to
22 speak, so if we have excesses it returns to those
23 people. And to a large extent, they're the same
24 people. Not all -- not perfectly but...
25 But -- so I guess my question is: The

1 model that we have, or even the model that we're
2 proposing for the RSR, would that not have in your
3 opinion a very low level of intergenerational inequity
4 relative to any other insurance plan that -- that
5 exists?
6 MS. ANDREA SHERRY: Actually I would
7 disagree with that, and I'll tell you why. In a
8 private rate-making setting we set rates on an
9 accident year basis so we use history to project into
10 the year in question. So our goal is to charge each
11 person in the year in question the right amount to
12 cover all of the losses. And we set rates at quite a
13 granular level, much more granular than MPI does. But
14 that's kind of irrelevant to this.
15 But we -- I can tell you in my current
16 role that we are actually losing money in a lot of the
17 auto jurisdictions. Our rate indications are much
18 higher than what we're actually taking in rate. So
19 we're actually -- there is zero intergenerational
20 inequities, because the only way you're going to pay
21 is if you buy an auto insurance policy with us. And
22 our projections are for that exact year, right?
23 We don't -- like, the capital that we
24 hold for solvency does not play a part in our rate
25 making. Right? It's two (2) very different things.

1 Our rate making is projecting the cost on average for
2 a person to drive a vehicle. And we have to collect
3 that on average to break even, or have an underwriting
4 profit. And since we don't take the full indication
5 we're actually -- we have an underwriting loss. So
6 there is no intergenerational inequity in that
7 situation.
8 MR. LUKE JOHNSTON: So how -- what
9 happens in terms of when you have -- because a lot of
10 the discussion here is if we have -- may -- maybe make
11 excess profits, and -- and we put them in our RSR and
12 we take longer to distribute them back to the
13 stakeholders. How does that -- how would that compare
14 to a private system where you -- I'm assuming if you
15 just have really good experience you just keep the
16 money and make good profits that year.
17 Is that -- is that fair?
18 MS. ANDREA SHERRY: Yeah. No, that
19 would be absolutely true in a private environment.
20 And that's how the -- the stock companies work. You
21 know, they just won't write if they're not going to
22 make a profit. So, yes.
23 MR. LUKE JOHNSTON: Okay.
24 MS. ANDREA SHERRY: But the only thing
25 I would say to that, again, is that the people who buy

1 the policy have the choice of who they are going to
2 insure with. And the insurance companies make the
3 choice about what price to charge in order to either
4 attract or not attract business to make or lose money
5 as well. So I don't -- I don't -- the reason I say
6 intergenerational inequities exist -- could exist in a
7 public monopoly is because they are essentially -- you
8 are an extension of the provincial government.
9 So for you to hold excess seems
10 counterintuitive, because you don't need it, right?
11 MR. LUKE JOHNSTON: Why don't we need
12 it?
13 MS. ANDREA SHERRY: Well, because you
14 don't have to -- you're not -- the BC earthquake's not
15 going to happen to you. The --
16 MR. LUKE JOHNSTON: We're not saying
17 it is.
18 MS. ANDREA SHERRY: Right. But the
19 risks are completely different.
20 MR. LUKE JOHNSTON: I -- I --
21 MS. ANDREA SHERRY: Am I understanding
22 your question?
23 MR. LUKE JOHNSTON: -- on -- on
24 competition, comp -- completely. Let's just put aside
25 all the risks that -- that MPI's been quite clear

1 we're not -- we're not trying to include in our RSR.
2 But you would agree that stock market
3 risk exists for -- for oth -- for MPI and for -- and
4 for Wawanesa?
5 MS. ANDREA SHERRY: Yes. Yeah.
6 MR. LUKE JOHNSTON: And are -- are we
7 -- are any other risks in the DCAT report risks that
8 aren't applicable to a monopoly insurer? Are -- are
9 we --
10 MS. ANDREA SHERRY: Sorry?
11 MR. LUKE JOHNSTON: Are any of the
12 risks that we present in the DCAT not applicable to
13 MPI?
14 MS. ANDREA SHERRY: In your DCAT, no.
15 MR. LUKE JOHNSTON: No. So I -- I
16 guess I'm struggling, like, with the -- with -- with
17 the argument that we just -- we don't need anything.
18 I think that's what you just said, We -- we're --
19 we're an extension of the government, so why do we
20 need anything? I -- I think that's what you said.
21 MS. ANDREA SHERRY: What's your
22 question?
23 MR. LUKE JOHNSTON: I think that's
24 what you said, and I'm just trying to understand why
25 you --

1 MS. ANDREA SHERRY: Well, I never said
2 that you didn't need anything. And I've -- I have put
3 forth that as a theoret -- a thought-provoking
4 argument that holding excess monies in this
5 environment has to be balanced with the negative
6 impact of that.
7 MR. LUKE JOHNSTON: So that -- is that
8 a --
9 MS. ANDREA SHERRY: And that is --
10 MR. LUKE JOHNSTON: -- actuarial
11 argument, or is that just a -- like, your own personal
12 view on the -- on the issue?
13 MS. ANDREA SHERRY: That would be my
14 personal view.
15 MR. LUKE JOHNSTON: Okay. Okay.
16 MS. ANDREA SHERRY: I can't separate
17 being an actuary from being a person, so I --
18 MR. LUKE JOHNSTON: Fair enough.
19 MS. ANDREA SHERRY: -- feel like it's
20 both.
21 MR. LUKE JOHNSTON: Fair enough.
22 MS. ANDREA SHERRY: Yeah.
23 MR. LUKE JOHNSTON: So I know you
24 mentioned our -- our rate making methodology, and if -
25 - whether that was your focus. And -- and in this

1 particular exercise I don't know that it was. But we
2 -- we have a --
3 MS. ANDREA SHERRY: No, it -- it
4 definitely wasn't, but I feel like it ties.
5 MR. LUKE JOHNSTON: Yeah. So we -- we
6 do calculate rates per act -- actuarial standards of
7 practice and it indicates a higher rate increase than
8 -- than we're proposing. So I'd suggest that,
9 similarly, we're -- we're not -- from a pure actuarial
10 basis, we -- we're pricing at no profit and
11 indicating, I think it was a 4 percent rate change.
12 So I'm -- I keep hearing
13 intergenerational inequity. And I'm really -- I 'm
14 really struggling to understand what that -- what that
15 means and -- and why it's so applicable to MPI.
16 MS. ANDREA SHERRY: Well, I think you
17 just asked two (2) different things.
18 MR. LUKE JOHNSTON: Sure. Can you
19 answer both?
20 MS. ANDREA SHERRY: I'll try. Tell me
21 if I'm not. Okay, I'll start with the
22 intergenerational inequity concept because it's come
23 up so much in this discussion. And I think really
24 what it comes down to is that, if I do not feel it is
25 best for the Manitoba company -- or economy and the

1 Manitoba ratepayers if MPI holds a whole bunch of
2 their money.
3 Now, I think that for different re --
4 for a few reasons, but one (1) is that to rate
5 properly you should be rating for the people that are
6 going to be in that cohort of drivers in a particular
7 year. And you should try and rate that as accurately
8 as possible so that if they leave the system, others
9 don't necessarily -- they don't benefit from others
10 and others don't benefit from them or vice versa,
11 right? The more accurate you are, the more equitable
12 you are. And that is an actuarial principle.
13 So holding a whole whack of money -- a
14 Crown Corporation holding money does -- especially
15 when, you know, we've very explicit. We say we're
16 going to have an RSR rebuilding fee of 1 or 2 percent.
17 Well, that's charging the current policyholders for an
18 event that may or may not occur in the next forty (40)
19 years and may not occur in their lifetime and may not
20 occur when they even live in Manitoba, so is that
21 equitable?
22 And that's intergenerational inequity,
23 is when one (1) generation is paying for another.
24 Now, I realize that happens a lot because the
25 taxpayers paid for --

1 MR. LUKE JOHNSTON: The floodway or --
2 yeah, yeah?
3 MS. ANDREA SHERRY: I was thinking the
4 floodway, yeah, and now we benefit. So it does
5 happen, but it exists. And I think we have to stop
6 questioning whether it exists because I think it's
7 quite logical it does. Would you agree that it
8 exists?
9 MR. LUKE JOHNSTON: My -- yeah, my
10 point was not that it doesn't exist, but that -- that
11 how is MPI any better or worse than any other
12 insurance plan given that we -- we don't make profits,
13 we rebate, we -- we adjust to zero net income every
14 year.
15 MS. ANDREA SHERRY: Yeah.
16 MR. LUKE JOHNSTON: All those things
17 would seem pretty --
18 MS. ANDREA SHERRY: I find it strange.
19 MR. LUKE JOHNSTON: -- fair to -- to
20 me, from an intergenerational perspective.
21 MS. ANDREA SHERRY: I find it strange
22 that we keep going back to private company. MPI's not
23 a private company. It doesn't have -- there is so
24 very little in common. The only thing in common is
25 that you write auto insurance. But the way you do it,

1 the products you offer, everything about it is
2 completely different. The capital you have to hold,
3 the backing of the company. I just -- I don't
4 understand how we can even compare them, the purpose
5 of them even.
6 I mean, the purpose of stock company is
7 to make money. I'm not going to dispute that. The
8 purpose of a public company is to provide a public
9 service, the best public service possible at the
10 lowest possible cost; totally different thing. In
11 other jurisdictions, auto -- your coverages are
12 mandated, and just like they are here, but they're
13 different.
14 So I just -- I struggle with that
15 comparison on the level that we've been talking about
16 it today.
17 MR. LUKE JOHNSTON: That -- I accept
18 that. I guess my point was just that how can MPI do
19 any better of a job in managing intergenerational
20 equity than it already -- than it already is, really,
21 like, and -- and what else am I supposed to compare to
22 other than other different types of insurance plans
23 and say, you know, MPI's doing a pretty darn good job
24 of managing intergenerational equity relative to the
25 other types of insurance that people might buy and --

1 and what all -- what could we really do that's that --
2 that much better.
3 And I think the only criticism that I
4 think I'm hearing is that just holding money is --
5 isn't fair?
6 MS. ANDREA SHERRY: No, I've talked
7 about -- a little bit about things that I feel you can
8 do better in terms of your forecasting accuracy for
9 the claims incurred portion of it.
10 MR. LUKE JOHNSTON: That's --
11 MS. ANDREA SHERRY: And also --
12 MR. LUKE JOHNSTON: -- companies, too,
13 though, right? Any insurance company could have
14 forecasts that don't turn out or -- or could be --
15 MS. ANDREA SHERRY: Right.
16 MR. LUKE JOHNSTON: -- improved,
17 right? Is that fair?
18 MS. ANDREA SHERRY: Yeah. Except the
19 only problem is that you've got a huge book, a stable
20 book, all of those good things that actually people
21 who forecast love. I don't have that really.
22 MR. LUKE JOHNSTON: Yeah.
23 MS. ANDREA SHERRY: I wish I had that.
24 In some of our larger jurisdictions we have it a bit
25 but nowhere near what you have, so -- because our book

1 might be different for some reason; you know, a
2 private book. But you've got them all. I mean,
3 you've got the whole province.
4 So I think that -- yeah, I just -- I
5 feel that there's -- are areas to improve there with
6 the amount of data you have.
7 And not only that. Well, yeah, I guess
8 it all comes down to data, but I was thinking of the
9 loss experience, but also the costs, et cetera, that
10 you somewhat control, right, with the repair centres.
11 MR. LUKE JOHNSTON: Okay.
12 MS. ANDREA SHERRY: So, yeah.
13 MR. LUKE JOHNSTON: Yeah. No, I --
14 let -- that's fine. If you have anything more to say
15 on inter-generational equity, I was done with that
16 one. I'm getting used to this now --
17 MS. ANDREA SHERRY: Are you -- are you
18 getting --
19 MR. LUKE JOHNSTON: -- you know.
20 MS. ANDREA SHERRY: -- are you tired
21 of inter-generational equity?
22 You'd asked about rates, though, right?
23 You'd made the point that, on an actuarial basis, the
24 rate indication -- I think it was four point one
25 (4.1), if I'm not mistaken.

1 MR. LUKE JOHNSTON: That sounds about
2 right, yeah.
3 MS. ANDREA SHERRY: Yeah. And then I
4 guess, you know, through IRs, I was asking the
5 question -- so in my experience at SGI, that's what we
6 did --
7 MR. LUKE JOHNSTON: M-hm.
8 MS. ANDREA SHERRY: -- right. We did
9 rate making the exact same way a private company would
10 do rate making except we didn't build any profit
11 margin in or anything. And what we did is, because
12 SGI is a monopoly as well -- well, the auto fund
13 portion of SGI -- we took the -- all of the
14 investments that back SG -- or the auto fund and
15 included an investment income return into the
16 calculation of the required rate because you can't
17 ignore all of the money they make from holding, right,
18 the RSR or whatever --
19 MR. LUKE JOHNSTON: Yeah.
20 MS. ANDREA SHERRY: -- we want to call
21 it. And plus all their claims reserves, they make
22 interest off of that as well. So we wanted to -- we
23 just included that as a -- an income per exposure kind
24 of calculation.
25 So I know I asked you to do that in an

1 IR, and I can't remember -- it wasn't -- it certainly
2 didn't bring it down to zero, but it brought it down
3 somewhat.
4 MR. LUKE JOHNSTON: Yeah.
5 MS. ANDREA SHERRY: And I didn't
6 analyze that fully so I'm not prepared to say whether
7 I agreed with it or not. But it is my opinion that
8 rates should be calculated in that manner. And I
9 don't really care -- like I know -- okay, the
10 indication said four point one (4.1). I think some
11 adjustments have to be made to that indication before
12 we can say that that is the indication, like the
13 adjustment I just talked about. But I feel that the
14 right thing to do is set the rates on an actuarial
15 basis.
16 Now, having said that, you set the
17 rates on an actuarial basis, you're still going to
18 have to do your financials and everything like that --
19 MR. LUKE JOHNSTON: M-hm.
20 MS. ANDREA SHERRY: -- right? So I --
21 that is my personal opinion as an actuary that the
22 rates should be set, but on an accident-year basis.
23 MR. LUKE JOHNSTON: And we might be
24 talking about -- well, you -- it sounds like you don't
25 agree, but if you go back to 1992 when we had

1 developed the approach we had -- we have now, that's
2 really the essence of it is that the actuary at the
3 time was trying to set actuarial sound rates and had
4 this issue of additional investment income and other
5 income from other sources.
6 The way we -- we made that adjustment,
7 and as we said, whatever the sources are of net
8 income, we're making it zero. So if -- in -- in one
9 (1) of the IRs, we had the original indication and
10 then we tried to estimate how that indication would go
11 down if we included investment income. And I believe
12 it might have dropped to 3 percent or so. What our
13 methodology does, it says, It doesn't matter what the
14 sources, we're breaking even net income.
15 So the Corporation can and has set
16 rates on -- per actuarial standards. It's just the
17 adjustment in terms of how you get that to break even
18 net income, and if we even want that to be the measure
19 any more is a totally different question to me.
20 But I think we're trying to achieve the
21 same thing. That's -- that's just my opinion.
22 MS. ANDREA SHERRY: Yeah. I think
23 there might be a transition period if you were to
24 switch it because -- right?
25 MR. LUKE JOHNSTON: Well, there'd be a

1 little bit of dislocation for sure, and we show that
2 in the -- in the rate application.
3 MS. ANDREA SHERRY: Yeah, there would
4 a bump kind of in the financials, I think.
5 MR. LUKE JOHNSTON: Yeah.
6 MS. ANDREA SHERRY: Yeah.
7 MR. LUKE JOHNSTON: We need -- we'd
8 need guidance from the Board on that.
9 MS. ANDREA SHERRY: Yeah.
10 MR. LUKE JOHNSTON: Did I let you
11 finish, okay?
12 MS. ANDREA SHERRY: So I --
13 MR. LUKE JOHNSTON: Were you finished?
14 MS. ANDREA SHERRY: I was going to say
15 one (1) more thing.
16 MR. LUKE JOHNSTON: Oh, go for it --
17 MS. ANDREA SHERRY: Okay.
18 MR. LUKE JOHNSTON: -- yeah, yeah.
19 MS. ANDREA SHERRY: In terms of -- and
20 -- and this is just a thought that occurred to me, is
21 that when your -- and actually it's Don Palmer. I
22 worked for Don Palmer at MPI, and he was the guy who
23 set this up. But I remember him saying to me proper
24 rate making, you can't cry over spilt milk, right.
25 You can't look back.

1 So what you're trying to do is set the
2 right rate for the people that are going to buy
3 insurance in the year that you're pricing for, right?
4 That's the whole premise of actuarial rate making.
5 So what is actually happening with the
6 way you're doing it is that you're including changes
7 in claims incurred from prior years into your rate
8 making. So you kind of are crying over the spilt
9 milk. Like if you had bad years, you're going to
10 charge the people for that just to break even.
11 And there's some inter-generational
12 inequities right there.
13 MR. LUKE JOHNSTON: I guess the -- the
14 question then -- then that -- that I would have is,
15 just for the sake of argument let's assume that our --
16 our rate indication was -- was 4 percent with no
17 profit and then it fell to say 3 percent when we
18 included the investment income from our RSR. The --
19 the struggle I'm having is we're going to ask for a 3
20 percent rate increase, and make $21 million of income
21 in the rating period per our forecast. And then we
22 come to the Board and say, That's -- that's our new --
23 our definition of break even.
24 MS. ANDREA SHERRY: But that should
25 level, right. I guess that's what I was saying

earlier, is there'll be a bump but then it should level out.

MR. LUKE JOHNSTON: Yeah. And I -- I guess my question is: Why is that better than just targeting break-even net income every year? That's --

MS. ANDREA SHERRY: Right.

MR. LUKE JOHNSTON: Right. And so right now we're saying: Well -- well, we made twenty (20) something million dollars in profit. Don't worry, it'll even out probably next time.

Why not just set it to zero, like -- like we've always been doing? I don't -- that part's hard for me to understand.

MS. ANDREA SHERRY: Well, as I said before, my opinion is that you should charge the people the right rate for the year in which they're purchasing the auto insurance. You should be setting the rate to cover the cost in that particular year, and that's what actuarial rate making does. So I think we agree to disagree at this point.

MR. LUKE JOHNSTON: Oh, I -- I have no disagreement in what you've said, and we show in the -- in the actuarial section on rate setting the -- the difference between the two (2) methods, just to make sure the Board understands that they're -- they're

1 close but they're not -- not the same. Yeah.
2 Is that fair?
3 MS. ANDREA SHERRY: Yeah.
4 MR. LUKE JOHNSTON: Yeah. Okay. I
5 only -- I only have one (1) more question unless you
6 had more --
7 MS. ANDREA SHERRY: Okay.
8 MR. LUKE JOHNSTON: -- on that topic?
9 Yeah. After all this talk about DCATs, and MCTs, and
10 forecasting, why -- why do you or CAC recommend the
11 percentage of premium method?
12 MS. ANDREA SHERRY: Because we don't
13 feel that the outstanding issues with the DCAT have
14 brought -- been brought to closure to a level where we
15 feel it's reliable.
16 MR. LUKE JOHNSTON: Do you -- do you
17 think you'll ever be satisfied? And I -- I don't mean
18 that as a -- you know, like -- 'cause this has hap --
19 this has gone on for a while, and -- and I think we've
20 been --
21 MS. ANDREA SHERRY: I agree.
22 MR. LUKE JOHNSTON: -- about as open
23 as we can, and -- you know, and whether you like my
24 approach to openness or transparency that's --
25 MS. ANDREA SHERRY: Yeah.

1 MR. LUKE JOHNSTON: -- that's -- we
2 could talk about that, but I don't see it ending.
3 Like I don't -- I don't --
4 MS. ANDREA SHERRY: Yeah. And I'm
5 with you a hundred percent, and I feel like this does
6 have to be brought to closure. So I think that's part
7 of the reason that Dr. Simpson and I did the evidence
8 in the first place was because we wanted to say, Okay,
9 this is where we're at. I don't feel -- I feel like
10 we're close to agreement. I think there's a few
11 outstanding issues.
12 I think it's up -- the Board has -- has
13 the decision, you know, how big they think the RSR
14 should be. And I guess that's an outstanding issue,
15 too, is because MPI is recommending a min of one (1)
16 in forty (40), a max 100 MCT. I don't think that's
17 valid. If that's not valid, then obviously we can't
18 rely on it this year, right. So then we'd have to go
19 back to the percent of premium method.
20 And that -- so there's that one (1)
21 issue. And then there's the few outstanding issues
22 with the actual scenarios.
23 MR. LUKE JOHNSTON: Okay.
24 MS. ANDREA SHERRY: And I guess --
25 yeah, I feel -- my perspective? I definitely want to

1 be collaborative. I definitely want this to be done.
2 I definitely want a process to be in place where this
3 -- this will be easy, right.
4 They can come and -- and you've got
5 your DCAT, and everybody understands the scenarios
6 and, you know, we've got a range that is understood
7 and agreed to by all. I think that's the place where
8 we want to get to.
9 So in terms of the unresolved issues --
10 so I just brought up the range, that would be one (1)
11 of them. And I know we've discussed, the two (2) of
12 us.
13 MR. LUKE JOHNSTON: M-hm.
14 MS. ANDREA SHERRY: But, you know, the
15 equity decline. I mean, that one's still outstanding.
16 We had a discussion this morning about, you know, what
17 do you do if one (1) year it goes down but yet you
18 know the rebound's coming? I mean, what decision is
19 made with that? Should be implement a rate increase
20 even though we know a rebound will be coming.
21 So there's, I feel -- and there's the
22 combined scenario, too. And I -- I'm kind of at a
23 loss on that one. I'm not sure what the explanation
24 is. So will it ever come to closure? I mean, I
25 certainly hope so.

1 MR. LUKE JOHNSTON: Yeah, it's just
2 hard to see this -- with all due respect, I -- I hear
3 the same comments every single year: We're close.
4 We're close.
5 MPI has been fairly consistent putting
6 out DCATs around the 200 million mark. At -- at some
7 point I think, you know, like, a decision has to be
8 made that this is, you know, it's not going to satisfy
9 every actuary in every painful detail of the DCAT, but
10 is this a -- a good actuarial report? Is this
11 acceptable? Our external actuary seems to think so.
12 The first year, maybe not. He had a whole bunch of
13 recommendations to make improvements. But we made
14 them.
15 At what point is it okay, right? Like
16 -- and -- and I don't know if it's ever going to be
17 okay in this -- in this forum, with -- because I think
18 there's other -- you know, clearly we're not talking
19 just about actuarial calculations. You have other
20 kind of philosophical arguments that you believe in
21 and -- and how do I -- how do I res -- respond to that
22 when I'm just trying -- trying to do an actuarial
23 report, what I think is per actuarial standards. So,
24 anyway, that's -- that's my perspective on that.
25 I still -- I know you -- there is -- I

1 believe CAC has consistently said if we can't reach
2 agreement on this, go back to percentage of -- of
3 premium. That's really hard for me to understand as
4 an actuary because, like, I don't think MCT is
5 arbitrary. I don't know how we can say MCT is
6 arbitrary at picking a hundred percent, or -- like,
7 everybody uses the MCT. Like, it's -- percentage of
8 premium is arbitrary. Like, there is -- you don't --
9 you don't have anything to present that tells me that
10 10 to 20 percent is -- is a good number and why.
11 And so how -- how can I sit on this
12 side and say, Yeah, I -- oh, I agree, we're not done
13 the DCAT yet but let's keep using 10 to 20 percent of
14 premium for -- based on -- you know, like that --
15 that's a -- a real struggle for myself and MPI.
16 And I think we've been pretty clear
17 that we -- we've even said -- you know, we passed the
18 pen to -- to Mr. Pelly or -- we don't really care what
19 the -- the DCAT indicates. Like, let it just be what
20 it -- what it is. But do it right.
21 So that -- I'm just -- just a comment.
22 I -- I really struggle with that -- that
23 recommendation.
24 MS. ANDREA SHERRY: I don't know if I
25 want to get into the MCT too much more, but maybe I'll

1 just make an attempt to clarify for the Board what the
2 -- how the MCT really works.
3 So the MCT is a state in time
4 indication of a company's capital. It is run straight
5 from the financial results of the company and it says:
6 Here are the results of the company. This is what
7 your MCT is, okay?
8 That's -- that's what it is. So you
9 can take any result -- any statement or any financial
10 statements and create an MCT. So it's just basically
11 a summary of the financial health of an organization.
12 That test. So you can argue the merit of the test,
13 but that's what it's intended to be.
14 So the DCAT is something else
15 altogether. The DCAT is scenario testing, stress
16 testing on a company's results. So you can take any
17 DCAT scenario. You can take the combined scenario of
18 MC -- of MPI and I'm sure you might have one this.
19 You get financial statements out of it and you get an
20 MCT result.
21 So an MCT is, like, it's the result of.
22 So when I make a comment such as a hundred percent MCT
23 is arbitrary, what I'm saying is a hundred percent MCT
24 doesn't link us to any set of risks, it's just a
25 number. But we don't know with certainty what could

1 cause that number because we have no scenario that
2 results in that number.
3 So what I'm saying is give us the
4 scenario, tell us what this risk is, and if you want
5 to link it to the MCT, fine, but you don't really need
6 to, but let's make the ranges based on true scenarios
7 instead of taking this number that's not linked to any
8 real level of risk. That's my point with the MCT.
9 And I -- I hope that's clear. I might not be
10 explaining my thought process very well, but that is
11 why I am opposed to using it.
12 MR. LUKE JOHNSTON: Didn't earlier we
13 -- we talk about the MCT, like, is taking literally
14 your financial statements and bucketing items into
15 different risk categories, and then applying a risk
16 mar -- factor to it? So how is that not about risk?
17 Like, that's completely about risk. Like, they're --
18 they're called risk factors.
19 MS. ANDREA SHERRY: Tell --
20 MR. LUKE JOHNSTON: Like, they -- they
21 --
22 MS. ANDREA SHERRY: Tell me what the
23 risk scenario is then that gives you a hundred percent
24 MCT.
25 MR. LUKE JOHNSTON: I'm trying to

1 understand what...
2 MS. ANDREA SHERRY: Well, what I'm
3 saying is that if you want an RSR that is based on
4 risk --
5 MR. LUKE JOHNSTON: Yeah.
6 MS. ANDREA SHERRY: -- give me a
7 scenario that gets you a hundred percent MCT. And
8 then we can discuss whether that's a plausible
9 scenario. But just a hundred percent MCT, just it
10 doesn't stand for anything.
11 MR. LUKE JOHNSTON: So what does it
12 stand for for a private company?
13 MS. ANDREA SHERRY: I don't think
14 that's relevant. Like --
15 MR. LUKE JOHNSTON: And why -- why is
16 it not re -- why does that have any meaning whatsoever
17 to another insurance company and has zero meaning to
18 us? Like --
19 MS. ANDREA SHERRY: I'm not sure how--
20 MR. LUKE JOHNSTON: So how does --
21 MS. ANDREA SHERRY: Explain how that's
22 relevant.
23 MR. LUKE JOHNSTON: So I -- I give you
24 two (2) financial statements without the name of the
25 company on top and you put them -- all the items into

1 the bucket and you get a risk assessment. Does it
2 matter that one (1) of them's Manitoba Public
3 Insurance?
4 MS. ANDREA SHERRY: It absolutely
5 does. Absolutely does.
6 MR. LUKE JOHNSTON: In terms of the
7 risks that it's assessing, right, if --
8 MS. ANDREA SHERRY: Yeah.
9 MR. LUKE JOHNSTON: If -- how is the
10 MCT at 100 percent not tellin you the risk level
11 associated with that financial statement? That is --
12 is it not the purpose of why they put them in the
13 buckets and multiply the risk factors to --
14 MS. ANDREA SHERRY: See, that's my
15 point, I guess. Okay, I think talking about private
16 is really irrelevant in this cont -- in this area.
17 But if we're going to, then the way a private company
18 sets their target MCT is through the DCAT, not the
19 other way around. We run scenarios that will give us
20 results, and that tells us what our target MCT should
21 be. And that's what I'm suggesting for MPI.
22 I'm not -- I'm not suggesting something
23 crazy. It's done. It's -- it's just as -- it's more
24 common practice than just throwing a number out there.
25 Like, we actually use the DCAT to get that number. So

1 I...
2 MR. LUKE JOHNSTON: What's a private
3 insurer's minimum MCT?
4 MS. ANDREA SHERRY: One fifty (150).
5 MR. LUKE JOHNSTON: What is that based
6 on?
7 MS. ANDREA SHERRY: OSFI regulations.
8 MR. LUKE JOHNSTON: Okay, what is the
9 -- the upper MCT level based on, DCAT, for a private
10 company?
11 MS. ANDREA SHERRY: The target?
12 MR. LUKE JOHNSTON: A target, sorry.
13 MS. ANDREA SHERRY: Yes.
14 MR. LUKE JOHNSTON: So what is MPI's
15 RSR based on, the minimum?
16 MS. ANDREA SHERRY: Well, that --
17 MR. LUKE JOHNSTON: The DCAT.
18 MS. ANDREA SHERRY: Yeah.
19 MR. LUKE JOHNSTON: So -- and --
20 MS. ANDREA SHERRY: But that's why --
21 MR. LUKE JOHNSTON: And now we're
22 saying then to -- to benchmark us to the MCT standard
23 at the top, we're not asking to hold a hundred percent
24 MCT or a dollar over that. We're saying give us that
25 regulatory standard like -- or sorry, industry

1 standard type target method to give us a range.
2 We're not asking to hold 366 million
3 all the time. You -- you're -- on the private sector,
4 you're saying one fifty (150) to whatever I want.
5 MPI's saying, Hey, we did our own risk analysis, too,
6 and it's a much lower number, but can we also
7 benchmark the -- some sort of industry figure as well
8 because we think that's relevant.
9 MS. ANDREA SHERRY: I don't
10 understand. Sorry.
11 MS. SUSAN PROVEN: I still didn't get
12 an answer when I asked you for, you know, a
13 guesstimate on what this could be. Let's not call it
14 an MCT or DCAT. Let's just try and figure out what
15 the upper range should be. And so far, all I've heard
16 from you is, We don't need it because we have it all.
17 We have the government backing us.
18 And what I want to ask you as an
19 insurance company -- and I'm sure you've got these
20 risks with climate change. We -- we've got a lot of
21 risks. And you know that our government saw two (2)
22 huge floods in the last five (5) years, and that that
23 taxed the public purse -- purse immensely.
24 So this Board, our attitude on the PUB
25 is that we want user-based rates. We want people to

1 pay for what they're getting.

2 MS. ANDREA SHERRY: Agreed.

3 MS. SUSAN PROVEN: And so we need to

4 figure out just exactly how we can make that happen.

5 And our man -- mandate has always been to make it

6 happen without profit. So we want to have rates that

7 actually cover the costs, and that's why we're

8 struggling with this.

9 We've got to have some kind of a

10 figure. And I think that's what Luke is trying to get

11 at. What would this be?

12 MS. ANDREA SHERRY: Well, I think I --

13 okay. I feel like I have answered that question, and

14 I apologize if I'm not being clear. What I am

15 suggesting is that you use the DCAT scenarios to get

16 your range. This 100 percent MCT is not clear to me.

17 I don't know why you'd do that. I think it's

18 arbitrary in this context.

19 I would use the results of this work

20 that has been done, worked on for however many years,

21 and say, Let's look at the results of the one (1) in

22 twenty (20) year to the one (1) in eighty (80) or

23 ninety (90) year event, and let's have a range from

24 your DCAT.

25 Now, I can't tell you as the Public

1 Utilities Board what that range should be. I can only
2 put out thoughts and -- but I can't tell you what that
3 should be. That's an answer only you can give, you
4 know.
5 And all I'm saying to you on that, on
6 that range, is that it's a balance between holding too
7 much and rate stability, and how important is one
8 versus the other to you given that MPI cannot go
9 insolv -- solvent, et cetera.
10 So I'm just giving you in --
11 information that I have, what I can tell you. But
12 this -- on this one (1) point, the MCT does not -- in
13 my opinion, it's not useful.
14 Does that help?
15 MS. SUSAN PROVEN: Not really because
16 I still don't know in -- you know, we're talking
17 millions --
18 MS. ANDREA SHERRY: Do you want to
19 know what I would do?
20 MS. SUSAN PROVEN: -- millions of
21 dollars here. And, I mean, we know what the bottom
22 is. We know where we don't want it to go, but I guess
23 I'd sort of like just even a guesstimate of -- you
24 know, we know that you're saying it shouldn't be three
25 hundred and sixty-six (366) or whatever that top

1 figure is. But I'm just sort of thinking, Well, where
2 should it be? I'm just curious.
3 Do you have any kind of estimate on
4 that?
5 MS. ANDREA SHERRY: I don't have the
6 results of the DCAT broken out in that kind of -- all
7 those probability levels. So I can't give you a
8 number because I don't have them.
9 MR. REGIS GOSSELIN: So -- so I -- I
10 guess I'm -- I'm intrigued by where the one (1) in
11 five thousand (5,000) probability came in. Where did
12 that number come -- how did that --
13 MS. ANDREA SHERRY: One (1) of the --
14 I'm not sure which -- what is it, sorry?
15 MR. BYRON WILLIAMS: Mr. Chair (sic),
16 if I might just -- I think the Information Request was
17 CAC-3-7.
18 MR. REGIS GOSSELIN: Okay.
19 MR. LUKE JOHNSTON: And I can -- I can
20 respond to that again if you like. Like that was the
21 -- the running of the -- of the DCAT scenarios and --
22 and not getting a scenario that caused a $366 million
23 loss or required total equity.
24 And so that's been taken to mean as you
25 ran five thousand (5,000) scenarios, you didn't get

1 this number, so there's no way that you would ever
2 need that -- that amount. That's -- that's -- you
3 know. And -- and that's -- as I've said, that's
4 completely valid based on the models used, based only
5 on the models used.
6 And then -- and we've said, I think
7 consistently, that 100 percent MCT is intended to give
8 us some sort of industry-type benchmark, you know, and
9 great. We're relying on the DCAT to set our minimum,
10 and hopefully we're never above the MCT at the top,
11 whatever that -- that is. But we think it's a good
12 target to use.
13 And -- and I -- I guess what I'm
14 struggling hearing is that other jurisdictions have
15 arrived at that conclusion, too, and haven't thought
16 it was ludicrous like -- like SGI or ICBC are using
17 it. So why -- why is it -- is it not -- seen as
18 totally inappropriate (sic) for MPI?
19 MS. ANDREA SHERRY: I think -- and you
20 know, maybe I'll ask you this straight up: What is
21 the discomfort with using a DCAT scenario? Like what
22 is the discomfort with doing it as I suggest? Like is
23 there an issue with the approach I'm suggesting that I
24 don't understand, or -- you know, I -- I don't
25 understand getting stuck at this because we're really

1 kind of stuck at 100 percent MCT, and I don't
2 understand why.
3 MR. LUKE JOHNSTON: There's -- there's
4 no -- there's no doubt that we could just peg a couple
5 different probability levels and call that a range.
6 That -- we could do that right now, so I -- I
7 understand your point.
8 Per my previous comments, I think we've
9 done a lot of work on the DCAT and made a lot of
10 compromises and --and such, and got to this number
11 that hopefully is close to where we want to be. We
12 still think it's important to benchmark to the -- the
13 industry, as well, that every -- that everyone else is
14 using.
15 If -- if this is the only -- if the
16 DCAT is the only -- and I shouldn't say that. We can
17 always run you the MCT results. That -- right, that's
18 fair. Even if we use the DCAT exclusively, we could
19 tell you what the MCT is. We're just asking that --
20 you know, everyone else is -- uses the MCT. Other
21 public insurers use 100 percent MCT. We think it's
22 appropriate industry benchmark for us to use at a
23 upper target level. At -- we may never get anywhere
24 close to that number --
25 THE CHAIRPERSON: Okay, excuse me --

1 MR. LUKE JOHNSTON: Yeah.
2 THE CHAIRPERSON: -- Ms. -- we -- I
3 think we've heard --
4 MR. LUKE JOHNSTON: Yeah.
5 THE CHAIRPERSON: -- the same argument
6 again. I'm wondering if we could go onto the next
7 question, please.
8 MR. LUKE JOHNSTON: Yeah. Thanks.
9 THE CHAIRPERSON: Thank you.
10 MR. REGIS GOSSELIN: You know, one of
11 the questions I don't know that you answer, but -- I'm
12 jumping in here. But I'm looking at the presentation
13 from -- from Ms. Sherry, and I guess the -- the --
14 there was one question that she asked regarding a
15 combined scenario, and the question there was: What
16 else has changed? And I don't know that you've
17 answered that question, so.
18 MR. LUKE JOHNSTON: Yeah. So the --
19 the risk scenarios will change as our risk profile
20 changes. So if we implement the ALM and we look only
21 at interest rate scenario, you should see a decline in
22 that scenario, right. And -- and Ms. Sherry has said
23 that she has.
24 When you used the combined scenarios,
25 you run them all together, interest rates risk may

1 have declined, or did decline but the other risk
2 factors still exist. And they -- when you're running
3 them with correlations or independent -- whatever
4 we've assumed, as I've said there's other scenarios
5 that aren't the same -- like interest rates will be
6 less prominent of a feature in that particular
7 scenario. Equities may be more important. Claims may
8 be more important in that scenario.
9 So you take -- this isn't really how it
10 works but you have three (3) things interacting, if
11 you have one on its own that gets reduced by say 70
12 million you're not going to just drop 70 million on
13 the combined scenario, right. You're going to get
14 some portion of that item impacting that scenario, so
15 the -- it makes sense that the impact -- or the
16 reduction is -- is lower than the sum of the
17 individual scenario.
18 Does that -- does that help? Yeah.
19 And -- and of course that's not going to answer Ms.
20 Sherry's question in terms of the details of it, but
21 as always we can provide any details that are needed
22 through an undertaking, or IR.
23 MS. ANDREA SHERRY: That would
24 actually be great. That would help, and unfortunately
25 Dr. Simpson could not be here today but I think that

1 would be very helpful to him, too, because this has
2 come up --
3 MR. LUKE JOHNSTON: Yeah.
4 MS. ANDREA SHERRY: -- before, and --
5 MR. LUKE JOHNSTON: So maybe if -- if
6 -- even if you want to think about the specific
7 undertaking that you want to ask, and then --
8 MS. ANDREA SHERRY: Okay.
9 MR. LUKE JOHNSTON: -- because I'm not
10 going to do it right now, but -- yeah --
11 MS. ANDREA SHERRY: Did you say --
12 MR. LUKE JOHNSTON: -- enter, yeah, no
13 --
14 MS. ANDREA SHERRY: -- okay.
15 MR. LUKE JOHNSTON: -- and we'll start
16 working on what we think you're going to ask, but
17 maybe you want more than one (1) scenario in there.
18 THE CHAIRPERSON: Okay, thank -- thank
19 you. We'll note that there will be an undertaking
20 articulated soon. Ms. Sherry, did you have more
21 questions, or...
22 MS. ANDREA SHERRY: I -- I'm just try
23 -- looking through my notes quickly to make sure I
24 don't forget something I wanted to ask.
25

1 (BRIEF PAUSE)

2

3 MS. ANDREA SHERRY: No, I think I'm

4 actually good. Thank you.

5 MR. LUKE JOHNSTON: Can -- can I ask a

6 quick question? Even if you did have more questions,

7 I'm assuming that in the process that happens now we

8 can both talk. And -- and if we had a question we

9 could ask it.

10 Is that -- is that true?

11 MS. CANDACE GRAMMOND: I don't have

12 any objection to that. I think if this dialogue

13 portion of today is done, then I will have -- now have

14 some questions for each of you. My intention, even if

15 I have a question directed at either one will be to

16 give the other person an opportunity to comment. But

17 as far as I'm concerned, if either one of you think of

18 other questions for the other person, they can be

19 asked.

20 Now, Mr. Williams or Ms. Kalinowsky may

21 have a different view of that, and they can certainly

22 express that and the Board can make a decision. But I

23 -- I think the point of this is to be collaborative

24 and to learn. So I'm -- I'm fine with it.

25 MR. BYRON WILLIAMS: I think from --

1 oh, sorry.
2 THE CHAIRPERSON: No, go ahead.
3
4 (BRIEF PAUSE)
5
6 MR. BYRON WILLIAMS: Madam Chair, just
7 in terms of the comments of our client. The whole
8 intent of this is to have an interactive discussion to
9 primarily leave no questions unturned. Of course,
10 there will be a thousand when you leave tonight, but
11 we'll knock off four thousand (4,000) for you.
12 So from our perspective the only
13 caution I would have is to both the -- the witnesses
14 is just make sure it's a fresh question instead of,
15 Darn, I didn't persuade that witness the last time
16 maybe. But from our perspective the idea is
17 collaboration and interaction. And we're totally
18 supportive of some interaction in the midst of
19 questioning.
20 THE CHAIRPERSON: Thank you, Mr.
21 Williams. Mr. Gosselin has a question.
22 MR. REGIS GOSSELIN: I have a question
23 that has nothing to do with the DCAT. So I hope
24 you'll bear with me, Ms. Sherry. One (1) -- one (1)
25 of the -- one (1) of the concerns that I have is that

1 we're dealing with a monopoly insurance provider. And
2 the -- and the concern I have is in the absence of
3 competition, making sure that the insurance provider,
4 the monopolist, improves things. You know, improves
5 the processes and so on. So I guess what I want to
6 hear from you, you're working in a competitive
7 environment.
8 What are the things that you are
9 implementing that is -- represents either you trying
10 to lead the competition, or that you're trying to
11 match to what the competition -- competition is doing,
12 that may be relevant to this -- the business that we
13 are regulating?
14 MS. ANDREA SHERRY: Yeah, it's tough.
15 Because, you know, and I've said this several times
16 today. But it's such -- it is a very different
17 business. And we, you know, I work for a mutual
18 company. But we are competing with stock companies,
19 where making money is the only reason they exist. So
20 they are in -- they are going to try to make their
21 rates so granular to pick up the best risks, so that
22 they do make money.
23 So that means, you know, predictive
24 modelling. I don't know if you're familiar with that
25 term. But basically it means using every rating

1 variable you can possibly get on people, and vehicles,
2 and homes, and modelling out their lost cost or their
3 probability of losses, and segregating your book as
4 finely as possible. I don't know if that's a very
5 good explanation, but -- so that's a totally different
6 environment.
7 I mean, because we use factors in our
8 rating that are not allowed in -- in Manitoba, so it's
9 sort of irrelevant, that kind of granularity of
10 rating. So that's the biggest thing in terms of
11 rates, really. Is, yeah, granularity and trying to
12 segregate risk so that you're not selected against, so
13 your book doesn't get -- I'm trying to think of the
14 right word. If you -- if your book doesn't get
15 degraded, I guess, to the poorer risks.
16 So other than that, I mean, I've heard
17 the -- I've read and -- both the rate application and
18 the transcripts, you know, about the types of
19 vehicles, what's happening there, and the materials
20 that are used to build vehicles. Obviously we share
21 those concerns. Autonomous vehicles, all of that. I
22 mean, those are things that are coming.
23 We also -- there's the telematics
24 piece, too. And I'm not sure if you've ever talked
25 about that here. It's -- I don't think that it makes

1 sense in a priv -- public company area, but that's
2 where you put the thing in your car and it tracks how
3 many kilometres you drive, and if you hard-brake, or
4 that kind of thing. So that's sort of a -- it's a big
5 topic for discussion, but Wawanesa is researching
6 that.
7 But I think the big question with that
8 becomes: Okay, but everyone carries a cell phone now,
9 right? That's almost your telematics right there.
10 You could use it that way instead of these little
11 devices you put in cars. Things are just changing so
12 fast that where do you step into that kind of market,
13 and then the autonomous vehicles and the cars having
14 their own safety features anyways.
15 All of that has to be taken into
16 consideration, so we're looking at that too. And it's
17 a concern for us, too, but -- yeah.
18 THE CHAIRPERSON: Ms. Sherry, I'm
19 going to turn it over now to Ms. Grammond for cross-
20 exam.
21
22 CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:
23 MS. CANDACE GRAMMOND: Thank you,
24 Madam Chair. Diana, I'm going to start with Ms.
25 Sherry's PowerPoint from earlier today. And then just

1 so you're aware, the next document I'm going to go to
2 is the issue list. So if you can start on page 10 or
3 slide 10 of Ms. Sherry's presentation from this
4 morning.
5 Ms. Sherry, you referenced in this
6 slide the private sector MCT target setting process.
7 Can you tell us whether, in your view, the Basic RSR
8 lower-bound target is analogous to the private sector
9 MCT target?
10 MS. ANDREA SHERRY: No.
11 MS. CANDACE GRAMMOND: Okay. And can
12 you tell us how they differ, in your view?
13 MS. ANDREA SHERRY: Sorry. Okay, I --
14 I think I understood the question properly. The MCT
15 target of private companies is set by OSFI, not by us,
16 but we have a hundred percent and 150 percent su --
17 MS. CANDACE GRAMMOND: Sorry, Ms.
18 Sherry, just before you continue, it's the target that
19 we're asking about.
20 MS. ANDREA SHERRY: Oh, sorry. Okay.
21 How is -- okay, I think I understand. I'll try here.
22 So in a private company we use our DCAT scenarios to
23 determine what level of MCT we should hold to ensure
24 that our comfort level with risk is adequate. Maybe
25 I'm not sure what the question is. That's what the

1 pri -- in the pri -- what we do in the private world.
2 MS. CANDACE GRAMMOND: What we're
3 asking is whether it's analogous to the lower-bound
4 for the RSR.
5 MS. ANDREA SHERRY: Oh I see what
6 you're saying. Okay, so what you're asking me is,
7 let's say a private company has a target MCT of 200
8 percent, and is that the same as saying that the
9 minimum per MPI should be the one (1) in forty (40).
10 That's an interesting thought. It could be thought of
11 as similar methodologies.
12 MS. CANDACE GRAMMOND: Would it help
13 if we added the word 'conceptually analogous'? We're
14 -- we're just trying to -- to get your view on whether
15 the two (2) concepts are similar or analogous and, if
16 not, why you think they're not.
17 MS. ANDREA SHERRY: Well, the target
18 of a private company is -- is just -- we call it a
19 target. The truth is we don't want to go below it, so
20 in a way, it is a minimum. So you could say
21 conceptually analogous, yes. I think I understand
22 now, sorry.
23 MS. CANDACE GRAMMOND: No, that's --
24 that's fine. Okay, thank you. Diana, if you could
25 pull up the issues list on the screen I'd appreciate

1 it.

2

3 (BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: The second item

6 on the list, and I'm going to run down the left-hand

7 side of the page, the second item relates to

8 transparency with respect to methods and assumptions

9 at least to a technical audience is important. And

10 under the CAC column at the far right we see the CAC

11 position, that they also believe it should be accurate

12 and cust -- consumer friendly in terms of an

13 explanation of what the RSR does, et cetera.

14 Ms. Sherry, can you tell us whether the

15 position reflected there for CAC is also your position

16 for the purposes of your evidence?

17

18 (BRIEF PAUSE)

19

20 MS. ANDREA SHERRY: Yeah, I would say

21 it is.

22 MS. CANDACE GRAMMOND: And can you

23 tell us -- or can you give us any further detail with

24 respect to this recommendation, if you will, on the

25 part of CAC and yourself relative to what MPI

1 currently provides publically?
2 MS. ANDREA SHERRY: Well, to be
3 honest, I'm not sure that your average Manitoban knows
4 what an RSR is or that MPI even holds it. And I think
5 that -- well, it would be difficult to explain to your
6 average consumer what a DCAT is and -- and, you know,
7 distribution of equities and history of equities, et
8 cetera, et cetera.
9 So I can't totally answer that.
10 Perhaps I know that the Consumers Association of
11 Canada did some groups, consumer groups, and perhaps
12 more of an answer to that question would be contained
13 there.
14
15 (BRIEF PAUSE)
16
17 MR. REGIS GOSSELIN: Ms. Sherry, I
18 guess one (1) observation is that -- and then this
19 goes back to the initial comments from Mr. Williams.
20 You are acting as an independent actuary. CAC is
21 another kettle of fish.
22 MS. ANDREA SHERRY: Yeah.
23 MR. REGIS GOSSELIN: And so in this --
24 in this context here, if there's a -- you know, if --
25 if something represents a view that you haven't

1 determined, let us know, like --

2 MS. ANDREA SHERRY: Yeah.

3 MR. REGIS GOSSELIN: -- so that we

4 under --

5 MS. ANDREA SHERRY: No, that's why I

6 paused and read that very carefully before I answered.

7

8 CONTINUED BY MS. CANDACE GRAMMOND:

9 MS. CANDACE GRAMMOND: Thank you. The

10 next item on the list, and it is indicated as an area

11 of agreement, reads:

12 "DCAT is an effective means of

13 determining target capital levels."

14 And again, CAC's set out a -- a bit of

15 a further view with respect to that. And, Ms. Sherry,

16 you've made the point that MPI's DCAT affects rates

17 because the DCAT affects target capital levels which

18 in turn affects the need for RSR rebates and/or

19 surcharges.

20 MS. ANDREA SHERRY: Yeah.

21 MS. CANDACE GRAMMOND: You're with me

22 so far with that?

23 Specifically, how should this point

24 that you've made affect how the DCAT should be done by

25 MPI, in your view?

1 MS. ANDREA SHERRY: Well, I can't -- I
2 mean, except for the small -- well, I guess I
3 shouldn't say, "small", but except for the outstanding
4 issues that I've talked about today with Luke, I think
5 that the -- MPI's DCAT is good.
6 And I don't -- and I -- you know, you
7 basically said what my caution is with that is that
8 it's going to be used -- it will have an impact on
9 rates which is different than a private company. So
10 that has to be taken into consideration.
11 Does that answer the question? Okay.
12 MS. CANDACE GRAMMOND: And just
13 further to that, if the percentile levels of the
14 adverse scenarios being tested are appropriately
15 calibrated for a public company like MPI Basic, is it
16 appropriate for MPI to strive for a satisfactory
17 financial condition?
18 MS. ANDREA SHERRY: I think that if
19 the scenarios -- I have no issues with them. If the
20 time period to be examined is finalized and -- and I -
21 - actually, that's another area. I think there are
22 issues right now. In my personal opinion, yes.
23 MS. CANDACE GRAMMOND: Thank you.
24 Mr. Johnston, I haven't been asking you
25 about these individual ones because I'm really

1 clarifying Ms. Sherry's position. But I'm going to
2 say -- and this doesn't apply all the time, just now -
3 - if you do want to jump in and add something, then
4 that would be okay. I don't want you to feel like
5 you're not being given an opportunity to be heard.
6 MR. LUKE JOHNSTON: No, I've had lots
7 of opportunity today, and we -- we've talked before,
8 too.
9 MS. CANDACE GRAMMOND: Just checking.
10 That's true, and we'll talk again.
11 The next one I want to ask Ms. Sherry
12 about is two (2) issues down from the one that we just
13 looked at, the one that references the target capital
14 range being expressed in terms of total equity. And
15 CAC's indicated that they accept the existing Board
16 determination.
17 Ms. Sherry, can you tell us whether
18 that also reflects your position?
19 MS. ANDREA SHERRY: It does.
20 MS. CANDACE GRAMMOND: Thank you.
21 Next, we have an issue at the bottom of the screen,
22 and this is now an area of where there are differing
23 views. But the -- firstly, under "Area of agreement"
24 we see the lower bound for the target capital range
25 should be estimated based on a selected percentile

1 outcome level for the adverse scenarios tested, and
2 then the issue being the percentile -- percentile
3 outcome level that is appropriate for the lower bound
4 of the target capital range.
5 So we see at the far right, Ms. Sherry,
6 there's reference to yourself and Dr. Simpson having
7 considered between the 95th and 70 -- 97 1/2
8 percentile as a target capital level within a target
9 capital range. You also see value in reporting the
10 outcome of one (1) in ten (10) year events. And I --
11 I want to clarify that position a little bit.
12 Are you saying that you believe that
13 the lower bound for the target capital range should be
14 based on an outcome level somewhere between the 95th
15 and 97 1/2 target percentiles?
16 MS. ANDREA SHERRY: I am saying that -
17 - and as I said earlier, that I think the one (1) in
18 forty (40) year event should be the target, and that
19 MPI should look at the one (1) in twenty (20) as a
20 possible minimum. And that's kind of -- that's what
21 we say here, is we've considered that so we'd like it
22 to be looked at.
23 MS. CANDACE GRAMMOND: Thank you. So
24 can you provide any supporting rationale for your
25 recommended percentile outcome level, or levels, for

1 the purposes of setting the lower bound of the target
2 capital range?
3 MS. ANDREA SHERRY: No. What --
4 basically our suggestion, that the one (1) in forty
5 (40) should be a target, was because a lot of --
6 there's been a lot of talk of the one (1) in forty
7 (40) over several years, and I feel like one (1) in
8 forty (40) is the Board's happy place, that they would
9 like to be at a one (1) in forty (40). Well, if you
10 set it as the minimum then they're always going to be
11 above it, right. I feel like it should be the target.
12 Now, that's up to the Board but from
13 what I've read, and the Board orders I've seen, is one
14 (1) in forty (40) where they want -- is where they
15 want to be. And so that's not a minimum, that's a
16 target.
17 That could be my misinterpretation but
18 that's how I interpreted it.
19 MS. CANDACE GRAMMOND: Ms. Sherry, can
20 you comment upon the advantage of having a target
21 within a range?
22 MS. ANDREA SHERRY: Well, I think it
23 allows for when you are setting rates or looking at
24 your forecast you know where you want to be. Not just
25 that you want to be above some level, but that that's

1 your target, that's where you expect to be. So I
2 would find it helpful.
3 MS. CANDACE GRAMMOND: Now, Ms.
4 Sherry, since the 90th percentile is outside of the
5 range that you recommend for a lower bound for the
6 target capital range, can you expand on the value that
7 you see in reporting on 90th percentile outcome level
8 events?
9 MS. ANDREA SHERRY: The only advantage
10 I can see would be to MPI, to look at their risk and
11 see what would happen in a one (1) in ten (10) year
12 event. There's no disadvantage to running it. It's
13 information, if nothing else.
14 MS. CANDACE GRAMMOND: Thank you.
15 Diana, if we can go to the next page of the issues
16 list. So the -- the next item references as the issue
17 setting the upper bound of the target capital range.
18 MPI is looking for 100 percent MCT ratio, and CAC's
19 view and -- is set out in the -- the first paragraph.
20 They've in essence traditionally argued for a one (1)
21 in forty (40) year event.
22 You, Ms. Sherry, and Dr. Simpson have
23 suggested that it should be based in between the --
24 the two (2) that we've been speaking about.
25 Oh, sorry, my bad. Not the two (2)

1 that we've been speaking about, ninety-seven point
2 five (97.5) and ninety-nine (99). Thank you, Mr.
3 Pelly.
4 Mr. Johnston, I'm going to come to you
5 first on this, and -- and my question is very
6 specifically directed to the choice of the hundred
7 percent, so if we accept for the purposes of this
8 question that MCT is a good thing, can you summarize
9 MPI's supporting rationale, or rationales, for the
10 choice of 100 percent to be used to set that upper
11 bound?
12 MR. LUKE JOHNSTON: Yes. So the test
13 is, as we talked before, you bucket the different
14 items and you apply a risk factor to that, and you get
15 a capital required. And then you're comparing the
16 capital available to the required to get the ratio.
17 That -- that's the test in its -- its
18 pure form. So I -- it's hard for me to say that I
19 think the risk factor should be different for each of
20 those items and come up with some different number.
21 The test was developed by someone else.
22 And so I think when we originally
23 presented MCT, we said how -- you know, how would you
24 change the risk factors that they're already using in
25 that test to somehow reflect MPI's specific risk

levels.

So we're essentially saying to use the test results in -- in its pure form. And I don't know what it means to just cut that to 70 percent, based purely on that test, as an example. Yeah.

MS. CANDACE GRAMMOND: Thank you, Mr. Johnston.

Ms. Sherry, on that same issue, can you tell us whether you have a specific recommendation within the recommended range that you would favour?

MS. ANDREA SHERRY: No, I don't.

MS. CANDACE GRAMMOND: Okay.

MS. ANDREA SHERRY: No, I don't.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And, Ms. Sherry, can you provide us with a supporting rationale for your recommended percentile outcome levels for the purposes of setting the upper bound?

MS. ANDREA SHERRY: You mean looking at the one (1) in forty (40) to the one (1) in one hundred (100)?

MS. CANDACE GRAMMOND: Yes.

MS. ANDREA SHERRY: I think it's

1 stated in Board orders -- and I can't quote the one
2 (1) I'm thinking of right now but that the one (1) in
3 a hundred year event should not be considered as -- as
4 a plausible level for a -- a monopoly, it was -- in
5 particular a public monopoly. I have it quoted
6 somewhere.
7 So I'm not recommending at all that we
8 go to the one (1) in a hundred year level. What I'm
9 recommending is just that we look at one (1) in forty
10 (40), up to one (1) hun -- one (1) in one hundred
11 (100), and see what the ranges would be. And then it
12 would be up to the Board what a reasonable range is.
13 MS. CANDACE GRAMMOND: Thank you. I'm
14 going to go then to the next issue on the list which
15 is identified as su -- as follows: Modelling the
16 rebound and equity returns for the equity decline
17 scenario.
18 The first question, Mr. Johnston, is
19 for you. Do you accept that by modelling results only
20 within the return period and not beyond the return
21 period, that the user of the DCAT is unable to learn
22 of the expected outcomes beyond the return period for
23 a given scenario?
24
25 (BRIEF PAUSE)

1 MR. LUKE JOHNSTON: I -- I agree, yes.
2 For a -- for a one (1) year scenario we're
3 specifically testing one (1) year results and
4 assessing. And that's the extent of that -- that
5 analysis, and et cetera for two (2), three (3), and
6 four (4).
7 MS. CANDACE GRAMMOND: Thank you. Ms.
8 Sherry, still with respect to that issue. You've
9 indicated that your own approach is very similar to
10 MPI's.
11 Does your approach include smoothing
12 over the return period the amount of the equity
13 decline and any ensuing rebound?
14 MS. ANDREA SHERRY: Okay. So I might
15 have misspoke if I said it was similar. It is similar
16 in terms of looking at the history and determining
17 what you're going to test, I suppose. But the way
18 that I have done it in the past is that you -- you
19 take the hit, you take the decrease in the equities at
20 the start of the first full year, and then you model
21 the scenar -- the rebound in the next two (2) to three
22 (3) years.
23 Does that answer the question?
24 MS. CANDACE GRAMMOND: And you do so
25 without smoothing?

1 MS. ANDREA SHERRY: Yes.
2 MS. CANDACE GRAMMOND: You just take
3 each year as it is?
4 MS. ANDREA SHERRY: Yeah.
5 MR. LUKE JOHNSTON: Can I say one (1)
6 thing on that?
7 MS. CANDACE GRAMMOND: Yeah, for sure.
8 MR. LUKE JOHNSTON: So I -- I'm not
9 going to re-describe the whole equity approach, but
10 another approach that -- like, the modelling we're
11 doing is attempting to -- to replicate or -- or fit
12 the historical data. A different approach we could
13 use is literally just to run actual four (4) year
14 scenarios, like, every single one that we have through
15 the model and see what the result is. And that's
16 something that we could do.
17 I don't believe that would have a
18 significant impact on our conclusion, since the two
19 (2) models are supposed to be very similar. It's just
20 a different methodology for -- when we create our own
21 distribution we need a way to incorporate in -- into
22 the results and that's how we've done it.
23
24 (BRIEF PAUSE)
25

1 MS. CANDACE GRAMMOND: Just one (1)
2 moment, Madam Chair.
3
4 (BRIEF PAUSE)
5
6 MS. CANDACE GRAMMOND: Diana, I'm
7 going to ask you to pull up a different document for a
8 moment. It's -- it's MPI Undertaking number 2, and
9 I'm just looking for the exhibit number. But if we
10 can both look that would be good.
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: Sorry, it's Pre
15 -- it's PUB Pre-Ask 2 revised, not Undertaking 2.
16
17 (BRIEF PAUSE)
18
19 MS. CANDACE GRAMMOND: Perfect. Thank
20 you, Diana. Can you scroll. Perfect.
21
22 (BRIEF PAUSE)
23
24 MS. CANDACE GRAMMOND: Diana, can you
25 continue to scroll so we can see the attachments.

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Mr. Johnston,
4 just rather than trying to flip and find this, there
5 may be an easier route.
6 When you and I had some questions and
7 answers last week we talked about this exhibit, and we
8 talked about the differences and what I believe we can
9 characterize as material differences in the outcome
10 between the smoothing versus the non-smoothing
11 approaches.
12 Do you recall that, and is that
13 accurate?
14 MR. LUKE JOHNSTON: In this particular
15 example, obviously we can all see that they're
16 different. What I've been saying is that the timing
17 differences that occur for equity returns are captured
18 in the different -- you know, if there's -- if there's
19 a two (2) year one (1) in forty (40) event, it's
20 captured in the two (2) scenario, and three (3) or
21 four (4) year. The cumulative impact of that we
22 believe is appropriate.
23 And -- and maybe if I can just -- if
24 you could go to page 35 of the DCAT report. It's in
25 Volume II.

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: So if you could
4 just scroll down a bit to get both -- yeah, right
5 there is good. So the top table is the actual results
6 for the different time periods. So no -- no --
7 nothing done by MPI other than to sort them. The
8 bottom table is the -- the models that we use.
9 So all I'm saying is that the
10 experience in each of these return periods is, I
11 believe, a very good reflection of reality. I get the
12 point that the -- the smoothing may not recognize up
13 and downs in the period. I -- I understand that.
14 And that -- that was my comment on
15 that, that if -- if we want, we can just run through
16 actuals, through all of -- you know, whatever that
17 works out to be. I don't anticipate it ha -- it will
18 have a significant impact on the final result because,
19 again, in each of these return periods, our model is
20 essentially indicating the same equity loss.
21 So -- and that -- that's -- that's my
22 view, and -- but I accept your -- I accept your point
23 that timing issues matter, and that is why we run the
24 -- the four (4) years individually -- individual
25 scenarios.

1 MS. CANDACE GRAMMOND: Thank you. Ms.
2 Sherry, I'll go back to you.
3 And, Diana, if we can go back to the
4 issues list. We were on the one dealing with
5 modelling the rebound.
6 Ms. Sherry, we -- I believe you said
7 earlier that the equity decline should be modelled
8 over a four (4) year return period because that was
9 the same basis on which the other scenarios were
10 modelled.
11 MS. ANDREA SHERRY: For --
12 MS. CANDACE GRAMMOND: Do I have that
13 right?
14 MS. ANDREA SHERRY: For consistency, I
15 thought it would be preferable.
16 MS. CANDACE GRAMMOND: So why
17 shouldn't modelling be tailored to the characteristics
18 of the risk being modelled as opposed to favouring
19 consistency across the board?
20 MS. ANDREA SHERRY: Well, there's a
21 few points there. But I think in the case of, in
22 particular Manitoba Public Insurance, that if there's
23 a rebound in the fourth year, that that should be
24 considered in the modelled results. And I suppose by
25 -- I'm not -- wouldn't say that consistency is the

1 most important above else, but it does help in
2 understandability and simplicity of explaining
3 results.
4 MS. CANDACE GRAMMOND: Thank you. One
5 (1) more question, Ms. Sherry, on this issue on the
6 list. If the forecasted financial position of MPI is
7 worse immediately after an equity decline versus one
8 (1) year later, should the target capital level
9 respond to the worst case or the longer-term outcome?
10 MS. ANDREA SHERRY: I think I
11 understand what you're asking, and it goes to the
12 discussion that Luke and I had earlier today, that if
13 you have a one (1) in forty (40), and in the first
14 year you go below zero total equity, but then it shows
15 in the second, third, and fourth you rebound above
16 zero, how do you handle that?
17 Do you do a rate increase in that first
18 year and then with all indications being you'll over -
19 - be -- be overpriced in the next year? So --
20 MS. CANDACE GRAMMOND: Sorry, Ms.
21 Sherry. Can you restrict the answer to target capital
22 level as opposed to rate level?
23 MS. ANDREA SHERRY: Okay. Then I need
24 to make sure I understand the question. So you're
25 asking if the first year results, say, are worse but

1 indications are that in the second, third year it
2 would get better, should the target capital in that --
3 in that first year be set on that basis or on the
4 rebound?
5 It has to be set on what it's set on,
6 right? I mean, the DCAT results would set the target
7 capital if that's the Board's decision. So I don't
8 know -- I think there -- it would be the results of
9 the DCAT.
10 So if we decide that we're going to use
11 that one (1) year scenario in the DCAT and we decide
12 the one (1) in forty (40) is going to be the target,
13 then the answer is it would.
14 MS. CANDACE GRAMMOND: Thank you. One
15 (1) more question before we go to the next issue, Ms.
16 Sherry. Do you have any recommendations with respect
17 to how to select assumptions for the explicit
18 modelling of the equity decline rebound at different
19 percentile outcome levels?
20 MS. ANDREA SHERRY: Not at this time,
21 no.
22 MS. CANDACE GRAMMOND: Thank you. The
23 next issue is modelling the interest rate decline
24 scenario. I have a couple of questions with respect
25 to that.

1 Ms. Sherry, you said, I believe, that
2 use of an interest rate floor should be done with
3 caution since this scenario is significant. Is that a
4 fair recitation of your evidence?
5 MS. ANDREA SHERRY: I'm not sure if
6 those were my exact words, but I think that the use of
7 the interest rate scenario to set the level of the RSR
8 should be done with caution.
9 MS. CANDACE GRAMMOND: Okay. So what
10 specifically should MPI do differently than what it's
11 doing now?
12 MS. ANDREA SHERRY: Well, we've talked
13 about the floor. It is Dr. Simpson and my opinion
14 that we should be using the annual history to set an
15 annual floor. And I know Luke feels there's -- he's
16 using the three hundred (300) -- the annual rolling, I
17 guess.
18 And the concern is that the current
19 interest rate environment is very unusual. We haven't
20 seen it in the history, so you can't use any
21 historical data to model what's going to happen
22 because we've never been here before.
23 So that, essentially, just drops -- you
24 know, having a floor. We drop to the floor, and we
25 just stay at the floor is the model. And I'm not sure

1 that I would want to put too much weight on that type
2 of model. And do I have an answer? No, I don't have
3 an answer. It's a tough -- tough situation to know
4 what to model.
5
6 (BRIEF PAUSE)
7
8 MS. CANDACE GRAMMOND: Ms. Sherry, if
9 we look at the screen with respect to this particular
10 issue, the third one from the top, under the CAC
11 column there's reference to a particular IR response
12 and then it reads:
13 "The DCAT scenario should be
14 evidence based, analytically
15 credible, and create meaningful
16 probabilistic outcomes."
17 Can you comment upon what CAC means by
18 that, or what you mean by that?
19 MS. ANDREA SHERRY: Sure. So I think
20 this is just saying what I just said, but in a
21 different way, is that they should be evidenced based.
22 We have no historical data on which to base the
23 scenario, so there's no evidence. Analytically
24 credible, I mean, with -- we have an issue with the
25 floor that we've discussed.

1 And also to have what is supposed to be
2 a probabilistic model, but it just drops to the floor
3 and stays there; that doesn't look too probabilistic.
4 So I think that's the points that we're trying to make
5 there.
6
7 (BRIEF PAUSE)
8
9 MS. CANDACE GRAMMOND: So with that in
10 mind, Ms. Sherry, really for practical purposes I
11 guess, what's the difference which percentile is used
12 if we're hitting the floor in the scenarios
13 regardless?
14 MS. ANDREA SHERRY: I think that's our
15 point, is you run into the same number at every
16 probability level, so it's not probabilistic.
17
18 (BRIEF PAUSE)
19
20 MR. LUKE JOHNSTON: I -- I think the
21 struggle I have is as everyone knows here, like, when
22 I'm presenting I need evidence to -- to support MPI's
23 position, right. I can't just come in with a model
24 and -- and say that this is a model, and not telling
25 what's -- what's in it.

1 We have data on interest rates. We
2 have data on how much interest rates change year --
3 from year to year historically. What we don't have,
4 and I think what is -- is Ms. Sherry's point here is
5 that we don't have changes in interest rates when
6 they're at record low levels. Agreed. Right.
7 But we do have his -- the historical
8 changes in interest rates that have occurred since
9 1956, and that's what we're basing it on. So we're
10 saying, As of right now we're here. And -- and over
11 all one (1) year periods we've -- you know, 95 percent
12 of the time interest rates will go up forty (40) or
13 down forty (40) -- just making the numbers up but --
14 and so that's the best we've got -- that's the best I
15 have in terms of evidence.
16 So if you're already at the bottom,
17 obviously they can't go down any more if you've made
18 an assumption that they're capped, and that's the
19 reason that they all hit the floor. Any negative
20 deviation from the current is going to hit -- hit the
21 floor quite quickly.
22 So I -- I don't like to say there's no
23 evidence because we're -- we're using something.
24 We're using real data. But we have to make
25 assumptions for the current environment, I agree.

1 MS. CANDACE GRAMMOND: Thank you. Ms.
2 Sherry, just following on our earlier exchange, can
3 you comment on whether there is an alternative to an
4 interest rate floor that could or might achieve
5 probabilistic outcomes?
6 MS. ANDREA SHERRY: No, I don't think
7 there is, not to my knowledge. I don't have a good
8 solution to the problem, but I think we have to
9 recognize the problem. And that this scenario, in
10 particular, might not be all that useful right now.
11 MR. LUKE JOHNSTON: I -- I just hope
12 the Board appreciates the difficulty that I have in
13 this scenario gener -- generating exercise. It's not
14 that we're not trying. Like, right? So how -- with
15 all due respect, how do I respond to that answer that
16 no scenario I run is going to essentially be credible?
17 How can I give something that will satisfy CAC in --
18 in that particular example?
19 MS. ANDREA SHERRY: No, and I think
20 we've recognized that, Luke. I'm certain -- I'm not
21 saying that it's your fault or something you're not
22 doing. I think it's just a byproduct of the situation
23 we're in right now. And so really our suggestion,
24 except for perhaps the level of the floor, was that
25 this scenario, in particular, be discounted by the

1 Board; that we don't feel it's totally credible right
2 now. And I don't have good solutions for you.
3 MS. CANDACE GRAMMOND: Ms. Sherry, can
4 you comment on how different MPI's selected interest
5 rate floor is from the alternative that you've
6 suggested?
7 MS. ANDREA SHERRY: Oh, I'm trying to
8 remember. I can't remember, sorry. I don't have that
9 with me. Wayne actually produced that, but I don't
10 have it with me.
11 MR. BYRON WILLIAMS: Just if -- if we
12 can assist. We -- we could, by way of undertaking,
13 try and provide at least whatever Dr. Simpson has
14 produced on -- if that would be of assistance to the--
15 MS. CANDACE GRAMMOND: Yes, please.
16 So CAC -- just for the record, CAC will undertake to
17 provide what Dr. Simpson produced relative to the
18 difference between MPI's selected interest rate floor
19 and the alternative suggested.
20 MS. ANDREA SHERRY: Yeah.
21
22 --- UNDERTAKING NO. 35: CAC to provide what Dr.
23 Simpson produced relative
24 to the difference between
25 MPI's selected interest

1 rate floor and the
2 alternative suggested
3
4 MR. BYRON WILLIAMS: Yeah, and again,
5 I -- I'm straining my memory to -- I -- I recall this
6 information. I'm straining my memory to recall what
7 it is, so.
8 MS. CANDACE GRAMMOND: Better to give
9 the undertaking than to guess.
10 MR. BYRON WILLIAMS: Yeah.
11 MS. CANDACE GRAMMOND: Yeah.
12
13 (BRIEF PAUSE)
14
15 CONTINUED BY MS. CANDACE GRAMMOND:
16 MS. CANDACE GRAMMOND: Mr. Johnston,
17 can you comment upon what would be involved for you to
18 re-run the scenario once we have the information in
19 hand in response to the undertaking?
20 MR. LUKE JOHNSTON: So to re-run the
21 interest rate decline scenario and the -- and the
22 combined scenario with the revised interest rate
23 model?
24 MS. CANDACE GRAMMOND: With a
25 different interest rate floor.

1 MR. LUKE JOHNSTON: Oh, with just --
2 oh, sorry. So just change the floor and that's it?
3 MS. CANDACE GRAMMOND: We think so.
4 MR. LUKE JOHNSTON: I don't want to
5 over commit my -- my staff, but I -- I think that's
6 just a matter of changing the assumptions and then
7 running it. So maybe they can run it over -- over a
8 couple of days. So maybe next week. Is that
9 acceptable? If -- if I go back to the office and they
10 tell me I'm crazy, I'll let you know, but...
11 MS. CANDACE GRAMMOND: Fair enough.
12 MR. LUKE JOHNSTON: Yeah.
13 MS. CANDACE GRAMMOND: Fair enough.
14 Thank you. So I guess that's an undertaking for the
15 record on behalf of MPI.
16 Subject to check, subject to Mr.
17 Johnston consulting with his department and perhaps
18 giving us a different position, but that's to rerun
19 the scenario with a different interest rate floor upon
20 receipt of the information from CAC.
21 MR. LUKE JOHNSTON: Yeah, and that was
22 what I was going to say. It depends on when I get the
23 floor.
24 MS. CANDACE GRAMMOND: I under --
25 MR. LUKE JOHNSTON: So if I get it

1 next week, well, then -- yeah.

2 MS. CANDACE GRAMMOND: Got it.

3 MR. LUKE JOHNSTON: M-hm.

4

5 --- UNDERTAKING NO. 36: MPI to rerun scenario with

6 a different interest rate

7 floor upon receipt of the

8 information from CAC

9

10 CONTINUED BY MS. CANDACE GRAMMOND:

11 MS. CANDACE GRAMMOND: Okay. So the

12 next issue on the list at the bottom of the screen

13 relates to modelling the inflation scenario to

14 recognize upfront the financial impact of the elevated

15 inflation assumptions.

16 Mr. Johnston, does MPI currently have

17 the capability to run this scenario?

18 MR. LUKE JOHNSTON: We do, but I won't

19 say that it's optimized or -- so to speak. And what I

20 mean by that is we don't really know how inflation

21 will impact all pieces of our forecast. I -- like, so

22 just to give you an example, 5 percent inflation

23 assumption. Collision severity is currently growing

24 by 4 percent. How does the 5 percent inflation impact

25 the 4 percent severity growth? Does it add on an

1 extra, you know, 3 percent over our current inflation
2 assumption? Those are things that we're not -- that
3 we struggle with right now.
4 And -- and in one (1) of the IRs we --
5 you know, it was asked -- the inflation scenario was
6 asked about. And I said it's really hard for me to
7 split out the inflationary impacts when inflation's
8 been the same, basically, for two (2) decades or more.
9 So how do -- if it's always been 2 percent, I'm
10 assuming that we have 2 percent built into a lot of
11 the assumptions, but I don't really know because I've
12 never seen it change significantly.
13 So to date, what we typically do when
14 we're testing it is just say anything that we think
15 might be a link to inflation will pick up the
16 additional inflation over 2 percent; that's -- that's
17 a judgment call for sure. And then to the ex -- we
18 have to then also decide on the extent to how it
19 affects the assets returns and interest rates.
20 So it's -- it's -- I don't know what
21 the word -- what's the word? It's -- it's in its
22 early stages. And one (1) of the reasons is because
23 we haven't identified it as a top scenario. We have
24 had high inflation identified as -- as a risk based on
25 the re -- historical period that we decided on.

1

2 (BRIEF PAUSE)

3

4 MS. CANDACE GRAMMOND: Ms. Sherry, you
5 referred earlier today to OSFI's requirement relative
6 to the upfront -- the upfront recognition of the
7 interest rate scenario.
8 Can you comment on whether if such a
9 scenario were run by MPI you would be likely or
10 unlikely to accept a departure from real-life
11 valuation and accounting practices?
12 MS. ANDREA SHERRY: I'm really not
13 sure I understood that question, sorry.
14 MR. BYRON WILLIAMS: Madam Chair, it's
15 just Mr. Williams here. Just at some opportune time I
16 think it would be good for the -- the witnesses to
17 have a break. I'm not worried about it. I'm just
18 raising that as an -- an issue. I'm just -- it's been
19 a long day for both of them. I just want to make sure
20 they get a change to be refreshed at the appropriate
21 time.
22 MS. CANDACE GRAMMOND: This would be a
23 fine time for, I'm going to suggest, a shorter break
24 because I still have some more exam. And Mr. Williams
25 and Ms. Kalinowsky I assume will have some also.

1 THE CHAIRPERSON: That's fine. We'll
2 take -- how long would you like?
3 MS. CANDACE GRAMMOND: Ten (10)
4 minutes.
5 THE CHAIRPERSON: A ten (10) minute
6 break. Thank you.
7 MR. BYRON WILLIAMS: And, Madam Chair,
8 just for your guidance, again, things can change, but
9 right now, I'm guessing my cross would probably be
10 less than forty (40) minutes, prob -- closer to the
11 thirty (30) minute range. I haven't spoken to My
12 Friend Mr. Oakes or -- or Ms. Kalinowsky. And again,
13 things could change, but just in terms of what I have
14 right now, you know, twenty (20) to thirty (30)
15 minutes is my guess.
16 THE CHAIRPERSON: Mr. Oakes...?
17 MR. RAYMOND OAKES: Thank you. Madam
18 Chair, I'm not going to have questions for these two
19 (2) witnesses.
20 THE CHAIRPERSON: Thank you, Mr.
21 Oakes. Ms. Kalinowsky...?
22 MS. KATHY KALINOWSKY: Between forty-
23 five (45) minutes and one (1) hour.
24 THE CHAIRPERSON: Okay, thank you.
25 We'll take a ten (10) minute break.

1 --- Upon recessing at 3:06 p.m.
2 --- Upon resuming at 3:20 p.m.
3
4 THE CHAIRPERSON: Well, I guess we're
5 ready to continue with Ms. Grammond's cross-exam.
6 MS. CANDACE GRAMMOND: Thank you,
7 Madam Chair.
8
9 CONTINUED BY MS. CANDACE GRAMMOND:
10 MS. CANDACE GRAMMOND: Ms. Sherry, I'm
11 going to re-ask my last question, hopefully phrasing
12 it a little bit better than I did the first time. So
13 this is still relative to the last issue that's up on
14 the screen, modelling of the inflation scenario.
15 My question is this: If modelling of
16 the inflation scenario was done to recognize upfront
17 the financial impact of the elevated inflation
18 assumptions, would you be unlikely to accept a
19 departure from real-life valuation and accounting
20 practices implied by that upfront recognition?
21 MS. ANDREA SHERRY: I would be likely
22 to accept that that had happened.
23 MS. CANDACE GRAMMOND: Thank you. A
24 couple of more questions then to deal with inflation.
25 Can you tell us what length of historical data you use

1 for the purposes of setting adverse inflation
2 assumptions at a selected percentile level?
3 MS. ANDREA SHERRY: I'm going to be
4 honest and say that I haven't done that myself in a
5 couple of years, so I don't recall.
6 MS. CANDACE GRAMMOND: Can you tell us
7 whether, in your view, the 95th percentile inflation
8 scenario assumptions would be different for a public
9 company versus a private company? And if so, why?
10 MS. ANDREA SHERRY: The only reason I
11 can think that they might be different is because MPI
12 can control some costs through the service centres,
13 and they enter into longer-term agreements perhaps.
14 But otherwise, no.
15 MS. CANDACE GRAMMOND: Thank you.
16 Diana, I'm going to ask you to scroll
17 to the next section. And I have a couple of questions
18 with respect to the first issue on the screen which
19 deals with the time horizon.
20 Firstly, we see that the issue relates
21 to the length of time horizon appropriate for target
22 capital-setting purposes. And we've noted that in
23 this context, the phrase "time horizon" is defined as:
24 "The period over which the test
25 conditions used for capital target-

1 setting purposes are applied, i.e.,
2 how long the entity is required to
3 remain whole to allow time for
4 extraordinary management or
5 regulatory actions to be determined
6 and initiated beyond the routine
7 management or regulatory actions
8 modelled in this scenario."
9 So with that definition in mind, I'll
10 go to you, Mr. Johnston, first. Can you provide the
11 Corporation's supporting rationale for the use of a
12 four (4) year time horizon?
13 MR. LUKE JOHNSTON: Yes. It comes
14 from a couple of different places. In the -- in the -
15 - I'm trying to remember if it's the DCAT, standards
16 of practice, or the educational. I can't remember,
17 but I think it's the standards. It talks about a --
18 the typical forecast period for a P&C insurer would be
19 two (2) to three (3) years, and a life insurer might
20 be four (4) to five (5) years.
21 Our view is that we're a little bit of
22 -- of both because of the long PIPP liabilities. So
23 we selected --
24 MS. CANDACE GRAMMOND: Mr. Johnston,
25 I'm -- I'm just going to interrupt you. And I -- I

1 apologize for doing that, but what we're hearing is
2 your explanation with respect to forecast period as
3 opposed to time horizon as defined.
4 So, can you provide the rationale for
5 the use of a four (4) year time horizon as it's
6 defined in this issue which I read in?
7 MR. LUKE JOHNSTON: I know we've had a
8 few back and forths on this issue. I -- I do -- the -
9 - the area I was quoting, I do take that to mean our -
10 - our time horizon forecast period. So if I'm using
11 them interchangeably and Mr. Pelly thinks that's
12 incorrect to do, I apologize. But that's -- that's my
13 view of it.
14 And then from a -- just an intuitive
15 point of view, in terms of how the whole regulatory
16 system operates, as you know, we're setting 2016/'17
17 rates right now. There is a -- once those rates go
18 in, they earn over several years. So, at a minimum, I
19 would expect that we would always have at least a
20 three (3) year time horizon, but you could argue even
21 an additional year beyond that because let -- let's
22 take the equity decline scenario for example.
23 That happens to you in year one (1).
24 Is it going to recover? What should we do about it?
25 Why -- why would we have a surcharge when we don't

1 really know, you know, if it's going to recover. So
2 we don't do anything. And the next year, well, it
3 gets even worse. Okay, now we need an RSR fee.
4 So, you know, form a process standpoint
5 I think four (4) years makes sense because it gives
6 you a couple years of a response period -- or time.
7 MS. CANDACE GRAMMOND: Thank you, Mr.
8 Johnston. Ms. Sherry, I have the same question for
9 you.
10 Can you tell us your supporting
11 rationale for the use of a four (4) year time horizon?
12 And I suppose if you have nothing to add to what Mr.
13 Johnston says, that's fine. And if you do, you'll
14 tell us.
15 MS. ANDREA SHERRY: Well, I'm just
16 looking at the -- this is the end note, the DCAT end
17 note that you were probably thinking of. And it says:
18 "The forecast period for a typical
19 property and casualty insurer would
20 not be less than three (3) years."
21 So I was thinking you have the stub
22 year usually, and then three (3) additional years
23 after that making close to four (4) years.
24 MS. CANDACE GRAMMOND: Ms. Sherry,
25 would you agree that that relates to forecast period

1 not time horizon?
2 MS. ANDREA SHERRY: Yes. But -- yes.
3 So I was looking at it as the same, I suppose, or
4 looking at using the same amount of years in -- for
5 the two (2).
6
7 (BRIEF PAUSE)
8
9 MS. CANDACE GRAMMOND: Thank you, Ms.
10 Sherry. A couple more questions for you and again,
11 Mr. Johnston, feel free to add if you wish.
12 Ms. Sherry, we know that MPI uses a
13 five (5) year forecast period in its DCAT. What is
14 the length of the forecast period that you typically
15 use?
16 MS. ANDREA SHERRY: The last one was
17 five (5) years. Yeah.
18 MS. CANDACE GRAMMOND: Ms. Sherry, we
19 know that MPI tests one (1), two (2), three (3), and
20 four (4) year return periods in its DCAT. What is the
21 length of the return period that you typically use?
22 MS. ANDREA SHERRY: I'm trying to
23 remember but I think it was three (3) years, if I'm
24 thinking of return period correctly, and maybe we
25 should have this discussion.

1 When I think of return period, I'm
2 thinking the period of time over which the company is
3 to remain solvent, or when I would look to see if
4 there is a drop below target due to the adverse
5 scenario.
6 Is that what you're thinking, as well?
7 MS. CANDACE GRAMMOND: I think that's
8 what we think of as time horizon.
9 MS. ANDREA SHERRY: Okay. So I think
10 I'm mixing them up.
11 MS. CANDACE GRAMMOND: That's the
12 royal 'we,' including Mr. Pelly and myself.
13 MS. ANDREA SHERRY: So that's the time
14 horizon.
15 MS. CANDACE GRAMMOND: Yes.
16 MS. ANDREA SHERRY: So return period
17 would -- how is that different then, for clarity?
18 Because I know there were a huge amount of emails on
19 this subject.
20 MS. CANDACE GRAMMOND: Yes.
21 MS. ANDREA SHERRY: And I honestly
22 lost track.
23 MS. CANDACE GRAMMOND: Okay. Let's
24 have Mr. Johnston jump in with his view of the
25 definition.

1 MR. LUKE JOHNSTON: I -- I took return
2 period to mean as -- as the equity examples. Let's do
3 a one (1) year scenario and see what the one (1) in
4 forty (40), and then the two (2) year, and -- where we
5 had some difficulties finding common ground is, Okay,
6 well you're on the two (2) year return period, now
7 what. What do you do after that? Like you don't put
8 the base forecast in there.
9 That -- that was my interpretation in
10 terms of the impact of the -- the particular scenario,
11 the -- the period of time that it's -- it's having its
12 impact. Okay?
13 MS. ANDREA SHERRY: Okay. So a two
14 (2) year would be that you have reduced equities for
15 two (2) years? Okay. Essentially.
16 MR. LUKE JOHNSTON: Sorry, yeah, like
17 -- and -- and that's -- again like the -- I think the
18 first DCAT I ever did, whether it was here or -- or
19 the peer review said, Luke, you need to test all the
20 return periods. You know, what's the worst that can
21 happen in one (1) year, two (2) year, three (3) -- and
22 so that's -- that's why we did that.
23 But it is -- it -- like for the
24 comments you've had about equity rebounds and -- and
25 such, sure, when you look -- run a one (1) year

1 scenario then you're left with the question, Now what,
2 after that. Like, what do we do? Or just put the
3 base forecast in, right? That doesn't make any sense
4 sometimes.
5 MS. ANDREA SHERRY: Yeah, that's what
6 I'm struggling with right now actually. Because does
7 that mean that a two (2) year return period? Normally
8 you would expect the adverse to -- event to occur, and
9 then it occurs. And then in the event of -- or in the
10 case of equities, for example, you would have the
11 rebound in years 2, 3, 4.
12 So are you saying that a re -- a return
13 period of two (2) years you'd have actually declines
14 in both years? Is that right?
15 MR. LUKE JOHNSTON: The -- yeah. The
16 -- the reason we run them all separate is because in
17 this particular case the years are corr -- there's a
18 correlation between -- between them, as you -- as you
19 say, right?
20 MS. ANDREA SHERRY: Yeah.
21 MR. LUKE JOHNSTON: So that's why we
22 run each one (1) and say what -- you know, what can
23 happen over those periods of time. And -- and then
24 we'd have some smoothing involved and stuff to -- to
25 get to our result.

1 So I don't know what else to add to
2 that. That's what we're attempting to do, model all
3 the return periods in the time horizon.
4 MS. ANDREA SHERRY: Okay. I think I
5 understand.
6 MS. CANDACE GRAMMOND: So, Ms. Sherry,
7 with that back and forth in mind, what return period
8 do you typically use?
9 MS. ANDREA SHERRY: One (1).
10 MS. CANDACE GRAMMOND: One (1) year.
11 Thank you. Now, Ms. Sherry, can you tell us for
12 target MCT setting purposes, in the private sector,
13 what time horizon is typically used?
14 MS. ANDREA SHERRY: We use the current
15 financials. I'm not sure I understand the question.
16 We set the MC -- like, we run the MCT with our current
17 financial statements. You're talking about
18 projections? It's the same as the DCAT.
19 MS. CANDACE GRAMMOND: I -- I'm
20 talking about the -- the time horizon as defined in
21 the screen in that first issue box.
22 MS. ANDREA SHERRY: Okay.
23 MS. CANDACE GRAMMOND: So the period
24 over which the test conditions used for capital target
25 setting purposes are applied.

1 MS. ANDREA SHERRY: Right. We would
2 set it into the next year. So you -- when you do --
3 if I'm interpreting your question correctly, we would
4 be looking at what the target should be for the next
5 year when we do the exercise.
6 MS. CANDACE GRAMMOND: Thank you.
7 Now, in the private sector, can you tell us whether
8 the MCT target is set to maintain adequate capital
9 over the time horizon, or at the end of the time
10 horizon, being the next year as you just described?
11 MS. ANDREA SHERRY: Over the time
12 horizon. So we look at it periodically throughout the
13 year.
14 MS. CANDACE GRAMMOND: And, Ms.
15 Sherry, do you have a view on how the regulatory lag
16 to which MPI is subject affects the selection of an
17 appropriate time horizon? And that's, of course, the
18 lag between -- that -- that is a -- as a result of
19 this process, the PUB process?
20
21 (BRIEF PAUSE)
22
23 MS. ANDREA SHERRY: Yeah, I think
24 that's probably a very valid point. So it might --
25 that would be another reason it should be longer in a

1 private company.

2 MS. CANDACE GRAMMOND: Thank you.

3 The next issue on the list in -- in the middle of the

4 screen relates to the modelling of the MCT. And, Mr.

5 Johnston, I'll start with you.

6 Can you tell us whether there are any

7 practical limitations going forward to MPI doing, as

8 is declared in the DCAT report, with respect to use of

9 the current MCT guideline? And that's just looking at

10 page 9 of the DCAT report. There's the reference to -

11 - and -- and we talked about this last week. There's

12 reference to the Corporation using the currently

13 available MCT guideline, i.e., the 2014 MCT guideline

14 as of the year end date of the DCAT report.

15 MR. LUKE JOHNSTON: Was the -- the

16 question was -- sorry.

17 MS. CANDACE GRAMMOND: Let me break it

18 down. I apologize that that was cumbersome.

19 The DCAT report says the Corporation's

20 going to use the currently available MCT guideline as

21 of the year end date of the DCAT report.

22 MR. LUKE JOHNSTON: That's --

23 MS. CANDACE GRAMMOND: So the quest --

24 pardon me?

25 MR. LUKE JOHNSTON: That's what it

1 says, yes. Yeah.

2 MS. CANDACE GRAMMOND: Yeah, that's

3 what it says on page 9.

4 So the question is: Are there any

5 practical limitations on MPI to do that, to actually

6 implement doing that?

7 MR. LUKE JOHNSTON: I -- I bel -- I --

8 I don't know if we've responded to the MCT undertaking

9 yet, but our response talks about that we don't intend

10 to use the MCT in any sort of draft form. But the

11 intent is to use the most relevant non-draft MCT going

12 forward. And as -- as we talked about last week, if

13 there are significant changes to that MCT calculation,

14 of course, those would be discussed here, and

15 monitored and such.

16

17 (BRIEF PAUSE)

18

19 MS. CANDACE GRAMMOND: Thank you, Mr.

20 Johnston. Ms. Sherry, just on this issue, as is

21 reflected on the screen before us, you and Dr. Simpson

22 have rejected the use of MCT for the purposes of

23 setting any RSR levels. What I want to clarify is,

24 reading that and -- and having heard your evidence

25 today, is it the use of the MCT or is it the hundred

1 percent ratio that you reject or both?
2 MS. ANDREA SHERRY: Well, as I said
3 earlier, any DCAT scenario can output an MCT, right,
4 because all you need are the financial statements to
5 get an MCT. So I'm not necessarily opposed to the
6 Corporation producing MCT results, but I don't think
7 the MCT should be the starting point to set the RSR.
8 MS. CANDACE GRAMMOND: And again,
9 leaving aside the ratio, whether it's a hundred
10 percent or some other number, can you summarize why
11 you reject the use of MCT for capital target setting
12 purposes?
13 MS. ANDREA SHERRY: I think that it is
14 my opinion that the DCAT should be -- as we've worked
15 so hard to do, to use the DCAT to set the minimum or
16 the target for the RSR. It doesn't sa -- make sense
17 to me to change methodology to set the upper range of
18 the RSR. And just setting an MCT and working
19 backwards to me is not logical.
20 MS. CANDACE GRAMMOND: So, Ms. Sherry,
21 are you supportive of using the MCT for any purpose
22 for MPI Basic?
23 MS. ANDREA SHERRY: No, I'm not.
24 MS. CANDACE GRAMMOND: Let me give you
25 one (1) example. Can you tell us whether you agree

1 that Basic MCT ratios are useful for measuring the
2 relative financial strength from one point in time to
3 another point in time?
4 MS. ANDREA SHERRY: I can see that
5 because it's a nice, solid number. Of course, you
6 have to take into account the impact of changes to the
7 MCT which seem to be constantly coming from OSFI, so
8 that has to be -- when you look at numbers over time
9 you have to take that into account. But I don't have
10 problems with that type of output of the financial
11 statements, to use it sort of as a moving -- just to
12 watch over time.
13 MS. CANDACE GRAMMOND: Thank you.
14 Now, Ms. Sherry, in your view, is it practical to
15 expect that appropriately calibrated DCAT adverse
16 scenarios, that is at appropriate percentile outcome
17 levels for upper and lower target capital levels,
18 could produce corresponding MCT upper and lower target
19 ratios?
20 MS. ANDREA SHERRY: Sure. Of course I
21 think that, yeah. I think I want to make myself clear
22 though. I am opposed to saying let's go for a hundred
23 percent MCT and it doesn't matter the risk scenario
24 that would get you there. I want to start with the
25 risk scenario and figure out what the MCT -- if you

1 decide you want to look at the MCT, that's fine, but
2 it should be that direction rather than the other.
3 MS. CANDACE GRAMMOND: Thank you. The
4 last issue on the screen at the moment relates to
5 whether any changes to the MCT proposed by OSFI should
6 be proactively assessed if target capital levels rely
7 on the MCT. And, Mr. Johnston, my question with
8 respect to this issue is for you.
9 Can you tell us whether there are any
10 practical limitations upon MPI with respect to this
11 issue?
12 MR. LUKE JOHNSTON: Outside of the
13 issues we talked about in terms of implementing the --
14 calculating the MCT at that particular year end, I --
15 I don't -- I -- I disagree that -- or, sorry, I agree
16 that MPI could be more proactive in its assessment of
17 MCT if that's going to be our -- the basis of our RSR
18 targets. So I agree with that.
19 MS. CANDACE GRAMMOND: Thank you.
20 Diana, if you could scroll to the next
21 screen, please. Thank you.
22 So at the top of the screen, the issue
23 is identified as management and regulatory
24 assumptions. And MPI's view is reflected as the
25 maximum rate increase is 5 percent as a limit

following an adverse event.

Mr. Johnston, can you confirm that in that context, the 5 percent maximum referred to is for any rate-level change and any RSR rebuilding fee combined?

MR. LUKE JOHNSTON: Yes, that's the assumption. It's the combined impact of all surcharges or rate changes.

MS. CANDACE GRAMMOND: Thank you.

Ms. Sherry, do you have any specific concerns with respect to MPI's modelling approach in this regard, with respect to this issue?

MS. ANDREA SHERRY: I do, and as stated in the evidence, I think that there are perhaps other things that could be looked at. I -- I also am not sure that using just 5 percent is correct or necessarily the maximum that the Board would approve.

If a true catastrophic event occurred and the Manitoba public knew of this catastrophic event and it impacted them, if MPI responded in kind and paid all their claims and was the good corporate citizen, then I don't think that a response to a larger than 5 percent increase would necessarily be as negative as you might -- as they are assuming it would be.

1 I think that there would be -- and I've
2 talked about this a little bit, that I think it
3 depends on why the rate increase is needed. Again, is
4 it a cat -- catastrophe? If it's a catastrophe, I
5 think there's -- the public would be more
6 understanding.
7 If it is simply that over time or
8 simply large forecasting errors from history, then
9 that might be more difficult to sell more than a 5
10 percent increase at any one (1) time.
11 So I hope I've articulated a few points
12 there.
13 MR. LUKE JOHNSTON: I -- I think, from
14 our perspective, the context at which MPI operates is
15 very important to this decision, where we're talking
16 about having just a few rate increases in like two (2)
17 decades.
18 And so maybe in the private sector, the
19 -- the rate increases are happening often and they're
20 larger. And I see them in Thompson's Daily News, and
21 I'm glad they're not happening here.
22 But we're -- we're not operating in an
23 environment where we have constant rate increases all
24 the time. We're hovering around zero all the time, so
25 that -- that's really the -- the context around the --

1 the assumption, and of course the -- the previous
2 precedent which the Board made their decisions.
3 MS. CANDACE GRAMMOND: Thank you. The
4 next issue on the list relates to inter-generational
5 equity or inequity. Mr. Johnston, I don't have any
6 specific questions for you because you've already
7 commented on that piece today. But I do have one (1)
8 question for Ms. Sherry, and then you can certainly
9 respond if you wish.
10 Ms. Sherry, my question is: Do you
11 have any specific concerns with respect to the DCAT
12 and inter-generational inequity?
13 MS. ANDREA SHERRY: The only concern I
14 have in regards to the DCAT is what scenarios, what
15 probabilities or levels are chosen as -- to set the
16 RSR range, right? That's not specific to the DCAT
17 methodology itself, though.
18 MS. CANDACE GRAMMOND: Can you just
19 tie that in with how it relates to inter-generational
20 inequity?
21 MS. ANDREA SHERRY: Well, you know, as
22 I've talked about quite a bit today, I feel that if
23 the range is very, very large, so say you said -- say
24 you set the range -- let's go with a one (1) in twenty
25 (20) to a one (1) in a hundred (100) year scenario,

1 and that's going to be our range, the most adverse
2 scenario that comes out of the DCAT.
3 It's a very large range. So that goes
4 to my point of government or a Crown corporation
5 holding that much money, that much ratepayers' money.
6 And is that necessarily good for the Manitoba economy?
7 And also, that brings in the
8 possibility of inter-generational inequities, right?
9 If people are paying to keep it -- well, the one (1)
10 in twenty (20) is actually lower, so -- but if people
11 are paying to keep the RSR at a certain level and then
12 they leave the province or pass away, then that ties
13 to intergenerational inequities.
14 MS. CANDACE GRAMMOND: So your view,
15 Ms. Sherry, is that a narrower target capital range
16 mitigates that concern?
17 MS. ANDREA SHERRY: It does, in my
18 opinion.
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: Madam Chair,
23 those are my questions on behalf of the Board
24 advisors. Pursuant to the process that I had outlined
25 earlier, I know the -- the panel may have questions,

1 although they have been posed through the day. So if
2 the panel has an questions they could be asked now,
3 and then if not onto Ms. Kalinowsky.
4 MR. BYRON WILLIAMS: Madam --
5 THE CHAIRPERSON: Ms. Kal -- oh.
6 MR. BYRON WILLIAMS: -- Madam Chair,
7 it's -- sorry, it's -- I wonder if we could take just
8 a very quick break for refreshment, and also
9 efficiency purposes? I think it'll help both counsel
10 over here to get their notes --
11 THE CHAIRPERSON: Okay.
12 MR. BYRON WILLIAMS: -- and I have one
13 question I want to ask Board counsel, so.
14 THE CHAIRPERSON: Thank you. We'll
15 take five (5).
16
17 --- Upon recessing at 3:45 p.m.
18 --- Upon resuming at 3:51 p.m.
19
20 THE CHAIRPERSON: Before we start with
21 Ms. Kalinowsky, I'm going to call on Ms. Grammond in
22 regard to an undertaking.
23 MS. CANDACE GRAMMOND: Thank you,
24 Madam Chair. I was just chatting with Mr. Williams
25 over the break. There was a question that I had posed

1 to Ms. Sherry about -- in the inflation scenario
2 context what length of historical data she used for
3 setting those adverse inflation assumptions, and she
4 had indicated that she couldn't recall.
5 I understand that there's a willingness
6 on the part of CAC to give an undertaking to provide
7 that information. So I just wanted to read that into
8 the record, and we'll look forward to receiving that.
9 MR. BYRON WILLIAMS: We'll confirm
10 that undertaking. Thank you.
11 MS. CANDACE GRAMMOND: Thank you.
12
13 --- UNDERTAKING NO. 37: CAC to indicate what
14 length of historical data
15 Ms. Sherry used for
16 setting the adverse
17 inflation assumptions
18
19 THE CHAIRPERSON: Thank you, Ms.
20 Grammond and Mr. Williams. I'll turn it over now to
21 Ms. Kalinowsky.
22 MS. KATHY KALINOWSKY: Thank you very
23 -- thank you very much.
24
25 CROSS-EXAMINATION BY MS. KATHY KALINOWSKY:

1 MS. KATHY KALINOWSKY: I'd like to
2 start off with looking at one of the Information
3 Requests, and that is PUB/CAC-1-8.
4
5 (BRIEF PAUSE)
6
7 MS. KATHY KALINOWSKY: And I want to
8 focus in on the question B there, and it's -- the
9 question reads:
10 "Is it CAC's position that there
11 should be no -- no RSR?"
12 And the response to that, I want to
13 focus on that, is that first of all you didn't speak
14 for CAC and we understand that now. So the next one
15 is the -- the second sentence there under B:
16 "Our point is that is not
17 immediately obvious that an RSR is
18 in the interest of ratepayers."
19 You had mentioned that you were going
20 to say several thought-provoking items, and I assume
21 that's one of them?
22 MS. ANDREA SHERRY: Yes.
23 MS. KATHY KALINOWSKY: So since
24 Kopstein and over the past twenty-five (25) years
25 then, has MPI got it wrong and implemented an RSR

1 that's not in the best interests of ratepayers?
2 MS. ANDREA SHERRY: It is my opinion -
3 - this is my personal opinion that an RSR is in fact
4 in the interest of ratepayers. The evidence was
5 bringing up the point that it is questionable whether
6 a public monopoly holding taxpayers' or ratepayers'
7 money is in the best interest of the economy in
8 general, and in the long run is actually going to help
9 those ratepayers.
10 So that's what I was trying to get, and
11 that's what I said when it's thought-provoking. And I
12 think my point goes on to say that if an RSR is deemed
13 a good thing, which as you said, Kopstein said it.
14 We've been going on that premise ever since. And it
15 is also my opinion that we have to pay very close
16 attention to how large that RSR gets, because the
17 larger it is the more detrimental it could become.
18 MS. KATHY KALINOWSKY: So the rate
19 stabilization reserve is essentially a capital
20 reserve, right?
21 MS. ANDREA SHERRY: Yes.
22 MS. KATHY KALINOWSKY: And to your
23 knowledge does every insurance company in Canada,
24 whether public or private, have a capital reserve?
25 MS. ANDREA SHERRY: Yes.

1 MS. KATHY KALINOWSKY: And so I looked
2 at the Wawanesa financial statements, which are on the
3 internet, so it's publicly available. And you also
4 mentioned, I think, something today. And you said the
5 premiums were about 2 1/2 to $3 billion, and that
6 would be comparable to MPI's $1 billion, right?
7 MS. ANDREA SHERRY: Yes. Subject to
8 check, yes.
9 MS. KATHY KALINOWSKY: An then total
10 assets of Wawanesa are $8.6 billion, and that would
11 compare to MPI's of $3.2 billion?
12 MS. ANDREA SHERRY: That sounds right.
13 MS. KATHY KALINOWSKY: And am I also
14 correct in my reading that Wawanesa has total capital
15 retained earnings of $2.8 billion?
16 MS. ANDREA SHERRY: Subject to check,
17 I -- I would agree with you.
18 MS. KATHY KALINOWSKY: And that would
19 be comparable to MPI's overall total retained earnings
20 of $421 million then?
21 MS. ANDREA SHERRY: Okay.
22 MS. KATHY KALINOWSKY: And I think we
23 established, or you mentioned earlier, that the MCT of
24 Wawanesa is 300 million or 300 percent, so that's
25 about $900 million?

1 MS. ANDREA SHERRY: Yeah, I can't
2 remember exactly what it is. I think it's about
3 three-o-two (302) right now. Oh, sorry. I'm talking
4 that way now. Okay.
5
6 (BRIEF PAUSE)
7
8 MS. KATHY KALINOWSKY: And, in fact,
9 your total capital available, so that would be your
10 total retained earnings including AOCI, would be $2.8
11 million then?
12 MS. ANDREA SHERRY: Subject to check--
13 MS. KATHY KALINOWSKY: $2.8 billion?
14 MS. ANDREA SHERRY: Subject to check,
15 I will trust you. Yeah.
16 MS. KATHY KALINOWSKY: So using your
17 argument then earlier on, Wawanesa's excess capital,
18 so that's over the MCT amount, is $1.9 billion. And
19 that's the amount that -- the total amount would be $3
20 billion that Wawanesa has taken out of the economy,
21 out of its ratepayers?
22 MS. ANDREA SHERRY: I see what -- but
23 for the -- you're comparing very different companies,
24 very different purposes of companies. And I'm --
25 honestly I don't think it's relevant, but Wawanesa

1 competes across all of Canada and in the United States
2 for auto insurance, commercial auto, private insur --
3 private auto, personal property, commercial property.
4 We sell most kinds of insurance, except for any life
5 type products.
6 We have accumulated capital over time.
7 We have also made an underwriting loss for the last
8 several years. Hardly making a ton of cash. But we
9 have -- because we have built up that capital reserve
10 we are an extremely stable company. And we are a
11 mutual company. And I think that has to be taken into
12 account. I mean, if we're going to look at Wawanesa,
13 which I honestly don't think is fair to do, because
14 I'm not here as a Wawanesa representative. I am here
15 strictly as a consultant to help the Public Utility
16 Board in -- in MPI's rate application.
17 But if we're talk about a mutual
18 company, they have nowhere else to get capital, right?
19 They have to have a good chunk of capital sitting
20 there, because if anything like the BC earthquake
21 happens, that'll be wiped out and they have nowhere to
22 go. We don't have shareholders. We can't sell stock.
23 We can't go to the mother ship. We have nowhere else
24 to go. So a mutual company is different from a stock
25 company in that respect as well.

1 MS. KATHY KALINOWSKY: Thank you. I'm
2 not intending to ask a lot of questions about
3 Wawanesa. That was probably the last of my financial
4 questions about Wawanesa specifically about the
5 financial results. But I did want to ask a question.
6 Do you actually prepare the DCAT for -- at Wawanesa?
7 MS. ANDREA SHERRY: I don't any --
8 sorry, I don't anymore. That actually -- that
9 responsibility went to -- we hired a new vice-
10 president this year. So I did it for two (2) years
11 when I first started at Wawanesa. That's why I
12 couldn't remember the inflation question, because it's
13 been a bit.
14 MS. KATHY KALINOWSKY: In your
15 evidence you mention at one point that MPI near --
16 need not fear bankruptcy. They are backed by the full
17 taxing power of the Provincial Government.
18 So are you saying that the province
19 then can raise the tax rates to cover MPI's losses if
20 there's some losses?
21 MS. ANDREA SHERRY: I think what I'm
22 saying with that point is that MPI would have -- or
23 the government would have the ability to help MPI out
24 if MPI was in a disastrous situation.
25 MS. KATHY KALINOWSKY: And one (1) of

1 the ways they could help out was using their full
2 taxing powers?
3 MS. ANDREA SHERRY: Yes.
4 MS. KATHY KALINOWSKY: How did that go
5 for the premier last time he raised the retail sales
6 tax? No need to answer that.
7 MS. ANDREA SHERRY: Okay. I'm not a
8 politician.
9
10 (BRIEF PAUSE)
11
12 MS. KATHY KALINOWSKY: The MPIC Act
13 calls for a holding of sufficient reserves by MPI. So
14 moving aside policy, moving aside ideology, is it your
15 understanding that the board of directors of MPI has
16 indicated that they want to use the DCAT for the lower
17 level of the RSR calculation?
18 MS. ANDREA SHERRY: I believe I read
19 that in the transcripts or the rate application, one
20 or the other.
21 MS. KATHY KALINOWSKY: And you're also
22 aware, I believe, that MPI has said last year at the
23 general rate application, in the hearing, that indeed
24 the PUB can hold the pen on the DCAT in writing its
25 adverse scenarios and so long as the internal actuary,

1 which would be Mr. Johnston, and the external
2 appointed actuary, which -- which is Mr. Joe Cheng,
3 they have to be able to sign off on it.
4 Are you aware of that also?
5 MS. ANDREA SHERRY: No, I wasn't aware
6 of that.
7 MS. KATHY KALINOWSKY: And are you
8 aware that the board of directors and senior
9 management have specifically required that Mr.
10 Johnston sign the DCAT as -- and provide his actuarial
11 opinion?
12 MS. ANDREA SHERRY: I was not aware
13 that you had mandated that.
14 MS. KATHY KALINOWSKY: Are you aware
15 that the PUB over the last number of years asked a
16 number of questions on whether Mr. Johnston would --
17 because Mr. Johnston did not originally sign the DCAT,
18 but afterwards, he did, but that was be -- at the
19 behest of the PUB's questions?
20 MS. ANDREA SHERRY: I do recall
21 reading quite a bit about -- with regard to the DCAT
22 over the last few years, so that does not surprise me.
23 I don't recall the exact wording.
24 MS. KATHY KALINOWSKY: So when Mr.
25 Johnston says that he has to adhere to actuarial

1 standards of practice and he's also required to sign
2 the DCAT, you mentioned earlier today your solution
3 was, "Just don't sign the DCAT." And I wrote those
4 words -- words down.
5 MS. ANDREA SHERRY: Well, that is an
6 option for him. He certainly doesn't have to by
7 regulation, and that would up to the Public Utilities
8 Board if he has to would be my take on that. And
9 again, that all is tied into the level of the RSR and
10 what is acceptable and not acceptable in the DCAT
11 adverse scenarios.
12 MS. KATHY KALINOWSKY: One (1) -- one
13 (1) area of commonality that both you have and -- as
14 an expert witness, and the Corporation has, is that
15 we're both proposing that the RSR should be expressed
16 in terms of a range.
17 Is that correct?
18 MS. ANDREA SHERRY: Yes.
19 MS. KATHY KALINOWSKY: And what you
20 wrote in part of your evidence was that, if you aim
21 for the lower range of the -- of the RSR and you risk
22 falling short, so, therefore, you should aim to the
23 middle of the range as the appropriate target.
24 Is that your recollection of what you
25 wrote?

1 MS. ANDREA SHERRY: Well, what we
2 suggest is that the one (1) in forty (40) has been
3 bantered about as the minimum RSR. We're suggesting
4 it be the target. So, yes, a lower number would have
5 to be the minimum.
6 MS. KATHY KALINOWSKY: So maybe we
7 could just pull that Information Request up. It's
8 PUB/CAC-1-2.
9
10 (BRIEF PAUSE)
11
12 MS. KATHY KALINOWSKY: And it's after
13 the indented part on the page -- I guess it'd be page
14 4 there, but in either case:
15 "Aiming for the lower end of the
16 range risks falling short. One
17 should aim for the middle of the
18 range as the appropriate target."
19 Is that correct?
20 MS. ANDREA SHERRY: Yes.
21 MS. KATHY KALINOWSKY: So based on
22 that then, if the PUB were to agree upon MPI's
23 Application and determine that the range of the RSR
24 should be $231 million for the lower end and $366
25 million for the upper level of the target, then the --

upper level of the range, then the actual target of the RSR -- RSR should be $299 million, just doing a mathematical calculation?

MS. ANDREA SHERRY: Okay, wait, hold on.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Just looking at the mid point between two six (26) -- two thirty-one (231) and three sixty-six (366) would be 299 million?

MS. ANDREA SHERRY: Okay. Sorry, it took me a minute to catch on there. I thought you were tyring to relate it to the one (1) in twenty (20), and then I got confused.

I think that that is up to the PUB, but what we are recommending -- what my opinion is, is that the one (1) in forty (40) should be the target. So that would be the two thirty-one (231).

MS. KATHY KALINOWSKY: Let's talk a little bit about the -- the range -- continue talking about it. So forgetting the minimum and forgetting the maximum RSR levels, in your opinion what's an acceptable range from minimum to maximum? It can be dollars...

1 MS. ANDREA SHERRY: I think that's
2 what Ms. Proven was trying to get me to talk about
3 earlier today. And I can't speak about this from --
4 as an actu -- as an actuary, as a -- even as an
5 expert. I can only give an opinion on that, right.
6 And I -- that's -- everyone is going to have an
7 opinion.
8 How much -- and you could say a one (1)
9 in twenty (20) to say -- if you look at how long
10 people drive, you could say that it should be a one
11 (1) in twenty (20) to a one (1) in sixty (60) year.
12 That's one answer.
13 MS. KATHY KALINOWSKY: So currently
14 the spread of the two thirty-one (231) to three sixty-
15 six (366) is $135 million then. So if you knew that
16 MPI had two (2) years -- Basic had two (2) years of
17 losses of approximately 7 mill -- $70 million back to
18 back, do you think that's a reasonable amount of a
19 range?
20 MS. ANDREA SHERRY: Sorry, I want to
21 make sure I understand the question. So the range is
22 here, so you're saying that that would be taken away
23 if you had two (2) years of losses? Is that what
24 you're saying? So is that reasonable?
25 MS. KATHY KALINOWSKY: Yes.

1 MS. ANDREA SHERRY: Okay.

2

3 (BRIEF PAUSE)

4

5 MS. ANDREA SHERRY: I do not agree
6 with how the maximum of the RSR range is being
7 determined, and that's how I answer that question.
8 So, no, I don't think the range is reasonable.
9 MR. LUKE JOHNSTON: I think if I -- if
10 I can assist. Whether you fully understood the
11 question or not, but those -- those two (2) losses
12 happened. Like those weren't even big adverse
13 scenarios in our -- in terms of what can happen at MPI
14 and they just happened. So we had back to back 70
15 million losses, and I think the question is more in
16 light of knowing that is -- would a -- would a smaller
17 range be appropriate.
18 And I appreciate you don't know maybe
19 the full spectrum of -- of losses that can occur in
20 some of the smaller examples. But --
21 MS. ANDREA SHERRY: Yeah.
22 MR. LUKE JOHNSTON: -- I think that's
23 the point there.
24 MS. ANDREA SHERRY: Okay. So if given
25 that's the point, then we go back to suggestions and

1 things that we've talked about earlier where I think
2 that the forecasting can be done better, that -- I
3 don't -- I think that we could have known about that
4 ahead of time and perhaps forecasted that those losses
5 were going to happen so that we could make smaller
6 adjustments.
7 I also think that rate increases might
8 happen, will happen. There's no doubt about it.
9 Yeah, I think that's my complete answer.
10 MR. LUKE JOHNSTON: Just -- just to be
11 clear, I'm -- I'm -- and I -- I'm struggling with this
12 idea that our forecast is poor or something. And
13 regardless of what our forecast is or isn't, we're
14 just running the models that are collaborated on and
15 agreed upon.
16 So there's nothing I can do to improve
17 the equity range of outcomes for, you know, the -- the
18 normal distribution around equity returns than what it
19 is other than less -- investing in less equities or
20 something.
21 But that -- whatever that -- if we were
22 to sign on in terms of a risk range is -- is the range
23 of outcomes. So my -- my forecasting -- of course, if
24 -- if it turns out to be above or below, I just want
25 to recognize that we have -- all the variability in

1 the DCAT has nothing to do with forecasting error.
2 It's about the range of outcomes that -- that are
3 possible for those risk factors.
4 MS. ANDREA SHERRY: Right, but I think
5 it's very important to clarify what I was talking
6 about as well. So the forecasting is very key to
7 knowing whether the Company is going to make or lose
8 money in the next year, right? And it's key to the
9 rate indication process, right?
10 So obviously those losses were not
11 forecast, so we're being -- we're responding rather
12 than acting ahead of time to mitigate those losses or
13 put in smaller rate increases.
14 That's what I was talking about with
15 the forecasting accuracy is that we -- we need to -- I
16 feel we need to get closer to forecast, try to be
17 closer to forecast. It's not a criticism, but it's an
18 acceptance that there -- or a recommendation that
19 things could be improved in certain areas.
20 And I think we talked about that
21 earlier, so I don't think we need to duplicate that
22 discussion now. And that doesn't -- you're right in
23 the sense that we've got the DCAT and we've got this
24 range of the RSR.
25 But that definitely relates to

1 forecasting accuracy because if we're totally off on
2 forecasting and we lose a whole bunch of money, that's
3 not an unforeseen event necessarily unless the
4 forecast was off because of catastrophe or a true
5 unforeseen event. So the two (2) are related.
6 MS. KATHY KALINOWSKY: Well, I can
7 just say that those two (2) -- two (2) losses that we
8 just experienced back-to-back years, that was because
9 of two (2) bad winters. So I'm wondering if maybe
10 your losses in the auto line of business were also
11 because of those two (2) bad winters, not necessarily
12 because of poor forecasting.
13 MS. ANDREA SHERRY: Actually, a lot of
14 it has to do with regulatory changes in other count --
15 or in other -- well, countries, too, but in
16 California. But some regulatory changes have happened
17 in Ontario.
18 And I'm not sure -- I think there's a
19 perception that us private companies do whatever we
20 want. But, for example, the New Brunswick Insurance
21 Rate Board only allows a 3 percent rate increase every
22 year. That's it. So that's pretty hard to fight.
23 You're not the only province where regulation is
24 tight.
25 MR. LUKE JOHNSTON: And I -- I'm

1 sorry, I -- I just -- I can't sit here and -- and
2 listen to someone say that bad forecasting is part of
3 it. It just isn't. Like if -- if there's a result in
4 our actual -- you know, our actual results where we --
5 we changed something.
6 So say we changed the interest rate
7 provision for adverse deviation, we didn't have that
8 planned in our -- in our forecast, sure. That's
9 outside of the DCAT. But the DCAT is not -- like it -
10 - there -- there's nothing that I'm aware of that
11 anyone's brought up here that suggests our forecasts
12 are not best estimates.
13 So if you have any, I'd -- I'd continue
14 to encourage you to bring them up, but if you don't, I
15 --
16 MS. ANDREA SHERRY: Which one are we
17 talking about? Are we talking about the DCAT or are
18 we taking -- talking about the forecast that's used in
19 rate making?
20 MR. LUKE JOHNSTON: Anything.
21 MS. ANDREA SHERRY: They're two (2)
22 different things.
23 MR. LUKE JOHNSTON: Like this -- the -
24 - the term, this term "poor forecasting" is getting
25 thrown out there, but nothing in his hearing in -- in

1 my opinion has suggested that the forecast isn't a
2 best estimate.
3 And then I know you have particular
4 issues on the -- on the DCAT modelling, but that
5 doesn't impact our actual results.
6 MS. ANDREA SHERRY: Luke, we talked
7 about it this morning, actually. We talked about
8 forecasting and some of the suggested improvements I
9 had for forecasting, one (1) of which I think we will
10 talk about further outside of this, being the whole
11 trending procedure that you use. And the other one
12 was the physical damage forecast and the use of all of
13 the data that you get, and the physical damage
14 expertise you probably have on staff. And there was
15 one (1) other.
16 So do you recall that conversation from
17 this morning?
18 MR. LUKE JOHNSTON: I do but I'm --
19 I'm failing to understand how that impacts the re --
20 equity returns or interest rates, or bad winters.
21 MS. ANDREA SHERRY: But it does. It -
22 - Kathy -- or Ms. Kalinowsky brought up the fact that
23 having this much of a range would cover two (2) years
24 of $70 million losses. And my point was that that is
25 related to forecasting, is how far off your forecast

is from budget -- or from actual.

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: May -- maybe we can move on past this point. But really it's -- it's two (2) years of bad weather. We've exp -- explained that at great length in the past general rate application so let's move on here, if that's acceptable.

And it's -- you -- there's been no issues about bad forecasting in that regard, as explained over the previous two (2) years at the general rate applications when we've been accountable for those net losses that we experienced those two (2) years. So I just want to move on. I want to ask you about the --

MR. BYRON WILLIAMS: Madam Chair --

MS. KATHY KALINOWSKY: -- the Pricewaterhouse letter on --

MR. BYRON WILLIAMS: Madam Chair -- sorry, just if I might. I -- I'm in total agreement in terms of moving on. I do believe it's important for legal counsel not to testify and I'll just indicate that we may take issue with the premise. But I do believe we should move on.

1 THE CHAIRPERSON: Thank you.

2

3 CONTINUED BY MS. KATHY KALINOWSKY:

4 MS. KATHY KALINOWSKY: So moving on

5 completely different top -- area here.

6 Pricewaterhouse wrote a -- a letter with respect to

7 the RSR and the accounting treatment of the RSR.

8 Did you read that?

9 MS. ANDREA SHERRY: I did, yeah.

10 MS. KATHY KALINOWSKY: Okay. And

11 since Pricewaterhouse are also the auditors of

12 Wawanesa, do you agree with their approach?

13 MS. ANDREA SHERRY: I have no comment

14 in terms of Wawanesa. I'm not here as a

15 representative of Wawanesa.

16 MS. KATHY KALINOWSKY: Do you agree

17 with the approach of Pricewaterhouse in their

18 accounting letter?

19 MS. ANDREA SHERRY: Can you bring it

20 up, because I don't have it here and I can't remember

21 every single detail of it?

22 MS. KATHY KALINOWSKY: And I -- I

23 didn't have any specific questions about it in any

24 detail. I was just --

25 MS. ANDREA SHERRY: Yeah, I just can't

1 say --

2 MS. KATHY KALINOWSKY: -- did you

3 agree with the approach or disagree?

4 MS. ANDREA SHERRY: I can't say I do

5 without re-reading it right now. I don't know if you

6 want me to do that.

7 But if I -- if you could summarize. If

8 I recall correctly they just went through the

9 different terminology that MPI uses and says there's

10 no specific -- I'm reading right now:

11 "No specific IFRS standards that

12 deal with rate stabilization

13 reserves."

14 MS. KATHY KALINOWSKY: Maybe in the

15 interest of time we can just move on then.

16 MS. ANDREA SHERRY: Okay.

17 MS. KATHY KALINOWSKY: I think nothing

18 --

19 MS. ANDREA SHERRY: Yeah, because I

20 can't remember all the details.

21 MS. KATHY KALINOWSKY: So -- so I'm

22 going to talk about the DCAT. And the DCAT is used to

23 measure a variety of different risks. We've talked

24 about that -- or you've talked about that at length

25 this morning, right?

1 MS. ANDREA SHERRY: M-hm.
2 MS. KATHY KALINOWSKY: And, of course,
3 one (1) of the risks that MPI faces is interest rate
4 risk.
5 MS. ANDREA SHERRY: Yes.
6 MS. KATHY KALINOWSKY: And could I ask
7 Diana to pull up your recommendations on your
8 testimony, and it's at page 15.
9
10 (BRIEF PAUSE)
11
12 MS. KATHY KALINOWSKY: And it would be
13 number 7 so VII. And I'll just read that in.
14 "The interest rate decline scenario
15 and its contribution to the combined
16 scenario should be heavily
17 discounted as it is not credible on
18 the basis of the evidence available.
19 We would suggest that it be given a
20 weight of zero and eliminated from
21 the consideration of the RSR
22 target."
23 And I believe you spoke about that this
24 morning but I want to clarify it in my mind. But are
25 you advocating that because there is no historical

1 experience and it's difficult to model, that it's not
2 credible?
3 MS. ANDREA SHERRY: At this point, for
4 reasons that we've discussed at length today but I can
5 go over again if you would like, we do not feel that
6 the Public Utility Board should give very much weight
7 to this scenario in its determination of the RSR
8 range.
9 MS. KATHY KALINOWSKY: So if the
10 purpose of the DCAT is to assess and model risks and
11 interest rate is indeed a risk, then how can it just
12 be ignored or eliminated?
13 MS. ANDREA SHERRY: Well, it is a
14 difficult environment we are in to model interest
15 rates, and I acknowledge that. And -- but on the
16 other hand, it is very difficult to come up with
17 scenarios that actually make sense to be used in the
18 determination of risk. And we have issues right now
19 with the floor that is being used, as well, on this
20 scenario.
21 So for those reasons we don't feel that
22 the scenario itself stands up to easy criticism.
23 MS. KATHY KALINOWSKY: Do you know of
24 any insurer that is ignoring interest rate risk or
25 assigns zero weight to it --

1 MS. ANDREA SHERRY: No.
2 MS. KATHY KALINOWSKY: -- in its DCAT?
3 MS. ANDREA SHERRY: Although, subject
4 to check, I don't -- but I don't know any, yeah.
5 MS. KATHY KALINOWSKY: You're aware
6 that ICBC, which is the monopoly public insurer in BC,
7 uses an MCT of 100 percent as their minimum capital
8 level, right?
9 MS. ANDREA SHERRY: I believe that's
10 true, yeah.
11 MS. KATHY KALINOWSKY: And you're also
12 aware that the SGI auto fund uses MCT of a hundred
13 percent as their minimum capital level?
14 MS. ANDREA SHERRY: I believe that's
15 true, too.
16 MS. KATHY KALINOWSKY: When you were
17 the assistant vice president and corporate actuary at
18 SGI did you propose that SGI's minimum capital
19 requirements be less than a hundred percent MCT?
20 MS. ANDREA SHERRY: I didn't work in
21 that area, to be quite honest with you. My job when I
22 was at SGI was to set up an actuarial rate indication
23 for the auto fund because prior to that they only used
24 loss ratios. So I set up -- that was my job, and I
25 set it up as an actuarial -- actuarially accepted

1 practice rate indication. And I also was the
2 valuation actuary for the auto fund. There was a
3 separate part that was -- worked on capital.
4 So as I said, when I was leaving there
5 they were starting to work on a DCAT. And I know they
6 have one (1) now, but I'm not sure where they are in
7 terms of using it for that purpose, or even if they
8 intend to. I don't know.
9 MS. KATHY KALINOWSKY: So although the
10 MCT wasn't in your responsibility area at SGI, and I
11 did not realize that, but you still made no proposals
12 to the others?
13 MS. ANDREA SHERRY: No. No, actually,
14 when I was there, the auto fund didn't have an MCT. I
15 just remembered that. They didn't have an MCT and
16 they didn't have a DCAT. And at the time I was
17 leaving there was interest in doing that, in
18 developing -- there's challenges to doing an MCT for a
19 monopoly, as well. So it was not complete when I
20 left.
21 MS. KATHY KALINOWSKY: You're aware
22 that the Board in last year's order requested that MPI
23 engage in a collaborative approach with the Board's
24 actuarial advisors and accounting advisors and the
25 Intervenors' advisors, or experts, to address issues

1 related to the DCAT?
2 MS. ANDREA SHERRY: Yeah.
3 MS. KATHY KALINOWSKY: You're aware of
4 that?
5 MS. ANDREA SHERRY: Yes.
6 MS. KATHY KALINOWSKY: And almost all
7 of that collaboration over this past year occurred via
8 email over a period of about eight (8) months?
9 MS. ANDREA SHERRY: Yeah.
10 MS. KATHY KALINOWSKY: And you were
11 indeed copied on all correspondence related to this
12 collaborative process?
13 MS. ANDREA SHERRY: I was. I was. I
14 think I was.
15 MS. KATHY KALINOWSKY: And there were
16 quite a few emails, weren't there? I mean --
17 MS. ANDREA SHERRY: Yes, there were.
18 MS. KATHY KALINOWSKY: -- I was copied
19 on them and I remember them being very long?
20 MS. ANDREA SHERRY: Yeah, I think the
21 process worked in some ways, but I'm not sure that the
22 millions of emails actually worked as well as it could
23 have.
24 MS. KATHY KALINOWSKY: Well --
25 MS. ANDREA SHERRY: A different issue.

1 MS. KATHY KALINOWSKY: During the
2 collaboration process did you ask any questions of Mr.
3 Johnston, MPI's chief actuary, about the proposed DCAT
4 model?
5 MS. ANDREA SHERRY: I read the emails,
6 and I expressed my concerns to the Consumers
7 Association of Canada.
8 MS. KATHY KALINOWSKY: Did you express
9 your concerns to Mr. Johnston?
10 MS. ANDREA SHERRY: No, not directly.
11 I don't think I sent any emails directly to -- to
12 Luke.
13 MS. KATHY KALINOWSKY: Okay. During
14 the collaborative process, Mr. Johnston on several
15 occasions provided explanations and offered both Mr.
16 Pelly and yourself his telephone number for you to
17 contact him further for any explanations, or to put
18 context, or get -- get feedback/input from him -- or
19 give input to him.
20 Did you ever phone him?
21 MS. ANDREA SHERRY: No.
22 MS. KATHY KALINOWSKY: During the
23 collaborative process, did you put forward any issues
24 to be considered?
25 MS. ANDREA SHERRY: Yes, I did but not

1 directly to Luke.

2 MS. KATHY KALINOWSKY: Was there any

3 reason why you couldn't send an email directly to Mr.

4 Johnston and Mr. Pelly as part of this collaborative

5 exercise, given that the Board ordered it?

6 MS. ANDREA SHERRY: To be quite

7 honest, I didn't know if that was my role to

8 communicate directly with them. I have found, because

9 I have emailed Luke directly on a few other things,

10 and I have found that the email process does not work

11 very well. But that's a separate issue.

12 MS. KATHY KALINOWSKY: If you thought

13 the email process didn't work very well, did you ever

14 speak to either Mr. Pelly or Mr. Johnston about doing

15 another approach, and I don't know what that approach

16 would be but maybe calling a meeting, sitting down

17 together?

18 MS. ANDREA SHERRY: No, I didn't. As

19 I said, I did not communicate directly with Luke. I

20 communicated my issues to the Consumers Association of

21 Canada.

22 MS. KATHY KALINOWSKY: Okay. Do you

23 think that maybe this silence of yours over eight (8)

24 months could be possibly interpreted as you agreeing

25 with the approach being taken, and you had nothing

1 further to contribute?
2 OBJ MR. BYRON WILLIAMS: I'm going to
3 object to the premise of that question because legal
4 counsel full well knows that there was commentary made
5 to -- to MPI through -- through correspondence.
6 MS. ANDREA SHERRY: There was at least
7 -- I don't know, at least one I recall for sure email
8 from the Consumers Association of Canada expressing my
9 concerns, as well as Dr. Simpson's concerns.
10
11 CONTINUED BY MS. KATHY KALINOWSKY:
12 MS. KATHY KALINOWSKY: Yes, I recall
13 that one email. Do you think it might have been
14 helpful for the collaborative process to mention the
15 one (1) in twenty (20) scenario as your low end of the
16 RSR at some point in the eight (8) months because it
17 was never mentioned until you filed your evidence the
18 end of September?
19 MS. ANDREA SHERRY: I'm trying to
20 recall if it ever came up in any of the
21 interrogatories but to be honest, I can't recall. So
22 I think -- you know, you're asking why we didn't speak
23 up earlier in the collaborative process. I think I
24 can summarize this line of questioning.
25 And I think you've probably got a valid

1 point. However, I did not know that that was my role.
2 I've never felt totally comfortable communicating
3 directly with MPI, or with Brian for that matter, on
4 these issues. The way that the collaborative process
5 was ran I felt was prescribed, was told, This is how
6 it's going to be ran. And so I followed that process.
7 So if, you know, we're going to even
8 open up the collaborative process more and say that
9 I've got Luke's number and I can call him any time,
10 that's great. But I've never seen myself as that kind
11 of -- in that kind of position.
12 MS. KATHY KALINOWSKY: Thank you for
13 your response there. Do you recall that CAC, and
14 maybe it was with you or wasn't with your knowledge,
15 but they asked for Mr. Johnston to undertake a live
16 demonstration of the DCAT modelling?
17 MS. ANDREA SHERRY: I do, and I wish I
18 could have been there but unfortunately I was out of
19 town. And we did communicate I would be out of town.
20 It happened very quickly, that meeting was set up, so
21 I could not be there.
22 MS. KATHY KALINOWSKY: And Professor
23 Simpson also wasn't there?
24 MS. ANDREA SHERRY: I'm not sure where
25 Professor Simpson was but he was not available either.

1 MR. BYRON WILLIAMS: And, Madam Chair
2 and members of the Board, we're -- we're going to run
3 into some problems here. As I recall -- and here
4 you're going to hear some evidence from me -- there
5 were some attempts to get some times. I think there's
6 a lot of effort make Dr. -- Mr. Pelly available and so
7 there were some challenges. And a date that would
8 have worked for some didn't work for others.
9 And so when we set out the ground rules
10 for the collaborative process, the intent was for --
11 that we weren't going to get into the details of the
12 discussion. It was without prejudice. And so MPI --
13 out of courtesy, I've let this continue, but I think
14 there's some issues that I'm happy to take up with
15 Board counsel or counsel for MPI out of this room.
16 But I don't think it's fair to put in one (1) version
17 of events without -- in this context.
18 THE CHAIRPERSON: Ms. Kalinowsky...?
19 MS. KATHY KALINOWSKY: I'm just asking
20 questions, but that was my last question on the
21 collaborative process so I'll move on here.
22
23 CONTINUED BY MS. KATHY KALINOWSKY:
24 MS. KATHY KALINOWSKY: Now, is it fair
25 to say, Ms. Sherry, that one (1) of your greatest

1 concerns about the RSR is the possibility of inter-
2 generational inequity?
3 MS. ANDREA SHERRY: Well, I think
4 inter-generational inequity just happens. I think my
5 concern is that it's too -- it -- that the size of it
6 or the magnitude of it grows the bigger the RSR.
7 MS. KATHY KALINOWSKY: Okay. So
8 you've mentioned that inter-generational inequity just
9 -- just happens. Well, can you ever avoid inter-
10 generational inequity in an insurance company? Isn't
11 it just part of the nature of -- of the beast, so to
12 speak?
13 MS. ANDREA SHERRY: Well, you try to,
14 and that's -- even in private companies, we try to.
15 We try to charge the right rate to the group of people
16 that are insured for a certain -- over that period of
17 time.
18 We're projecting, forecasting for that
19 one (1) policy year, that one (1) group of policies.
20 How much do I need on average to cover costs and, in
21 private companies, profit? So we try our best to
22 charge people exactly what they're going to cost us.
23 And that is actuarial rate making.
24 MS. KATHY KALINOWSKY: So when OSFI
25 sets the MCT at 150 percent, or supervisory and then

1 100 percent, is it really saying that that is a
2 certain limited amount of inter-generational inequity
3 that's acceptable?
4 MS. ANDREA SHERRY: Well, it depends
5 how the capital was received, right? I don't know.
6 If you go back to the very beginning of private
7 companies in Canada, you know, I know Wawanesa started
8 with some farmers putting some cash together to cover
9 the one (1) farmer who lost all their money, truly,
10 right?
11 So -- and then they built up their
12 capital over time. So, yeah, it did come from making
13 profits over time in Wawanesa's case. In a stock
14 company's case, it -- the capital at the very
15 beginning of those companies -- actually, to be fair,
16 it probably started out the exact same way, you know,
17 because fire companies started out, business owners
18 put money together to cover the one (1) that might
19 burn down the next year.
20 So I guess you've got a point. Over
21 time, the extra money they made, and then the
22 companies got bigger and bigger and bigger, right?
23 And now you have different types of companies.
24 So Wawanesa's MCT stays pretty stable.
25 So at this point in time, we try to keep inter-

1 generational and equities to a minimum. We try to
2 charge the right rates. But I'd say that stock
3 companies want to make as much money as possible. And
4 I don't want to -- I'm not bashing. I'm saying that's
5 their purpose. So varied circumstance.
6 MS. KATHY KALINOWSKY: So we have here
7 two (2) principles. There's -- on the one hand, it's
8 inter-generational and equity, and on the other hand,
9 it's stable, predictable rates. And both are
10 objectives.
11 So when you're thinking through and
12 preparing your testimony and speaking today, do you
13 believe that preventing inter-generational inequity
14 through fluctuating rates is more important than
15 having stable and predictable rates?
16 MS. ANDREA SHERRY: I think that there
17 has to be a balance. I think that --
18 MS. KATHY KALINOWSKY: What is that
19 balance?
20 MS. ANDREA SHERRY: Well, that's why
21 we're here.
22 I think that there is -- some rate
23 stability is desired, and that's -- all leads to the
24 size of the RSR, if -- and how big it is.
25 MS. KATHY KALINOWSKY: In your final

1 recommendation you recommend a rebate, because that
2 $213 million, this exceeds the percentage of premiums
3 maximum of $178 million.
4 Are you aware that MPI filed its second
5 quarter results at the commencement of this hearing,
6 and the RSR is now at $182 million?
7 MS. ANDREA SHERRY: I was not aware of
8 that.
9 MS. KATHY KALINOWSKY: Would you still
10 be recommending a rebate?
11
12 (BRIEF PAUSE)
13
14 MS. ANDREA SHERRY: Yes.
15 MS. KATHY KALINOWSKY: On -- on what
16 basis, and how much?
17 MS. ANDREA SHERRY: Well, this process
18 is supposed to be for the rating year in question,
19 right? That's what -- we're trying to rate for next
20 year. So all the projections that you have done for
21 that year indicate that the -- that there will be
22 excess above the RSR maximum that is currently in
23 place by the board, correct? So that's what this
24 recommendation is based on.
25 MS. KATHY KALINOWSKY: So if the PUB

1 approves a DCAT of $231 million at this hearing,
2 that's what we've applied for, and nothing changes in
3 our financial statements, then the RSR would likely be
4 underfunded to the tune of about $50 million there.
5 So MPI would not be in a satisfactory financial
6 condition and then might have to go to ratepayers for
7 an increase then perhaps.
8 Is that a plausible scenario?
9 MS. ANDREA SHERRY: Depending if
10 everything plays out as you suggest there...
11 MS. KATHY KALINOWSKY: You had
12 mentioned New Brunswick earlier on and you -- you
13 said, I believe, something to the effect of it can get
14 up to a 3 percent increase every year.
15 So do you think that's acceptable in
16 Manitoba to increase rates by 3 percent every year?
17 MS. ANDREA SHERRY: I probably made a
18 mistake bringing that up 'cause it deserves a longer
19 explanation than I gave it. The New Brunswick
20 insurance rate board, you can apply for whatever you
21 want. We do full indications. We send them full
22 indications. We send them all sorts of -- a large
23 amount of actuarial work and background material
24 before we send our rate indications. We can ask for
25 whatever we want.

1 But really my comment is that history
2 has shown they do not generally approve more than 3
3 percent. But I should never have said you can never
4 get it. Like, maybe you can in extreme circumstances.
5 I don't know.
6 MS. KATHY KALINOWSKY: Thank you for
7 that. Just looking into a -- hopefully not a
8 plausible future, but if MPI were privatized or its
9 monopoly ended, would a private insurer P&C company
10 maybe stand to benefit by entering into the Manitoba
11 auto insurance industry?
12 MS. ANDREA SHERRY: Like I said, we're
13 not doing very well in auto so I can't -- I can't
14 really comment on that. Yeah.
15 That's -- and I think I need to make
16 this very, very clear. I am not here as a Wawanesa
17 representative. I am here to try and give information
18 to the Board, and I intend to do -- I have worked very
19 hard to keep my Wawanesa world and this world very
20 separate. I'm here to give you advice.
21 I am not expecting MPI to go private.
22 I honestly don't believe that. I read the transcript.
23 I know that it was brought up as a risk. I don't
24 think it's a viable risk. That's my personal opinion.
25 I -- I don't see it happening.

1 So your question was rather leading so
2 I wanted to clarify that.
3
4 (BRIEF PAUSE)
5
6 MS. KATHY KALINOWSKY: Moving into
7 specific scenarios. And I know Ms. Grammond went
8 through in great detail the different scenarios so
9 there's no need for me to go into that in any detail.
10 But I did have a couple of questions, and one (1) was
11 with respect to the interest rate scenarios for the
12 DCAT.
13 And you mentioned that other insurers
14 would just make an assumption, and it would be
15 adverse, and it would be more adverse than what MPI is
16 making in its assumptions. That's what I just wrote
17 down in my notes from what you said --
18 MS. ANDREA SHERRY: That would be
19 true.
20 MS. KATHY KALINOWSKY: -- earlier on.
21 Can you give me numbers that other insurers would use
22 then in terms of their assumptions?
23 MS. ANDREA SHERRY: Well, we were -- I
24 was talking about the stress test. Although we would
25 run a scenario in our DCAT as normal procedures, I

1 think it was a hundred and fifty (150) basis points
2 was the stress test, 1 1/2 percent.
3 MS. KATHY KALINOWSKY: And speaking
4 about equity declines, if you -- you mentioned that
5 equity declines, then MPI has money put aside to
6 protect it, a large amount of reserves, and that's
7 what I just wrote down in my notes, so I'm not exactly
8 sure if that's correct. I mean, we'll see the
9 transcript afterwards.
10 But what are you talking about there in
11 terms of a large amount of reserves? Are you talking
12 about the $182 million that's in the RSR? Are you
13 talking about total reserves? Are you talking about
14 our unpaid claims liabilities reserves?
15 MS. ANDREA SHERRY: I think my point
16 with that was that in the three (3) year scenario and
17 our point that we should use the four (4) year so that
18 you get the impact of the rebound, my point was that
19 MPI could survive a year if its total equity dropped
20 below zero based on the money it holds just in
21 general, so. Whether that would be acceptable or not
22 is another question, but...
23 MS. KATHY KALINOWSKY: So isn't --
24 isn't the point of having an RSR -- is that when
25 something like there's an equities decline that wipes

1 out the retained earnings, that the retained earnings
2 are low relative to the financial risks that MPI
3 indeed faces if something like that could happen
4 plausibly?
5 MS. ANDREA SHERRY: Sorry, I didn't
6 understand the question.
7 MS. KATHY KALINOWSKY: Sorry. If the
8 -- the fact that the equities decline could wipe out
9 retained earnings, doesn't that really emphasize the
10 point that the retained earnings are indeed low
11 relative to the real financial risks that MPI faces?
12 MS. ANDREA SHERRY: I don't want to
13 say that the retained earnings are low for a company
14 such as MPI, so I'm not sure.
15 MS. KATHY KALINOWSKY: Can you give an
16 opinion? Or maybe "low" is the wrong word. Any other
17 adjectives or descriptors?
18 MS. ANDREA SHERRY: Do I think there--
19 MS. KATHY KALINOWSKY: I don't know if
20 you're just stumbling over the word "low" or --
21 MS. ANDREA SHERRY: I guess -- I guess
22 I am. I guess I am in a way stumbling over the word
23 'low'. I think because we want retained earnings to
24 be adequate, so we're running a one (1) in forty (40)
25 year event. And at some point, it could drop total

1 equity below zero, so -- but that does not to me say
2 that the current level of MPI's total equity is low or
3 too low.
4
5 (BRIEF PAUSE)
6
7 MS. KATHY KALINOWSKY: Then why would
8 you recommend a rebate?
9 MS. ANDREA SHERRY: Sorry?
10 MS. KATHY KALINOWSKY: Both -- if the
11 --
12 MS. ANDREA SHERRY: I just said that I
13 don't think they're too low. Am I mixing things up
14 here?
15 MS. KATHY KALINOWSKY: Using the four
16 (4) year decline in the equity market, and from my
17 understanding is that you advocate using the four (4)
18 year for MPI because if it's a long enough time
19 horizon, you catch the rebound.
20 Is that correct?
21 MS. ANDREA SHERRY: Well, I think that
22 it should -- the adverse scenario should take into
23 account the rebound that is projected for the fourth
24 year.
25 MS. KATHY KALINOWSKY: So in -- in my

1 simple mind then, if you take the long enough time
2 horizon, there's basically no risk in the equity
3 markets?
4 MS. ANDREA SHERRY: Well, I don't
5 know. There's always risk, I suppose. But I think
6 since we are considering the four (4) year I think we
7 should take it into account.
8
9 (BRIEF PAUSE)
10
11 MS. KATHY KALINOWSKY: I know Mr.
12 Johnston was somewhat frustrated this morning at one
13 point when he asked you: Why is it so unreasonable to
14 think that MPI should have an adequate capital level?
15 So maybe I'll re-ask the question somewhat
16 differently.
17 But as, you know, a Manitoban, as -- as
18 -- don't you think that the ratepayers of MPI would
19 want to think that MPI has a sufficient capital level?
20 MS. ANDREA SHERRY: Well, I'm
21 obviously in the business of insurance so I'm probably
22 not a typical Manitoba ratepayer, but I am not worried
23 about MPI's solvency. That doesn't trouble me. I
24 don't think that troubles anybody because, you know,
25 they are part -- they are a Crown Corporation and a

1 typical ratepayer looks at MPI as part of the
2 government. And that's true.
3 So when they see the rate increase --
4 that's why it's political, right. So why -- I think
5 that the typical ratepayer would understand that MPI
6 needs to have some money, right. They need some
7 money. They would understand that. But I think they
8 would also say there's a limit to how much of my money
9 you're going to hold.
10 And I think MPI has ran into situations
11 where they've had to give a rebate, and that can be as
12 difficult as a rate increase because then you have
13 people saying, Why are you -- why did you take my
14 money from me in the first place? Right. It gets
15 very difficult both ways. So -- and that's true of
16 any insurance company.
17 So my whole discussion --one of the
18 major points of my discussion is that the amount of
19 money that MPI holds should be reasonable. And how to
20 determine that level is the question at hand.
21 MS. KATHY KALINOWSKY: Okay. And so
22 you often use the phrasing, Taking money out of the
23 economy by MPI having it in the RSR. But what -- do
24 you know what MPI does with this money? I mean, Ms.
25 Reichert doesn't -- doesn't put it under her mattress.

1 MS. ANDREA SHERRY: You don't go
2 shopping?
3 MS. KATHY KALINOWSKY: Do you
4 understand that MPI invests in MUSH bonds for schools,
5 for hospitals, and Municipal infrastructure within the
6 Province of Manitoba, and that indeed is one of the
7 founding principals of MPI? Do you understand that?
8 MS. ANDREA SHERRY: I understand that.
9 MS. KATHY KALINOWSKY: And, of course,
10 we also -- with the Department of Finance we've
11 retained investment managers, and they invest equities
12 and it grows year over year, so there's indeed an
13 increase to the RSR amount every year just through
14 growth of the investment income.
15 MS. ANDREA SHERRY: Yes. I am aware
16 of that. I'm not sure your typical ratepayer would be
17 aware of that. But when I talk about taking money out
18 of the economy that means that if you take a hundred
19 dollars ($100) extra from your average ratepayer, that
20 hundred dollars ($100) might mean something to them.
21 And they might have -- I mean, this --
22 there is a PUB -- PUB Order quote about this very
23 topic that the average taxpayer probably has debt that
24 they hold at a higher interest rate, and they could
25 use it back, that money, to pay off that debt which

1 would benefit the economy. They could shop, which
2 would benefit the economy.
3 So if you ask that person whether they
4 want the hundred bucks or they want you to keep it to
5 do with what you want, they would want their hundred
6 bucks.
7 MR. REGIS GOSSELIN: Ms. Sherry,
8 you're kind of straying into objective opinion as
9 opposed to -- pardon me, positive opinion as opposed
10 to actuarial science. And I guess -- you know, I
11 guess I'm just trying to --
12 MS. ANDREA SHERRY: Exactly.
13 MR. REGIS GOSSELIN: Sometimes I --
14 you know, sometimes, you know, you were talking as an
15 actuary, sometimes you're talking as a --
16 MS. ANDREA SHERRY: There's no way I
17 can avoid it. I'm both.
18 MR. REGIS GOSSELIN: Yeah. Okay.
19 MS. ANDREA SHERRY: I am a Manitoba
20 citizen, I am a -- an actuary, I'm -- I'm an
21 accountant, I'm -- but I'm also just a person, right?
22 So some of what I say -- some of these questions are
23 not actuarial based. Some of my opinions are not
24 actuarial based. So I just take my general knowledge
25 as background to present my opinion.

1

2 CONTINUED BY MS. KATHY KALINOWSKY:

3 MS. KATHY KALINOWSKY: And in

4 instances then, if there were a very low RSR and MPI

5 would have to come in for a significant rate increase,

6 let's say 10 percent or something, that would be a

7 substantial amount of money taken out of the

8 individual ratepayer's economy and also the Manitoba

9 economy?

10 MS. ANDREA SHERRY: It definitely

11 would.

12 MS. KATHY KALINOWSKY: Do you think

13 that the ratepayers of Manitoba deserve to have a

14 public auto insurer that is in a satisfactory

15 financial condition?

16 MS. ANDREA SHERRY: I think that they

17 deserve a public auto insurer that is solvent. It

18 depends how you define "satisfactory financial

19 condition".

20 MS. KATHY KALINOWSKY: Well, we've

21 been using the DCAT as the definition for that, so --

22 MS. ANDREA SHERRY: That's why I

23 answered the way I did.

24 MS. KATHY KALINOWSKY: Okay. So --

25 and it would -- it would not be in the ratepayers'

1 interests then to have an unsatisfactory financial
2 condition? Just asking the question somewhat
3 differently.
4 MS. ANDREA SHERRY: It's the same
5 question, so I'm going to say it wouldn't help if they
6 went in -- if the government had to step in. I would
7 say that that would be a bad thing.
8 MS. KATHY KALINOWSKY: Okay. Just one
9 (1) moment, please.
10
11 (BRIEF PAUSE)
12
13 MS. KATHY KALINOWSKY: I'd like to
14 thank Ms. Sherry for answering the questions. I don't
15 have any further questions of you, and thank you very
16 much to the panel and for others for agreeing to stay
17 later today.
18 THE CHAIRPERSON: Okay. Thank you,
19 Ms. Kalinowsky.
20 MR. BYRON WILLIAMS: I was going to
21 ask a favour, Madam Chair, if you could remind me of
22 the process and -- or perhaps My Friend --
23 THE CHAIRPERSON: I'm going to ask --
24 MR. BYRON WILLIAMS: -- Ms. Grammond
25 could.

1 THE CHAIRPERSON: Yes.
2 MS. CANDACE GRAMMOND: Sure. So we're
3 at the stage where Ms. Kalinowsky's completed her
4 exam. So, Mr. Williams, it's now time for your
5 examination. If you have questions of Mr. Johnston,
6 you can ask those in the form of cross-examination.
7 If you have questions for Ms. Sherry, those would be
8 in the way of re-examination.
9 I think, after that, the next step was
10 other Intervenors to ask questions. There are none
11 here, and Mr. Oakes indicated he didn't have
12 questions.
13 So once you're done, Mr. Williams, then
14 we did indicate that both Mr. Johnston and Ms. Sherry
15 would be given the opportunity for a brief summary at
16 the end. So they can do that if they wish. And if
17 they don't, that's fine, too. And then we can wrap up
18 for the day.
19 MR. BYRON WILLIAMS: And with --
20 MS. CANDACE GRAMMOND: And -- and if
21 the panel has questions at any point, they'll ask
22 them, as they've been doing.
23 MR. BYRON WILLIAMS: And with your
24 permission, just in terms of re-examination, am I to
25 make that determination before I ask questions of Mr.

1 Johnston or -- or afterwards?
2 At this point in time, we -- we have no
3 questions. But some questions may arise after our
4 conversation with Mr. Johnston. So I just want to
5 make sure that I'm -- I got my head around the process
6 which is unusual but --
7 MS. CANDACE GRAMMOND: That's fine.
8 And -- and I do note that, when Ms. Kalinowsky was
9 cross-examining Ms. Sherry, Mr. Johnstone did a couple
10 of times interject unsolicited, so Ms. Sherry, in my
11 mind, would have the same right.
12 MR. BYRON WILLIAMS: Okay, because I
13 was going to discourage her from doing that but no I -
14 - that's fine.
15 MS. CANDACE GRAMMOND: Well, the horse
16 has left the barn so I don't think we can right now.
17 MR. BYRON WILLIAMS: Well, okay --
18 yeah, 'cause I didn't like that horse much. But
19 that's okay --
20 MR. LUKE JOHNSTON: Just to be clear,
21 I thought I asked that question if I could do that --
22 THE CHAIRPERSON: Just before you
23 start, Mr. Williams, can we have a ten (10) minute
24 break?
25 MR. BYRON WILLIAMS: And I just to

1 make clear, Mr. Johnston, I'm not saying he did
2 anything wrong. I'm just -- I want to keep the
3 discourse a little more restricted.
4
5 --- Upon recessing at 4:53 p.m.
6 --- Upon resuming at 5:03 p.m.
7
8 THE CHAIRPERSON: Okay. Thank you
9 very much. We'll begin again with Mr. Williams.
10
11 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:
12 MR. BYRON WILLIAMS: Mr. Johnston,
13 it's been a long day so I'm going to try and be
14 mindful of that, and also respectful of the extensive
15 and I would say generally collaborative discussion
16 we've had today. So I'll -- I'm going to try and hone
17 in on just a few issues and not reinvent the wheel.
18 But I do -- you'll recall a discussion
19 you did have with Ms. Sherry in terms of forecasting
20 claims incurred with regard to coverages like accident
21 benefit other, and accident benefit weekly indemnity.
22 Do you recall that?
23 MR. LUKE JOHNSTON: Yes, I do.
24 MR. BYRON WILLIAMS: And one (1) of
25 the challenges for Manitoba Public Insurance, in terms

1 of forecasting into the future, is the limited
2 experience you have, being roughly twenty (20) years
3 to date, agreed?
4 MR. LUKE JOHNSTON: Agreed. And there
5 may be only one (1) or two (2) years that have that
6 far out, and then the rest of them don't. Yeah.
7 MR. BYRON WILLIAMS: And I -- I think
8 I heard you say, and I just want to confirm, that the
9 one (1) Canadian jurisdiction in a no-fault context
10 where there would be more experience in terms of those
11 types of long-tailed claims would be Quebec, agreed?
12 MR. LUKE JOHNSTON: Quebec. I would
13 add SGI to that as well.
14 MR. BYRON WILLIAMS: Okay. And -- and
15 you've indicated that in terms of getting input --
16 external input to enrich your Manitoba experience
17 you've gone to SGI for some insight in terms of what
18 they're doing, agreed?
19 MR. LUKE JOHNSTON: Agreed. And I
20 apologize. I think the previous question you were
21 saying is there a jurisdiction that has more than
22 twenty (20) years of -- of experience, and that would
23 be Quebec. I would imagine SGI is possibly a similar
24 time frame as we are.
25 MR. BYRON WILLIAMS: And so in terms

1 of the place where the longer experience is in Canada
2 in a no-fault context, that would be Quebec?
3 MR. LUKE JOHNSTON: My understanding
4 is they have -- they have more experience than us,
5 yes.
6 MR. BYRON WILLIAMS: And at least as I
7 understand your evidence, to date that's not a place
8 you've gone for -- for some guidance into the
9 development in terms of the terminations longer term,
10 and -- and to get some additional insight.
11 Would that be fair?
12 MR. LUKE JOHNSTON: That's correct.
13 MR. BYRON WILLIAMS: But given the
14 spirit of the conversation today, what I think I heard
15 and I'll ask you to confirm, is that moving forward
16 that might be another source of guidance for Manitoba
17 Public Insurance in terms of the development of
18 accident benefit other and accident benefit weekly
19 indemnity?
20 MR. LUKE JOHNSTON: Subject to their
21 interest in coll -- collaborating with me, I have that
22 relationship with SGI. And it sounds as though Ms.
23 Sherry has had some success doing that with Quebec, so
24 I -- I would assume that we'd also be able to do that.
25 So I agree it's something that we should look into.

1 MR. BYRON WILLIAMS: And -- and just
2 the -- the final question here, and I'm going to use
3 the colloquial words 'big ticket'. But when we look
4 at accident benefit weekly indemnity and accident
5 benefit other, those are, from the Corporation's
6 perspective, both big ticket and long-tailed types of
7 -- types of claims, agreed?
8 MR. LUKE JOHNSTON: They would make up
9 a significant portion of our liabilities. I -- I
10 would assume more than 75 percent of the li -- the
11 claim liabilities. And in terms of the year-to-year
12 numbers, about 20 percent of the -- the forecast, of
13 the annual dollars.
14 MR. BYRON WILLIAMS: Okay, and I
15 apologize. There was one (1) exhibit that we did mean
16 to introduce. It's from last year's GRA.
17 And this is my fault, Madam Chair. I'm
18 just going to stand down for a second with your
19 permission, give it to Board coun -- MPI counsel and
20 Mr. Johnston, and then -- then come back to it, okay.
21 And I do apologize. I should have done that over the
22 break.
23
24 (BRIEF PAUSE)
25

1 MR. BYRON WILLIAMS: Madam Chair, the
2 excerpt from last year's general rate application,
3 being CAC Information Request MPI-1-168, I suggest be
4 marked as CAC Exhibit number 16.
5
6 --- EXHIBIT NO. CAC-16: CAC Information Request
7 MPI-1-168
8
9 CONTINUED BY MR. BYRON WILLIAMS:
10 MR. BYRON WILLIAMS: Now, Mr.
11 Johnston, before we get there, in terms of this year's
12 DCAT, or DCAT analysis, the assumption of Manitoba
13 Public Insurance in developing the combined scenario
14 is that equity returns and interest rates are assumed
15 to be correlated, agreed?
16 MR. LUKE JOHNSTON: Yes. Yes.
17 MR. BYRON WILLIAMS: And we're going
18 to come to this year's correlation data in a second.
19 But is -- if we turn our eyes to CAC-1-168, what you
20 were being asked to do in terms of this response was
21 explain whether the correlations in this table were
22 statistically significant, i.e., different from zero,
23 agreed?
24 MR. LUKE JOHNSTON: Agreed.
25 MR. BYRON WILLIAMS: And as I

1 understand your response, what you indicated at -- at
2 the 95 percent confidence level was that at the one
3 (1) year level there was a statistically significant
4 relationship between interest and equity for both the
5 2004 to present and the 1956 to present data, agreed?
6 MR. LUKE JOHNSTON: Agreed.
7 MR. BYRON WILLIAMS: At the two (2)
8 year level at the 95 percent confidence, you concluded
9 there was no statistically significant relationship,
10 agreed?
11 MR. LUKE JOHNSTON: Agreed.
12 MR. BYRON WILLIAMS: At the three (3)
13 year level, you concluded that there -- there was a
14 negative relationship but statistically significant at
15 the 95 percent confidence level?
16 MR. LUKE JOHNSTON: That's right.
17 MR. BYRON WILLIAMS: But not at three
18 (3) year level at the 1956 to -- to present data --
19 MR. LUKE JOHNSTON: Correct.
20 MR. BYRON WILLIAMS: -- agreed? And
21 at the four (4) year level, you concluded there was
22 not a significant -- a statistically significant
23 relationship.
24 MR. LUKE JOHNSTON: That's right, and
25 -- and just a brief -- these are not my judgments.

1 These are just pure -- pure data driven numbers. So
2 going into it, I -- I had no expectation of what the
3 correlation would be, and -- and these are just the
4 results of the -- of the data.
5 MR. BYRON WILLIAMS: And summation
6 wise, this is from last years data, both the two (2)
7 year and four (4) year correlations are insignificant
8 for both the last ten (10) years and the longer data
9 sets, agreed?
10 MR. LUKE JOHNSTON: Agreed.
11 MR. BYRON WILLIAMS: Mr. Johnson --
12 Johnston, excuse me, you also see in the -- the data
13 from last year both the one (1) year significant
14 relationship and the two (2) year not sig --
15 statistically significant relationship having positive
16 signs, agreed?
17 MR. LUKE JOHNSTON: Agreed.
18 MR. BYRON WILLIAMS: And then one sees
19 with the three (3) year significant relationship and
20 the -- the four (4) year not statistically significant
21 relationship negative signs, agreed?
22 MR. LUKE JOHNSTON: Agreed. I -- I --
23 and I don't understand why that's the case, but that
24 is what the data is showing.
25 MR. BYRON WILLIAMS: Would you agree

1 with me that one hypothesis would be that as
2 correlation coefficients change signs year by year, it
3 is typical of fluctuations around a true correlation
4 coefficient of zero?
5 MR. LUKE JOHNSTON: That's fair. A
6 lot of these are close to zero. Whatever statistical
7 tests that were done in -- internally indicated that
8 these may not be, but it -- it is a bizarre
9 relationship, I'll give you that. Yeah.
10 MR. BYRON WILLIAMS: And it would
11 certainly be possible that statisticians looking at
12 these results would probably conclude there is no
13 reliable evidence that the correlation between equity
14 reser -- returns and interest rate returns is not
15 zero.
16 MR. LUKE JOHNSTON: I -- I think by
17 looking at this someone could draw that conclusion,
18 and that's definitely been part of the development of
19 the history of -- of the combined scenario is what --
20 what correlation to use. And I don't dispute that for
21 -- in this case one might conclude that there is none.
22 MR. BYRON WILLIAMS: Okay. And this
23 was done assuming a confidence level, or as you put it
24 -- or MPI puts it here, a Type I error of zero point
25 zero-five (0.05).

1 Is that right, sir?
2 MR. LUKE JOHNSTON: That's right.
3
4 (BRIEF PAUSE)
5
6 MR. BYRON WILLIAMS: And it would be
7 fair to describe the zero point zero-five (0.05) as
8 the conventional 5 percent level of significance?
9 MR. LUKE JOHNSTON: That's fair.
10 MR. BYRON WILLIAMS: Okay. Now, if we
11 could pull up the response from the Information
12 Request of CAC (Manitoba) to MPI-2- -- excuse me, 3-
13 20, page 2 of that response, please. And scroll up
14 just a little bit, Diana.
15 Mr. Johnston, we've been through this
16 type of analysis previously, so in terms of the one
17 (1) year scenario one sees from 2005 to present --
18 present a -- a point two-six (.26), which is
19 considered statistically different at the 10 percent,
20 or point ten (.10) significance level, agreed?
21 MR. LUKE JOHNSTON: Agreed, and I
22 don't know why we use a difference significance level
23 in this answer, but agreed.
24 MR. BYRON WILLIAMS: And -- and, sir,
25 on that point, you would, I'm going to suggest to you,

1 would have expected this to be done at the .05 percent
2 confidence -- significance level.
3 MR. LUKE JOHNSTON: Yeah. I didn't
4 catch the -- the change in the two (2) responses, but
5 I -- I don't know why we wouldn't have done it at the
6 same confidence level. So that's some -- that's
7 something I can look into.
8 MR. BYRON WILLIAMS: Okay. And I
9 would just note that, just focussing on the one (1)
10 year for a moment, sir, we're compar -- at the --
11 well, we'll -- we'll move on.
12 At the second year, you didn't find a
13 statistically significant relationship with the 1956
14 to present data, agreed?
15 MR. LUKE JOHNSTON: Agreed.
16 MR. BYRON WILLIAMS: At the second
17 year at the point one-five (.15) -- the -- the point
18 one-five (.15) you found to be statistically
19 significant, but at the zero point one zero (0.10)
20 significance level, agreed?
21 MR. LUKE JOHNSTON: Agreed.
22 MR. BYRON WILLIAMS: For the third
23 year, sir, the negative point zero two-one (.021) you
24 found to be a statistically significant difference at
25 the zero point one-zero (0.10) significance level,

1 agreed?
2 MR. LUKE JOHNSTON: Correct.
3 MR. BYRON WILLIAMS: And the fourth
4 year, even at the zero point one-zero (0.10)
5 significance level, you concluded they were not
6 statistically different, agreed?
7 MR. LUKE JOHNSTON: Agreed.
8 MR. BYRON WILLIAMS: And again, Mr.
9 Johnston, we see the phenomena of the first two (2)
10 years, the -- the relationships being positive.
11 Do you see that, sir?
12 MR. LUKE JOHNSTON: Yes.
13 MR. BYRON WILLIAMS: And then in the
14 third and fourth year, we see the negative
15 relationship, agreed?
16 MR. LUKE JOHNSTON: Agreed.
17 MR. BYRON WILLIAMS: So summation-
18 wise, this analysis, even at the zero point-one (0.1)
19 significance level, would conclude that the four (4)
20 year correlations are insignificant for both the last
21 ten (10) years and the longer data sets, agreed?
22 MR. LUKE JOHNSTON: Agreed, yeah. The
23 results are -- I'm -- I thought you were going to show
24 me that they -- that they weren't consistent year to
25 year. But I'm glad to see that they are, and, yes, I

1 agree with you.

2 MR. BYRON WILLIAMS: And again, it

3 would -- it would be a reasonable hypothesis that when

4 we see these correlation coefficients chan -- change

5 signs, that this is typical of fluctuations around a

6 true correlation coefficient of zero.

7 MR. LUKE JOHNSTON: I think it's

8 reasonable for someone to conclude that, yes.

9 MR. BYRON WILLIAMS: And, Mr.

10 Johnston, in the DCAT methodology, you did run with

11 the assumption that the relat -- there was a

12 correlation between the relationships for the combined

13 scenarios, sir?

14 MR. LUKE JOHNSTON: Yes, we did. In

15 my understanding, that was to be consistent and

16 continue to recognize correlation. As -- as bizarre

17 as these numbers might look to the -- just the raw, we

18 wanted to maintain a consistent approach was my -- my

19 recollection.

20 MR. BYRON WILLIAMS: Yeah. And, Mr.

21 Johnston, and -- and in terms of some of our

22 puzzlement about the combined scenario, this might be

23 part of the explanation, agreed?

24 MR. LUKE JOHNSTON: It would be

25 sensitive to that, yes.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Mr. Johnston,
4 again I'm mindful of your corporate resources and --
5 and times. How time-consuming would it be to -- to
6 run the combined scenarios assuming independence?
7 MR. LUKE JOHNSTON: When you -- are
8 you in reference only to this year's DCAT?
9 MR. BYRON WILLIAMS: Here, I'll --
10 I'll give evidence, or I'll -- what -- no, I'll
11 clarify my question. That's what I'll do. Mr.
12 Johnston, I'm not asking you to run last year's
13 results, if that's what you're asking. My question is
14 the time engaged in -- in doing the combined scenario,
15 assuming an independent relationship rather than a
16 correlation.
17 MR. LUKE JOHNSTON: My understanding
18 is that that -- if that's something that we could do
19 in conjunction with your other requests on the fl --
20 or I don't know if it was your request, but the other
21 request on the interest rate floor. And again, if --
22 if I think it's problematic in -- in any way, I'll --
23 I'll let you know. But I -- I don't think that it is.
24 So we could do those two (2) side by side, so to
25 speak, do both of them.

1 MR. BYRON WILLIAMS: And -- and, Mr.
2 Johnston, based on our -- our -- on our discussion you
3 would agree that that's at least a fruitful area of
4 examination?
5 MR. LUKE JOHNSTON: Agreed, if -- if -
6 - in retrospect, if -- I think when I look at these
7 two (2) tables in my mind I -- I think, Well, they
8 didn't change much. But doing a sensitivity test to
9 changes in these assumptions is -- is reasonable.
10 MR. BYRON WILLIAMS: So by way of
11 undertaking, I would ask you to undertake that
12 analysis for the combined scenario, assuming that
13 equity returns and interest rates are independent.
14 MR. LUKE JOHNSTON: Agreed.
15
16 --- UNDERTAKING NO. 38: MPI to provide analysis
17 for the combined scenario,
18 assuming that equity
19 returns and interest rates
20 are independent
21
22 CONTINUED BY MR. BYRON WILLIAMS:
23 MR. BYRON WILLIAMS: And, Mr.
24 Johnston, just by way of additional undertaking I'd
25 ask you to -- if you would be prepared to come back

1 with an explanation of -- of why you chose to use the
2 -- or your -- your staff chose to use the zero point
3 one (0.1) significance level as -- as compared to the
4 more conventional point zero-five (0.5) sta --
5 significance level, sir.
6 MR. LUKE JOHNSTON: Yes, we'll do that
7 and -- and it shouldn't be difficult to restate the
8 table on a consistent basis for you. It might -- it
9 might make one (1) of them change, but -- yeah.
10
11 --- UNDERTAKING NO. 39: MPI to explain why it
12 chose to use the zero
13 point one (0.1)
14 significance level as
15 compared to the more
16 conventional point zero-
17 five (0.5) significance
18 level
19
20 CONTINUED BY MR. BYRON WILLIAMS:
21 MR. BYRON WILLIAMS: And -- and, sir,
22 what -- the only question really would be whether that
23 two (2) year zero point one-five (0.15) is -- is
24 significant with an assumed Type -- Type 1 error of
25 point -- zero point zero-five (0.05), agreed? That's

1 the one (1) that might change.
2 MR. LUKE JOHNSTON: That would be my -
3 - that would be my guess. The one (1) year one (1) is
4 relatively close to zero two (02), but -- but that
5 would be my guess, yes.
6 MR. BYRON WILLIAMS: Mr. Johnston,
7 going forward, and the -- the -- would you in -- in
8 terms of future DCATs -- would you comment on the
9 suggestion that in future reports it would be -- there
10 might be some value in reporting on 'P' values, the -
11 - the exact significant le -- levels for each
12 coefficient, and that would assist the reader in
13 judging the significance of each coefficient, and for
14 the group of coefficients?
15 MR. LUKE JOHNSTON: That's reasonable,
16 yes.
17 MR. BYRON WILLIAMS: Okay. Thank you.
18
19 (BRIEF PAUSE)
20
21 MR. BYRON WILLIAMS: This next
22 question's a question of clarification. And, Diana,
23 I'm going to go way off script here and ask you to
24 pull up from the in -- investment income section
25 Attachment C, PDF page 67. And I apologize for not

1 giving you notice. Investment income, Attachment C,
2 PDF page 67. Mr. Johnston, this is information that
3 was provided to the Corporation by -- by Aon.
4 Is that correct, sir?
5 MR. LUKE JOHNSTON: That's correct.
6 MR. BYRON WILLIAMS: And when I see
7 the -- the acronym FF -- or excuse me, FAAQ --
8 Chairperson Gosselin's going to shiver at my friend,
9 but that is intended to refer to the Fonds d'Assurance
10 Automobile du Quebec?
11 MR. LUKE JOHNSTON: That's better than
12 I would have done probably, yes.
13 MR. BYRON WILLIAMS: I don't think so.
14 I've got a lot of French speakers in the office, Mr.
15 Johnston, and they grimace.
16 MR. LUKE JOHNSTON: I agree, yes.
17 MR. BYRON WILLIAMS: And this is
18 merely a question of clarification. I see there for
19 the F-A-A-Q Aon's reporting that a capital target is
20 not applicable. And, Mr. Johnston, can you explain
21 what is meant by that or did the Boar -- did MPI make
22 any inquiries into that?
23 MR. LUKE JOHNSTON: We did not, so I'm
24 not -- I don't know what that -- what that means,
25 whether it was not available for some reason or not --

1 or not used or -- like, or not having a capital
2 target, so I -- I'm not aware.
3 MR. BYRON WILLIAMS: And independently
4 of the Aon information, is MPI aware of whether or not
5 the F-A-A-Q has an express capital target, sir?
6 MR. LUKE JOHNSTON: I -- I do not
7 know. I don't know that anyone on our panel is aware.
8 MR. BYRON WILLIAMS: Madam Chair, with
9 your permission I'm going to seek some guidance from
10 the -- the Board on my -- I know what questions I'm
11 going to ask next. I'm going to ask a couple of
12 questions about MCT, very small ones.
13 But would it assist the Board if I
14 provide the page or two (2) that I'm asking about to
15 Diana to at least see the language on the -- on the
16 page? So perhaps if I could just stand down for a
17 second for that.
18
19 (BRIEF PAUSE)
20
21 MR. BYRON WILLIAMS: Mr. Johnston, I
22 know you don't like talking about earthquakes, nor do
23 I. And I'm not trying to get into the earthquake
24 scenario. But I'm trying to get my head around some
25 of the language used in the MCT. And I'm going to

1 direct Diana and your attention to the MCT page 33,
2 towards the bottom of that page under section 4.5.1.
3 And, Mr. Johnston, I'm not trying to
4 get insight into earthquakes. I'm trying to insight
5 into language. And -- and when we see reference to --
6 on the very last line, to meet contractual -- sorry,
7 let -- let's read the sentence to you.
8 "The MCT guideline outlines the
9 framework for quantifying the
10 earthquake risk opposure -- exposure
11 for regulatory capital purposes and
12 assessing insurers' capacity and
13 financial preparedness to meet
14 contractual obligations that may
15 arise from a major earthquake."
16 What -- what is the -- what is that
17 language meant to do? What -- what kind of
18 relationship is it trying to get at in terms of
19 contractual obligation, sir?
20 MR. LUKE JOHNSTON: The way I read it
21 is, if you're in a -- if you have earthquake exposure
22 -- I don't know. I'm just reading the sentence,
23 sorry. So it's assessing the -- the insurer's
24 capacity to actually pay for the claims that may
25 result from -- from that earthquake exposure should --

1 should it occur. That -- at least that's how I read
2 it, yeah.
3 MR. BYRON WILLIAMS: So the claims
4 that -- that would arise to policyholders from the
5 earthquake, is that...?
6 MR. LUKE JOHNSTON: Yeah, I read
7 contractual obligations as being your -- your
8 obligation to pay associated claims with ri --
9 earthquake risk exposure.
10 MR. BYRON WILLIAMS: And just -- and
11 if you can't help me, I understand that, but would it
12 also spake -- speak to reinsurance obligations as well
13 if you're -- you're not --
14 MR. LUKE JOHNSTON: I -- I --
15 MR. BYRON WILLIAMS: -- and if you're
16 not sure --
17 MR. LUKE JOHNSTON: -- yeah --
18 MR. BYRON WILLIAMS: -- that's fine.
19 MR. LUKE JOHNSTON: -- I -- I don't
20 know but it wouldn't surprise me if -- if it did. But
21 I don't know.
22 MR. BYRON WILLIAMS: And -- and, sir,
23 the reason I'm asking is, on page 36 I see a bit
24 different language with regard to the MCT under
25 capital and surplus. And -- and there you see a

1 reference to Canadian policyholders.
2 And I -- sir, I'm just wondering if
3 you're aware, Does the MCT use the policyholder's
4 language in a different way as compared to the
5 contractual obligations, sir?
6 MR. LUKE JOHNSTON: I don't know the
7 answer to that but -- sorry, I -- I got to look at the
8 screen on my -- what is the sentence that you're
9 referencing? Is it the circled --
10 MR. BYRON WILLIAMS: Oh, I apologize.
11 Yeah, if you go to the -- yeah, there's a zillion
12 circles for which I also apologize -- but under cap
13 and surplus the -- the third paragraph, the -- the
14 second sentence, "However it must," and I'm just --
15 you see that reference to Canadian policyholders?
16 MR. LUKE JOHNSTON: I -- I don't know
17 if there's a specific distinction between those -- the
18 meaning of those two (2) -- two (2) terms.
19 MR. BYRON WILLIAMS: Okay.
20
21 (BRIEF PAUSE)
22
23 MR. BYRON WILLIAMS: Mr. Johnston, you
24 remember some questions from the Board in terms of
25 negative interest rates and negative interest rate

1 policy? You recall that discussion?
2 MR. LUKE JOHNSTON: Not entirely, but
3 I'll take your word for it.
4 MR. BYRON WILLIAMS: Just if it'll --
5 it'll help, I believe Board member Gosselin was
6 referring to a conversation he had with Dr. Simpson
7 last year in terms of negative interest rates.
8 Do you recall that now?
9 MR. LUKE JOHNSTON: I'm with you now,
10 yes.
11 MR. BYRON WILLIAMS: And if you recall
12 that conversation from last year, you recall that part
13 of it certainly had to do with the European situation.
14 Do you recall that, sir?
15 MR. LUKE JOHNSTON: What was the last
16 words you said there, the what situation? Sorry.
17 MR. BYRON WILLIAMS: European.
18 MR. LUKE JOHNSTON: Oh, yes.
19 MR. BYRON WILLIAMS: Okay. And are
20 you in a position to confirm whether or not in 2009
21 and 2010 Sweden used negative interest rates to stem
22 hot money flows into their economy?
23 MR. LUKE JOHNSTON: No, I'm -- I'm not
24 in a position to -- to comment on that.
25 MR. BYRON WILLIAMS: Okay. Just a

1 couple more questions. Are -- are you in a position
2 to confirm whether or not, in 2012, Denmark used
3 negative interest rates to stem hot money flows into
4 their economy?
5 MR. LUKE JOHNSTON: I -- I am not.
6 MR. BYRON WILLIAMS: Okay. And just a
7 final question. Are you in a position to respond to a
8 question of whether or not, in 2014, the European
9 Central Bank instituted a negative interest rate that
10 only applied to bank deposits intended to prevent the
11 euro zone from falling into a deflationary spiral?
12 MR. LUKE JOHNSTON: Although some
13 recollection, I -- I can't comment on any specifics of
14 that.
15 MR. BYRON WILLIAMS: Okay.
16
17 (BRIEF PAUSE)
18
19 MR. BYRON WILLIAMS: Mr. Johnston, I'm
20 trying to get my head around the concept of break even
21 in -- in the Corporation's interpretation. And
22 without getting into whether you should be looking at
23 one (1) year or two (2) years, or the -- but let's
24 assume using the Corporation's current approach, it
25 concluded that a break-even rate would require a 6

1 percent rate increase.
2 Okay, you've got that assumption, sir?
3 MR. LUKE JOHNSTON: So using the
4 current approach uptick in the average net income 6
5 percent increase.
6 MR. BYRON WILLIAMS: And -- and not in
7 terms of any RSR deficit or -- or anything like that,
8 sir, just inflationary pressures or whatever was
9 leading, you know, Mr. Guimond's concern about
10 collisions, if the Corporation reached the conclusion
11 that a break-even rate, no RSR surcharge, was 6
12 percent, is -- it would be fair to say that your
13 understanding of the Corporation's approach is that
14 the rate increase should be 6 percent?
15 MR. LUKE JOHNSTON: Yes, that is my
16 understanding. If we indicated that we needed 6
17 percent break-even rates, that would be my expectation
18 of -- of our application.
19 MR. BYRON WILLIAMS: And, sir, to your
20 knowledge -- and we'll use the twenty (20) years ago
21 as a good cutting-off point, and using that kind of
22 definition of a break-even rate, to your knowledge,
23 has the Manitoba Public Utilities Board ever
24 encouraged Manitoba Public Insurance to budget for a
25 loss, a non-break-even rate?

1 MR. LUKE JOHNSTON: I'm sorry, to
2 budget for a loss in a --
3 MR. BYRON WILLIAMS: Well, sir,
4 recognizing that there can be variances from
5 forecasts, to your knowledge, in the last twenty (20)
6 years, has the Manitoba Public Utilities Board ever
7 approved a rate that was forecast not to be break-
8 even?
9 MR. LUKE JOHNSTON: There's not --
10 there's not one that I recall. I'd have -- I'd have
11 to check, but that -- it wouldn't be my expectation
12 that they would. If I check and find one (1), I'll --
13 I'll let you know, but I don't believe there is.
14 MR. BYRON WILLIAMS: And, Mr.
15 Johnston, indeed there are --
16 MR. LUKE JOHNSTON: Okay. We will
17 check and report on at least one (1), I hear.
18 MR. BYRON WILLIAMS: And just so I'm
19 clear, I'm not talking about the RSR being in a
20 deficit, Mr. Johnston. I'm talking about projected,
21 going-forward, break-even rates.
22 Do you understand?
23 MR. LUKE JOHNSTON: Absolutely. So
24 separate issue, the rate adequacy of the current
25 application versus the RSR rebuilding of any kind,

1 yeah.

2 MR. BYRON WILLIAMS: Thank you. And,

3 Mr. Johnston, just to follow this forward, and if you

4 can't recall this, that's okay.

5 Do you recall any situations during the

6 2000s where the Corporation applied for a certain

7 rate, and the Manitoba Public Utilities Board actually

8 granted a rate higher than MPI sought for on the basis

9 that the applied-for rate was not break-even?

10 MR. LUKE JOHNSTON: On the second part

11 of that question, I'm -- I can't recall. I -- I do

12 recall -- I think there was one (1), at least one (1),

13 where the -- the Board approved a rate greater than

14 what the Corporation asked for.

15 I can't recall the specific rea --

16 rationale for that, if it was because there was

17 revised information that suggested a higher rate was

18 needed or -- or what the case. But I believe there's

19 at least one (1) case where the -- the PUB had a

20 higher rate order than we applied for.

21 MR. BYRON WILLIAMS: And -- and just

22 to assist, Mr. Johnston, and -- and because I'm

23 sensing some anxiety from the folks to my left, in

24 terms of the undertakings I'm requesting, the second

25 one -- or one (1) part of the undertaking is, leaving

1 aside RSR surcharges, whether the Board has ever
2 approved a rate increase more than sought by Manitoba
3 Public Insurance over the last twenty (20) years on
4 the basis that the MPI rate sought was not break-even.
5 MR. LUKE JOHNSTON: Just -- just for
6 clarity, so --
7 MR. BYRON WILLIAMS: You know, we
8 might -- we can probably confirm this offline, which
9 would probably be -- you know what, I think you know
10 what I'm asking with this.
11 MR. LUKE JOHNSTON: I know where
12 you're going, and, yeah, we won't have a -- twenty
13 (20) years is the request?
14 MR. BYRON WILLIAMS: Yeah.
15 MR. LUKE JOHNSTON: Yeah. We can do
16 that.
17 MR. BYRON WILLIAMS: Okay.
18 MR. LUKE JOHNSTON: And we can get the
19 wording down after.
20
21 --- UNDERTAKING NO. 40: MPI to advise, leaving
22 aside RSR surcharges,
23 whether or not the Board
24 has ever approved a rate
25 increase more than sought

1 by Manitoba Public
2 Insurance over the last
3 twenty (20) years on the
4 basis that the MPI rate
5 sought was not break-even
6
7 CONTINUED BY MR. BYRON WILLIAMS:
8 MR. BYRON WILLIAMS: Madam Chair, I
9 think those are all my questions. But I wonder if I
10 could have like three (3) minutes. If we could just
11 stand down and I'll just review my notes and see if
12 there's anything I --
13 THE CHAIRPERSON: That's fine. Thank
14 you.
15
16 (BRIEF PAUSE)
17
18 THE CHAIRPERSON: Okay. We're ready
19 to continue. Mr. Williams...?
20
21 CONTINUED BY MR. BYRON WILLIAMS:
22 MR. BYRON WILLIAMS: And, Mr.
23 Johnston, just a couple of last questions I hope.
24 Page 38 of the DCAT scenario, and if we could scroll
25 down a bit more to the decline in equity market

1 scenario total equity. And, Mr. Johnston, I -- I just
2 want to draw your attention to the -- in the first
3 column we have the probability set out, the one (1) in
4 two hundred (200), to the one (1) in twenty (20) at
5 the one (1) year level, the two (2) year level, the
6 three (3) year level, and the four (4) year lev --
7 level.
8 MR. LUKE JOHNSTON: That's right.
9 MR. BYRON WILLIAMS: And for the
10 twenty (20) -- and then we -- we go to -- to the
11 results for the 2016/'17 year.
12 And as we scroll down those numbers,
13 sir, and we can do it for 2016/'17, would it be a fair
14 proposition that at the one (1) in two hundred (200)
15 level there's a different number from the one (1) in
16 forty (40)? Using, for example, the one (1) in two
17 hundred (200) one (1) year base at 64 million as
18 compared to -- to the one (1) in forty (40) one (1)
19 year plus base, the hundred and fourteen (114)?
20 MR. LUKE JOHNSTON: Yes, def --
21 definitely a different number.
22 MR. BYRON WILLIAMS: And, sir, without
23 burdening the Board at this late hour, we could do
24 that for any of the scenarios, and -- and see a -- a
25 different result based upon the probabilistic scenario

1 for the equity scenario, agreed?
2 MR. LUKE JOHNSTON: Agreed.
3 MR. BYRON WILLIAMS: And then just to
4 turn to page 52 of the DCAT report. And, excuse me,
5 yes. Thank you. Again, Mr. Johnston, this is an
6 analogous table, but from the interest rate side, sir.
7 Would that be fair?
8 MR. LUKE JOHNSTON: That's right.
9 MR. BYRON WILLIAMS: And if we look
10 down that -- the 2016 column, the 2016/'17 column, at
11 the different probabilities at the different levels we
12 see, sir, the -- the same number.
13 Would that be fair? The one ninety-two
14 (192)?
15 MR. LUKE JOHNSTON: That's correct.
16 MR. BYRON WILLIAMS: And -- and
17 without being pejorative, just for -- by way of
18 explanation --
19 MR. LUKE JOHNSTON: M-hm.
20 MR. BYRON WILLIAMS: -- that's that
21 floor assuming --
22 MR. LUKE JOHNSTON: The floor. Yeah.
23 And if you -- maybe just really quickly if you'd just
24 scroll up a couple of pages. I think there's a chart
25 there. Keep going. Keep -- yeah. So there -- so

1 there's an example of the scenario is hitting the
2 floor. If you go up one (1) more, just to the above
3 chart, this is unconstrained results based on the
4 modelling. So that -- that -- you're right. They're
5 hitting -- they're hitting the floor.
6 MR. BYRON WILLIAMS: And -- and, sir,
7 just -- you can accept this subject to check, or if
8 you need a reference you can go to CAC-3-12. But when
9 we look at that 2016/'17 1.25 percent interest rate
10 floor, that implies a negative 1.12 percent real
11 interest rate in 2016/'17.
12 You'll accept that, subject to check?
13 MR. LUKE JOHNSTON: Subject to check,
14 yes.
15 MR. BYRON WILLIAMS: Okay. And
16 similarly, that would imply in '17/'18 a negative .74
17 real interest rate check -- rate?
18 MR. LUKE JOHNSTON: Subject to check,
19 but I -- I understand the -- the point, yeah.
20 MR. BYRON WILLIAMS: Okay. Madam
21 Chair, subject to -- no, I think that's it. And I can
22 indicate that I have no reexamination for Ms. Sherry.
23 THE CHAIRPERSON: Thank you very much,
24 Mr. Williams. Does the panel have any questions?
25 MR. REGIS GOSSELIN: You -- Ms.

1 Sherry, you talked earlier today about determining the
2 plausible scenarios and to establish MCT level,
3 anyway, target level. And you also described about
4 the risk mitigation strategies that you adopt to
5 address the risks that you face.
6 And I guess my question is: With
7 respect to the equity portfolio or the bond portfolio
8 that a private insurer uses, and let's leave -- let's
9 not get Wawanesa in here. But -- but what I'm trying
10 to understand is what do -- what does a private
11 insurer do to protect the equity portfolio from a
12 dramatic change in value?
13 And I'm -- I'm -- the question that
14 we're -- the reason I'm asking is, is that, for
15 example, the buy options, is that one (1) of the ways
16 in which you protect yourself from a significant
17 variation in both of the value of your bond portfolio
18 and the equity portfolio?
19 MS. ANDREA SHERRY: I think that that
20 varies a lot from company to company. Usually fixed
21 income assets are used to back the claims liabilities,
22 and they're duration cashflow matched to them, so.
23 And then over and above, then there's more freedom to
24 purchase equities and such above the -- so any excess
25 capital that a company has over the claims liabilities

1 over -- well, and any policyholder liability, so
2 premium liabilities, is considered -- can be thought
3 of as excess.
4 So usually companies would consider
5 equities at that point with that money. In terms of
6 protecting themselves, that's where it gets more -- at
7 least from my experience, there's more variance in how
8 companies do that. Some companies, yeah, enter
9 different -- into different types. I'm trying to
10 think of the right -- like, different trades, interest
11 rate trades, negative basis swaps, all of these crazy
12 things that you can purchase to protect yourself.
13 So some companies do get into that sort
14 of thing. You know, in my current experience, we
15 have, similar to MPI, an investment -- I mean, every
16 company has an investment policy. So we use that.
17 And other than that, we don't do anything to protect
18 ourselves, seriously, where I am now. I've seen it
19 done, where they can get into some pretty complicated
20 things, but...
21 THE CHAIRPERSON: Thank you very much.
22 Now, I believe in the process it's an opportunity if
23 Mr. Luke and Ms. Sherry wanted to give some final
24 comments, it's up to you. Did I say Mr. Luke? Sorry,
25 Mr. Johnston and Ms. Sherry.

1 MR. LUKE JOHNSTON: Yeah, Mr. -- Mr.
2 Luke would just -- no, just to say thanks to Ms.
3 Sherry to -- for coming today. It's obviously a lot
4 harder for her to be here. I'm doing MPI stuff every
5 day, she's not, so it was very helpful to the process
6 for her to be here, so thanks for that.
7 MS. ANDREA SHERRY: Thank you very
8 much for the opportunity to be here. I really -- it
9 was an interesting day. I hope that we accomplished
10 some things through it and gave the Board some answers
11 perhaps they've been looking for and maybe opened up
12 communications some more. So thank you for having me
13 here, it's been good.
14 THE CHAIRPERSON: Thank you very much.
15 Before we adjourn for the day I would really like to
16 thank Mr. Luke Johnston and Ms. Andrea Sherry for
17 taking the -- you know, trying this new experiment in
18 an interactive testimony for the -- I think the Board
19 really enjoyed, or got a lot out of the process. And
20 we're very appreciative of you spending the day and
21 the time. I know it must have been quite exhausting
22 for you to be sitting there all day and being hammered
23 with questions, but thank you very much.
24 And second before we adjourn again I'd
25 like to turn it -- the mic over to Ms. Grammond, who

1 will give us the schedule for the upcoming hearing
2 dates.
3 MS. CANDACE GRAMMOND: Thank you,
4 Madam Chair. So I had indicated I believe on the
5 first day of the hearing that we expected to hear from
6 Mr. Schioler on behalf of IBAM on Tuesday, October
7 20th. That continues to be the plan.
8 So having said that, the only other
9 pieces of evidence I believe we're waiting on are the
10 completion of Mr. Monnin's cross on behalf of Bike
11 Winnipeg, and then I will have some follow-up cross on
12 various pre-asks, undertakings, exhibits that have
13 been filed over the course of the hearing.
14 So my suggestion to the panel has been
15 that we set aside Tuesday to A) hear from Mr.
16 Schioler, B) hear the rest of Mr. Monnin's cross, and
17 C) have me and the Board advisors complete the Board's
18 cross as indicated on follow-up questions. I would
19 ask that Mr. Williams and the other Intervenors do the
20 same.
21 So if our last day of evidence is going
22 to be on Tuesday then there does not appear to be a
23 need to sit tomorrow, Friday the 16th, or Monday the
24 19th. And we knew at the outset that we had set more
25 hearing dates than we would ultimately need.

1 So my proposal is that tomorrow and
2 Monday be cancelled as hearing dates. We reconvene on
3 Tuesday at 9:00 a.m. for the purposes I've identified.
4 I would then either provide closing remarks on behalf
5 of the Board advisors on Tuesday afternoon, or
6 Wednesday morning, depending on how that timing goes.
7 We would expect to hear the Intervenors closing
8 arguments on Wednesday the 21st.
9 And then it's up to Ms. Kalinowsky to
10 tell us whether she's going to present MPI closing
11 argument on Thursday the 22nd or Monday the 26th,
12 which are our two (2) remaining hearing dates, and
13 whichever one is not used I expect will be cancelled
14 as well. But for right now I'm simply proposing that
15 tomorrow and Monday be cancelled, and that we
16 reconvene on Tuesday at 9:00 a.m.
17 MS. KATHY KALINOWSKY: And I would
18 suggest that Monday the 26th of October would be fine
19 for us to do the closing comments on behalf of the
20 Corporation.
21 THE CHAIRPERSON: Okay, thank you very
22 much. Well, hearing that, we are now adjourned for
23 the day. And thank you very much for attending. And
24 we'll see you on Tuesday, October 20th at 9:00 a.m.
25 Thank you.

1 (PANEL STANDS DOWN)

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3 --- Upon adjourning at 5:55 p.m.

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7 Certified correct,

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12 Robert Keelaghan, Mr.

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