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 6, 2015

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1 APPEARANCES

2

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1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning,

4 everyone. We'll continue now with the Manitoba Public

5 Insurance 2016/2017 General Rate Application for

6 today, and we'll open today with Ms. Grammond

7 continuing her cross-examination of MPI.

8

9 MPI PANEL 1 CONTINUED:

10 DAN GUIMOND, Previously Sworn

11 HEATHER REICHERT, Previously Affirmed

12 LUKE JOHNSTON, Previously Affirmed

13

14 CONTINUED CROSS-EXAMINATION BY MS. GRAMMOND:

15 MS. CANDACE GRAMMOND: Thank you,

16 Madam Chair. I'm going to begin this morning with

17 some questions with respect to financial matters. So,

18 Ms. Reichert, I guess it'll be you answering for the

19 most part.

20 You mentioned yesterday, and I -- I'm

21 going to start first of all with the actual financial

22 results for 2014/'15. You mentioned that last year at

23 this time, or at the time of the filing of the GRA,

24 the Corporation was forecasting a net loss for

25 2014/'15 of 38 million, and then that loss ultimately

1 did not materialize. Instead, the Corporation had net
2 income of 2.4 million for the last fiscal year.
3 MS. HEATHER REICHERT: That's correct.
4 MS. CANDACE GRAMMOND: Now, I'm going
5 to ask you to go to the Board's book of documents, and
6 in particular, Tab 17. Just give Diana a minute.
7
8 (BRIEF PAUSE)
9
10 MS. CANDACE GRAMMOND: So, Ms.
11 Reichert, this is a pre-ask that the Board asked of
12 MPI last year, Pre-Ask number 5. And this arose
13 because there had been some changes in interest rates
14 from the time that GR -- or the time that MPI filed
15 the GRA to the time of the hearing last October.
16 Do you recall that?
17 MS. HEATHER REICHERT: Yes, I do.
18 MS. CANDACE GRAMMOND: And so, in
19 particular, there had been a change of eighty-one (81)
20 basis points from the time that last year's GRA was
21 filed to the time that this pre-ask was posed. And I
22 can provide the reference. Okay, Diana's beaten me to
23 it, as usual.
24 The eighty-one (81) basis point
25 different (sic) is refle -- reflected there in the far

1 right-hand column?

2 MS. HEATHER REICHERT: Correct.

3 MS. CANDACE GRAMMOND: You see that?

4 MS. HEATHER REICHERT: Yeah.

5 MS. CANDACE GRAMMOND: So basically,

6 what we had asked MPI to do at that time and -- and in

7 this pre-ask was to rerun the pro formas on the basis

8 of the then current interest rate; the eighty-one

9 (81) basis point lower interest rate.

10 You -- do you agree with me so far?

11 MS. HEATHER REICHERT: Yes.

12 MS. CANDACE GRAMMOND: Okay. And on -

13 - in the answer to Pre-Ask 5, and this is shown in --

14 on page 1 in the narrative of the answer and as well

15 on page 2, the impact that that eighty-one (81) basis

16 point decline in interest rates had upon the projected

17 net result for that year was to move it to a loss of

18 82.4 million?

19 MS. HEATHER REICHERT: That's correct.

20 MS. CANDACE GRAMMOND: So that was

21 about a $44 million change from what the Corporation

22 had projected at the time of last year's GRA?

23 MS. HEATHER REICHERT: That's correct.

24 MS. CANDACE GRAMMOND: And I believe

25 that Pre-Ask 5 and that $82.4 million projected loss

1 was the most recent information that we had at last
2 year's hearing in terms of interest rate impact on
3 projections?
4 MS. HEATHER REICHERT: That's correct.
5 I believe that was done as at the end of October or
6 October 20th, I believe it was, and that was near the
7 end of the hearing. So that would have been the most
8 current interest rate forecast at the time that we
9 were in the hearing.
10 MS. CANDACE GRAMMOND: Right. Thank
11 you. That was my recollection as well. So if we go
12 then to Tab 11 of the book of documents, and the
13 second last page of Tab 11, we see one (1) of the
14 attachments to PUB/MPI-1-5 that was posed this year.
15 So actually, Diana, if you just go down by one (1)
16 page to the (b) attachment?
17
18 (BRIEF PAUSE)
19
20 MS. CANDACE GRAMMOND: Perfect. And
21 just scroll down a little bit -- actually to page 1.
22
23 (BRIEF PAUSE)
24
25 MS. CANDACE GRAMMOND: The next page

1.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Sorry. So from the beginning of this particular IR, it would be the fourth page in, and it's the second page from the end. The pages aren't necessarily individually numbered, so. Okay, perfect.

So right along the bottom of our screen, this is just to -- to reiterate, or confirm, Ms. Reichert, that we had -- or we have three (3) numbers in terms of projections, and then an actual for last fiscal year, we -- the -- the Corporation came in thinking it was going to be a $38 million loss with the way interest rates moved, and that eighty-one (81) basis point decrease between March and October. It increased to an $82 million loss, but then it ultimately was a $2.4 million incre -- or income, pardon me. So --

MS. HEATHER REICHERT: Yes, correct.

MS. CANDACE GRAMMOND: So that was a swing of about 85 million between October of last year and the end of last fiscal year.

MS. HEATHER REICHERT: That's correct.

1 MS. CANDACE GRAMMOND: And we'll talk
2 about the interest rate changes from October of last
3 year through to March of 2015 as we go, but the
4 Corporation provided an explanation on the next page
5 of this IR with respect to the -- the swing.
6 And so -- I mean, we've just been
7 talking about the final result number, so I want to
8 direct you to two (2) aspects of the components of
9 last year's financials, the first one being net claims
10 incurred, which is right at the top of the screen at
11 the moment.
12 That was a -- a fairly significant
13 swing, and you did mention this yesterday.
14 MS. HEATHER REICHERT: That's correct.
15 MS. CANDACE GRAMMOND: What we see on
16 the screen before us is the difference between net
17 claims incurred from Pre-Ask 5, so there's that 717.7
18 million that we see at the net claims incurred line
19 item. And that evolved into net claims incurred of
20 745.8 million actual. That's correct?
21 MS. HEATHER REICHERT: That's correct.
22 MS. CANDACE GRAMMOND: Now, just for
23 context, and maybe, Diana, just scroll back to the
24 last page for one moment, net claims incurred was
25 actually originally forecast for last fiscal year at

1 624.7 million, which we see roughly arou -- at the
2 middle of the page.
3 So the net claims incurred line -- net
4 claims incurred line item we see change from six
5 hundred and twenty-four point seven (624.7) up to
6 seven hundred and fourteen point seven (714.7) and
7 then up again to seven forty-five point eight (745.8).
8 That's right?
9 MS. HEATHER REICHERT: Yeah, that's
10 correct. And then yesterday, we talked about why the
11 six hundred and twenty-four (624) became the actual of
12 seven forty-six (746). That was the -- contained in
13 the presentation that I made to -- to the Board
14 yesterday.
15 MS. CANDACE GRAMMOND: Yeah, I -- and
16 I appreciate that. I think it was your slides 7
17 through 9. Just for the reference of people, I'm not
18 asking you to go there, Diana. I want to go back to
19 the -- the next page that we were looking at a moment
20 ago to look at what's provided here.
21 So from October of last year to March,
22 the fiscal year end, there are four (4) items that are
23 listed under this net claims incurred section that
24 illustrate how those numbers change. And I'm just
25 talking about the seven seventeen (717) up to the

1 seven forty-five (745).

2 So first of all, we see physical damage

3 claims were about 40.6 million less than budgeted.

4 That was -- was that just due to a better winter or is

5 there anything more specific to it?

6 MS. HEATHER REICHERT: Correct. As I

7 indicated yesterday, we had a winter last year that

8 was like a -- the best winter in twenty (20) years, so

9 that significantly impacted the -- the number of

10 claims that we saw during the winter.

11 MS. CANDACE GRAMMOND: And -- and it --

12 MS. HEATHER REICHERT: And overall

13 during the year, so that's the 40.6 million.

14 MS. CANDACE GRAMMOND: The next

15 number, the $26.8 million, which is a -- a favourable

16 shift, favourable to the Corporation, was a reduction

17 in the interest rate provision. And I believe you

18 said yesterday that that's a -- an adjustment of an

19 actuarial nature?

20 MS. HEATHER REICHERT: Right. That

21 was moving the provision or the margin for interest

22 rate risk from a hundred basis points down to seventy-

23 five (75) basis points, because the interest rates

24 were so low during '15/'16. You didn't need as much

25 of a provision to protect you against them going even

1 lower.

2 MS. CANDACE GRAMMOND: And this

3 question may be for you or it may be for Mr. Johnston.

4 I understand that that decision would have involved an

5 element of judgment to go from the hundred basis

6 points to the seventy-five (75)?

7 MS. HEATHER REICHERT: Yes, there --

8 there would have been that element of judgment, but

9 also had to be supported by our external actuaries.

10 So this would have come up during the October

11 actuarial review that is done by Mr. Johnston and then

12 reviewed and -- and approved, I guess, by the external

13 actuary.

14 MS. CANDACE GRAMMOND: Thank you. The

15 next item, the 10.7 million, which was shown here as a

16 positive number, but that means higher claims incurred

17 for the Corporation. This was another actuarial

18 adjustment?

19 MS. HEATHER REICHERT: That's correct.

20 MS. CANDACE GRAMMOND: And then the

21 biggest number here is the 84.8 million higher than

22 budgeted PIPP claims, which the Corporation states

23 here was due to lower interest rates?

24

25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: So -- so, yes,
2 the 84.8 million is the -- the impact of even lower
3 interest rates than what had been forecasted at
4 October 20th in -- in 2014. So throughout '15/'16,
5 interest rates went lower. And I think that, not
6 again for Diana to go back, but the graph that I
7 presented yesterday that showed what the actual
8 interest rates did during '15/'16 show that they went
9 down even -- even more than what had been forecasted
10 in -- in October.
11 What Mr. Johnston was just reminding me
12 is when staff prepared this particular analysis, they
13 actually did combine two (2) components in that 84.8
14 million. So there was both the interest rate --
15 impact of the interest rate reduction, it was actually
16 higher than eighty-four point eight (84.8). And then
17 that was offset by some favourable -- which I had
18 mentioned yesterday, we had favourable activity in
19 injury claims as well. There were fewer collision
20 claims, and that resulted in fewer injury claims.
21 So staff actually inadvertently added
22 those two (2) together because they both were PIPP
23 related and -- and attributed it all to lower interest
24 rates. That really should have brok -- been broken
25 out to reduced frequency of claims for PIPP by about

1 20 million and then -- that was a favourable, and then
2 a hundred and four (104) was the impact of the -- of
3 the interest rates during the year going even lower
4 than the October rates.
5 MS. CANDACE GRAMMOND: Thank you. And
6 you actually answered my next question because in one
7 (1) of our IR questions the answer reflected, in
8 essence, what you just said, so now we don't have to
9 go through that further, so thank you.
10 And, Ms. Reichert, you commented about
11 the interest rates continuing to decline not only from
12 March of October to last year but from October of last
13 year through to fiscal year-end. And we'll just go to
14 where that's reflected, and it's shown in -- in a few
15 different places. Diana, you're at 1-5. If you go to
16 one (1) page before. Actually, we'll go to the next
17 tab of the book of documents just because that has a
18 more current interest rate table.
19 So this is Tab 12 book of documents,
20 which is PUB MPI-2-6. And if you scroll down, Diana,
21 to the third page we should see a chart with a variety
22 of interest rate numbers, yes.
23 So, Ms. Reichert, what we've been
24 discussing, if we look at the -- the column roughly in
25 the middle of the table entitled, "Actual," we see

1 there the actual interest rate from the first quarter
2 of 2014/'15 at 2.25, and then declining, subject to a
3 bit of a fluctuation, but, in essence, declining to
4 1.4 as of second quarter current year?
5 MS. HEATHER REICHERT: That's correct.
6 MS. CANDACE GRAMMOND: And is that the
7 interest rate decline that we've been speaking of?
8 MS. HEATHER REICHERT: Yes, it is.
9 MS. CANDACE GRAMMOND: And so just to
10 put it into context with the discussion that we've
11 been having, the interest rate in the third quarter of
12 last fiscal year, which would have been while we were
13 in these hearings, is reflected at 1.86 percent. And
14 then that dropped to 1.3 percent by the end of last
15 fiscal year?
16 MS. HEATHER REICHERT: Sorry, there's
17 so many numbers on this page. Can you just --
18 MS. CANDACE GRAMMOND: I appreciate
19 that. I'm -- I'm focussing in on the column that's
20 entitled, "Actual," which is roughly in the middle.
21 Yeah, thanks, Diana.
22 MS. HEATHER REICHERT: Oh, sorry, 1.6.
23 Yes --
24 MS. CANDACE GRAMMOND: Yeah.
25 MS. HEATHER REICHERT: -- that was the

1 third quarter of -- yes, third quarter of last year,
2 correct.
3 MS. CANDACE GRAMMOND: Right. So when
4 we were in the hearings last year the rate would have
5 been 1.86. There's that eighty-one (81) basis point
6 shift if you just look across to the right that we
7 spoke of a minute ago.
8 MS. HEATHER REICHERT: Right.
9 MS. CANDACE GRAMMOND: And then if we
10 -- if we go forward in time to the end of last fiscal
11 year, it -- it dropped to 1.3?
12 MS. HEATHER REICHERT: Correct.
13 MS. CANDACE GRAMMOND: Okay. So
14 having that context, if we go back to the last tab,
15 Tab 11 in the book, which is the answer at 1-5, we
16 spoke about the impact of net claims incurred numbers
17 upon the bottom line for the year. That was note 2 on
18 the very last page of that tab. And then, underneath
19 that we have the investment income information. And
20 these are the only two (2) that I'm going to take you
21 to just because they're the most significant.
22 And I appreciate that yesterday you
23 provided slide 7, and we don't need to go there, but -
24 - but just again for context, which reflected that
25 investment income fluctuated significantly, we see

1 here, from October. Pre-Ask 5 investment income was
2 forecasted at 74.3 million. The actual was a hundred
3 and eighty-eight point four (188.4) by year end?
4 MS. HEATHER REICHERT: Yes, that's
5 correct.
6 MS. CANDACE GRAMMOND: And prior to
7 the $74.3 million forecast it was twenty-eight point
8 eight (28.8) as -- as per the GRA filing last year?
9 MS. HEATHER REICHERT: Correct.
10 MS. CANDACE GRAMMOND: So we actually
11 have a fluctuation from twenty-eight point eight
12 (28.8) to seventy-four point three (74.3) to a hundred
13 and eighty-eight point four (188.4) actual?
14 MS. HEATHER REICHERT: Yes, that's
15 correct.
16 MS. CANDACE GRAMMOND: And again, what
17 we see at -- at this note on the screen before us
18 explains the variation from October of last when we
19 were in these hearings up until year-end. So again we
20 have the first note referencing 105.9 million in -- in
21 the Corporation's favour due to higher than budgeted
22 bond gains due to lower interest rates.
23 You're with me?
24 MS. HEATHER REICHERT: Yes, I am.
25 MS. CANDACE GRAMMOND: And was there

1 any other factor included in that note besides
2 interest rates or was this one (1) just interest
3 rates?
4 MS. HEATHER REICHERT: Well, I -- I do
5 know that in '15/'16 part of the reason that we had
6 higher investment income, and I believe that was in
7 the slides yesterday --
8 MS. CANDACE GRAMMOND: Sorry, you mean
9 2014/'15, right?
10 MS. HEATHER REICHERT: Sorry, 2014 fif
11 -- I'm sorry, 2014/'15.
12 MS. CANDACE GRAMMOND: Yeah, this is
13 the last year.
14 MS. HEATHER REICHERT: Yeah, we're
15 talking about 2014/'15, sorry.
16 MS. CANDACE GRAMMOND: Yeah.
17 MS. HEATHER REICHERT: So, no I
18 believe that in 2014/'15 actual the biggest impact
19 that we discussed yesterday was, in fact, the -- the
20 interest rates. And as you can see they were
21 significantly less than what we had forecasted. So
22 consequently the gain on the bonds would have been
23 significantly higher than what we had forecasted.
24 MS. CANDACE GRAMMOND: Okay. Now,
25 here's what -- what we're struggling to understand.

1 We...

2

3 (BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: What we're
6 struggling to understand, or what we want to
7 understand is this: we talked a moment ago about --
8 okay. We talked a moment ago about the fact that
9 after last year's GRA was filed there was an eighty-
10 one (81) basis point decrease in interest rates. As a
11 result of that, and in Pre-Ask 5, the Corporation was
12 forecasting a significant loss. But then after last
13 October interest rates toc -- continued to decline, as
14 we've seen. Yet the Corporation ended up with a
15 significantly better financial result. So that's what
16 we're struggling with.
17 Why does the eighty-one (81) basis
18 point decrease between March and October result in a
19 significant projected loss, but then continued
20 interest rate decreases from October to March result
21 in a gain? Can you help us with that?
22 MS. HEATHER REICHERT: So between the
23 October forecast at 2014, which was done for purposes
24 of the PUB, to what our actual results were there were
25 other things impacting MPI besides the interest rate

1 decline. So the interest decline was significant.
2 There was a net negative impact to the organization
3 with respect to the -- the interest decline.
4 But in addition to that there were
5 favourable things that happened, not the least of
6 which was a very favourable winter. That was a $40
7 million positive impact to the organization. There
8 was the 27 million positive impact to the organization
9 because of that interest rate margin change. And then
10 there were also -- just there were higher yields
11 generally in dividend income and equity gains in
12 general was another 10 million positive impact.
13 So there were significant positive
14 impacts to the organization. Those three (3) -- those
15 three (3) alone -- what's that sixty-six (66) and ten
16 (10), $76 million. So that $76 million was, in fact,
17 offsetting that negative impact of the interest rates
18 that was being projected in October to result in us
19 essentially breaking ev -- even for the year. And Mr.
20 Johnston's going to add something.
21 MR. LUKE JOHNSTON: Yeah, if you -- if
22 you go to overview, page 8 and 9, and just add up the
23 -- the favourable variances you -- you easily get
24 about 115 million of -- of positive variances. And it
25 might be helpful to go there.

1 MS. CANDACE GRAMMOND: Sure.
2 MR. LUKE JOHNSTON: Yeah.
3
4 (BRIEF PAUSE)
5
6 MS. CANDACE GRAMMOND: So page 8 you
7 said, Mr. Johnston?
8 MR. LUKE JOHNSTON: Yeah, that's
9 right.
10
11 (BRIEF PAUSE)
12
13 MR. LUKE JOHNSTON: So just -- just a
14 -- like a really kind of simplistic calculation, if we
15 add up all the things that have really nothing to do
16 with interest rates, so collision frequency 43
17 million, a negative variance of roughly twelve (12)
18 for collision severity, a positive variance of about
19 23 million for injury -- if you can keep scrolling
20 down there -- obviously that one is interest rate
21 related. That -- the internal claims adjustment cost
22 also flows with interest rates, so we won't count that
23 one.
24 If you keep going to the next page?
25 The premium deficiency would have been. Improvement

1 wouldn't have been included so you can add that.
2 Let's just call that 8 million. The interest rate
3 margin, again 27 million. Favourable equity returns,
4 another 25 million. So that -- that alone is 114
5 million.
6 So if all those items had been per our
7 -- our original base forecast, we would have seen a
8 hundred -- about $114 million swing the opposite way.
9 And that would have been not exactly, but a lot closer
10 to that $80 million loss. Yeah.
11 MS. CANDACE GRAMMOND: So to make sure
12 that I'm understanding, I think your evidence is that
13 the impact of the decrease in interest rates from
14 October of last year to March of this year continued -
15 - on its own continued to have a negative impact upon
16 the Corporation's bottom line, but these other factors
17 intervened, if you will, to give rise to the positive
18 result that the Corporation had for last fiscal year.
19 MS. HEATHER REICHERT: That's exactly
20 right.
21 MS. CANDACE GRAMMOND: Thank you.
22 We'll go then to Tab 12 of the book, which we looked
23 at the attachment a moment ago. I'm going to ask you
24 to go to the answer to (a), so this is 2-6. And the
25 response at Tab A -- or, sorry, at -- (a), yeah, right

1 there. That's perfect. Thank you.
2 So the -- the idea here was to provide
3 us with a chart that isolates the impact of the
4 interest rate change, and this is that reference in
5 the first paragraph to the eight-four point eight
6 (84.8), including something other than interest rate
7 impact.
8 Our question is this: If we look at
9 the chart before us, we see in the first numerical
10 column there is a reference to a four (4) basis point
11 decrease in the ten (10) year Canada bond rate. What
12 we want to understand is: Where does that four (4)
13 point basis -- or four (4) basis point change come
14 from?
15 We don't -- we're -- we're not aware of
16 where that is within the interest rate changes that
17 are on the record that we've looked at. So -- and --
18 and this may or may not be something you can answer
19 right now. If you can, that's great. If not, we can
20 do an undertaking.
21 MS. HEATHER REICHERT: If you give me
22 just about ten (10) seconds, I can answer that
23 question for you.
24
25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: Sorry. So at
2 February 28th, 2014, quarter four (4) -- so that's
3 quarter four (4) of 2013/'14, the -- the interest rate
4 for Pre-Ask 5 was two point four-three (2.43). That
5 was the actual interest rate, but it is not --
6 unfortunately this particular table -- so it would
7 have been the fourth quarter of 2013/'14, which is --
8 unfortunately this starts at quarter 1 of 2014.
9 So on this particular table, and I
10 apologize for that, it doesn't show what the opening
11 interest rate was at end of February 2014. So what
12 that interest rate was, was 2.43 percent. So 2.43
13 percent, and then when you look at February 20 -- 2015
14 -- February 28, 2015, the forecasted interest rate was
15 2.39 percent. That's that -- in the October column
16 there, the last of the first four (4) numbers. So
17 that swing from two point four-three (2.43) to two
18 point three-nine (2.39) was that four (4) basis
19 points.
20 MS. CANDACE GRAMMOND: And the -- the
21 two point three-nine (2.39) is what the Corporation
22 used?
23 MS. HEATHER REICHERT: That's what
24 they -- that's what we used in the forecast of the
25 Pre-Ask 5.

1 MS. CANDACE GRAMMOND: Right.
2 MS. HEATHER REICHERT: Right.
3 MS. CANDACE GRAMMOND: And that was
4 the -- the most recent number for that --
5 MS. HEATHER REICHERT: That was the
6 most re --
7 MS. CANDACE GRAMMOND: -- year end?
8 MS. HEATHER REICHERT: Well, we -- we
9 used all of those during --
10 MS. CANDACE GRAMMOND: Right.
11 MS. HEATHER REICHERT: -- the forecast
12 period, right? So we had updated the forecast based
13 on what everybody knew or the banks were saying at
14 October 20th for the future, which would have been for
15 the '14/'15 year -- or, you know, the '14/'15 year.
16 So that was only a four (4) basis
17 points change. And what was actually experienced from
18 February 2014 to the end of our fiscal year, February
19 2015, was, in fact, a hundred and thirteen (133) basis
20 point decrease. That being -- if you look at the
21 actual column, again, I'm sorry the -- the number for
22 February 2014 is not shown there, but it was again the
23 2.43 percent and it went down to 1.3 percent.
24 So that was a negative. And it's
25 always the -- the slope -- the decrease from the

1 beginning to the end of the year that is the impact on
2 the bond valuation. So that was a hundred and
3 thirteen (113) basis point decline in interest rates,
4 which impacted the claims discount rate, so negatively
5 impacted the claims. And then there was a gain,
6 obviously, on our marketable bonds because of that
7 decrease in the -- in the bond rate from the beginning
8 of our year to the end of our fiscal year.
9 MS. CANDACE GRAMMOND: Okay, so -- so
10 these numbers that we see in the chart on the screen
11 at the moment, the four (4) basis point decrease and
12 the hundred and thirteen (113) basis point decrease go
13 from February '14 to February '15, in essence?
14 MS. HEATHER REICHERT: That's correct,
15 our fiscal year.
16
17 (BRIEF PAUSE)
18
19 MS. CANDACE GRAMMOND: My next
20 question is this. If we turn to the -- the far right
21 column on the screen, we see that the hundred and
22 thirteen (133) basis point decrease gives rise to an
23 $84.3 million gain on marketable bonds. And -- and
24 again, for context, that calculation was intended to
25 isolate the interest rate impact without any of the

1 other components. That's right?

2 MS. HEATHER REICHERT: Yes, that's the

3 intent.

4 MS. CANDACE GRAMMOND: So when we look

5 at this $84.3 million gain compared to the $105

6 million gain that we looked at a moment ago, where

7 does the -- the difference come in? Is it -- is --

8 are there other investments included in the hundred

9 and five (105) that aren't included in the eighty-four

10 point three (84.3)?

11 MS. HEATHER REICHERT: I think I can

12 help a little bit. It -- this -- this -- you need to

13 be very careful. 2014/'15 actual is looking at what

14 actually occurred, so what was the increase in our

15 bond value during that year regardless of what we had

16 budgeted it to be, okay?

17 So this is -- this is what we actually

18 reported as a gain in our marketable bonds of 84.3

19 million. And what we actually lost on our claims

20 liability in the year because of the change in the

21 discount rate is a hundred and twenty-two (122) for a

22 net impact to our bottom line of thirty-eight point

23 one (38.1) negative.

24 The other comparisons that you are

25 asking about are a comparison between what was

1 forecasted at a point in time and what actually
2 occurred at the end of the year. So it's the -- the
3 change in what was anticipated to what actually
4 occurred, so it's the delta between those two (2),
5 whereas this is what actually was reflected in, right,
6 regardless of what we budgeted, okay?
7 Regardless of what we budgeted, we had
8 a net negative impact on our income of 38.1 million
9 because of the interest rates.
10 Does that help to explain that you --
11 you're not talking about apples and apples. You're
12 talking about apples and oranges in trying to compare
13 this 38.1 million to what you were just asking about,
14 which was you were forecasting this at October. Now
15 you're forecasting -- or your actual is something
16 different, so why did that change occur?
17 Does that help to understand?
18 MS. CANDACE GRAMMOND: Thank you. And
19 -- and just one (1) more question with respect to this
20 table. Both you and Mr. Guimond commented yesterday
21 that the risk of interest rate changes are very
22 significant for the Corporation. This would be a
23 reflection of -- of that. In the last fiscal year,
24 this $38.1 million loss is -- is really the root of
25 your comment.

1 MS. HEATHER REICHERT: Yes. Interest
2 rate fluctuations were a significant risk to the
3 Corporation. On a go-forward basis, because of the
4 more closely matching both the dollar amount of our
5 bonds to our liabilities, plus more perfect -- more
6 perfectly matching, as close to zero duration gap as
7 possible between the duration of our bonds and the
8 duration of our liabilities. We're not going to see
9 as significant a difference between what the gain or
10 loss on our bonds is versus the loss or gain on our
11 claims are because of fluctuating rates, because they
12 will move in tandem.
13 And the difference between the -- the
14 gain on bonds and the -- in this case, the -- the loss
15 on the -- on the liabilities will be much tighter. It
16 won't be exactly zero, because that's impossible. But
17 it'll be much tighter, so that when there's a rising
18 interest rate environment, our -- our gains -- our --
19 will be -- will be much smaller. But if there's a --
20 a decreasing interest rate environment, like there was
21 in '14/'15, we would not experience a $38.1 million
22 loss. It would be substantially less than that.
23 MS. CANDACE GRAMMOND: Thank you. And
24 we are going to have some questions about the duration
25 matching, not -- not at the moment.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. So I'm going to leave the financial results for -- for last fiscal year, go into current year, and year of the application. As we know, the Corporation forecast to break even over the app -- both the application year and the subsequent year.

That's right?

MS. HEATHER REICHERT: I'm sorry, you know, I -- I was just -- I had a lapse there. Can you repeat the question?

MS. CANDACE GRAMMOND: That's fine. It -- it's an easy one. The Corporation forecast to break even over the year of the application and the subsequent year?

MS. HEATHER REICHERT: Correct. We -- we -- our rating years are the two (2) years '16/'17 and '17/'18.

MS. CANDACE GRAMMOND: And when the Corporation forecasts for the years even beyond those application years, the Corporation does not build in any rate increases into those forecasts?

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: I'm going to

1 ask, Diana, that you go to Tab 8 of the book of
2 documents. This is PF-5, found in the pro forma
3 section of the filing. And, Ms. Reichert, you had
4 some reference to some of these results in your slides
5 yesterday as well. So this particular pro forma
6 relates to current year 2015/'16, and reflect that at
7 last year's GRA -- and just scroll down a little bit
8 more. Perfect. At last year's GRA, the Corporation
9 was forecasting a loss of 6.3 million for current
10 year. That's been updated to an income of fourteen
11 point nine (14.9), which is the $21 million swing that
12 you spoke of yesterday.
13 That's right?
14 MS. HEATHER REICHERT: That's correct.
15 MS. CANDACE GRAMMOND: And we see near
16 the top of the page, the line item relating to net
17 premiums written. That's the -- the -- sort of the
18 first bolded line with numbers. There's a decrease
19 anticipated of 6.5 million in net premiums written for
20 current year.
21 That's correct?
22 MS. HEATHER REICHERT: That -- that's
23 correct. And that's, as is explained on the next
24 page, is the result of changing assumptions with
25 respect to the in -- premium upgrades for motor

1 vehicles and -- and other -- other actuarial forecasts
2 that we're changing slightly from when we were here
3 last year.
4 MS. CANDACE GRAMMOND: And -- thank
5 you. I just have a -- one (1) followup question at
6 least with respect to that. And, Diana, if you can
7 just scroll down a little bit to the top of the next
8 page. Perfect.
9 We see the -- the section here -- the
10 section here called, "Net Premiums Written." And
11 there are two (2) line items in particular that I
12 wanted to ask about. The second line item -- or
13 third, I guess, with the one point six eight-nine
14 (1.689) reflects lower more vehicle premium upgrades
15 due to DSR impact and then there's another line item
16 second from the bottom on the listing, $3 million dow
17 -- or 3 million decrease for lower driver premium.
18 Again, primarily due to DSR impact.
19 You -- you see those two (2) lines?
20 MS. HEATHER REICHERT: Yes, that's
21 correct. And that's what Mr. Johnston was referring
22 to yesterday when he talked about the fact that
23 behaviour of those lower down on the DSR rating is
24 improving. So in other words, they're not having to
25 pay as high a premium and therefore, our revenue is,

as you can see here, is being forecasted to decrease because of that behaviour.

MS. CANDACE GRAMMOND: And we are going to have some questions about the DSR system, which I believe is now five (5) years in the -- in use and we'll have some con -- questions about those in the context of road safety, but is -- is the Corporation saying that now five (5) years in to the DSR system it's seeing a positive impact in driver behaviour?

MS. HEATHER REICHERT: Yes, that's what we're saying.

MS. CANDACE GRAMMOND: Okay. Diana, if you can scroll down -- actually, scroll, sorry, back up to the previous page. We also see a significant shift in net claims incurred forecast. There's an eighty (80) -- roughly in the middle of the page at the net claims incurred line item we see that there's been a drop, or a decrease in the forecasted amount by some 83.2 million.

And then again, if we go back to the next page we'll see the explanations for that at -- at number 2.

Ms. Reichert, can you comment on those?

MS. HEATHER REICHERT: Sure. So the -

1 - the more significant ones -- and we did talk about
2 this a bit yesterday, but if you look down, the third
3 line under item 2, the 36.2 million adverse deviation
4 reduction, this is what we were talking about
5 yesterday where because interest rates have -- have
6 went, excuse me, because interest rat -- rates went as
7 low as they did and are kind of continuing to stay
8 low, we are looking to, and have budgeted to reduce
9 again that interest rate risk margin from seventy-five
10 (75) basis points down to fifty (50) basis points.
11 And the reason that we are wanting to
12 decrease that from seventy-five (75) to fifty (50),
13 again, is because of implementing that ALM we have
14 reduced our interest rate risk. So therefore, we
15 don't need as high a margin of seventy-five (75) basis
16 points as we did prior to implementing the ALM. So
17 that twenty-five (25) basis point decrease in that
18 margin is going to allow us to decrease the claims
19 forecast by the 36.2 million that you see there. And
20 that was what we had discussed yesterday.
21 And then the -- the next most
22 significant number is the thirty-five point five
23 (35.5) number at the bottom of that explanation. And
24 because the forecast of interest rates is still --
25 banks are still forecasting interest rates to

1 increase. They're starting at a lower point, but they
2 are still forecasting interest rates to increase, so
3 that will have a positive impact on our claims
4 liabilities.
5 So those two (2) amounts are the
6 majority of the reason that we are forecasting claims
7 incurred to be lower than what we were forecasting at
8 this point last year.
9 MS. CANDACE GRAMMOND: And those two
10 (2) amounts, again, that's the thirty-six point one
11 (36.1) and the thirty-five point five (35.5), those
12 are both changes that are directly related to interest
13 rates?
14 MS. HEATHER REICHERT: They are
15 related to interest rates. The first one (1) in
16 particular to the fact that we implemented the ALM and
17 that better matching has reduced our risk. So
18 therefore, we don't have to have as much of a risk
19 component in that margin.
20 MS. CANDACE GRAMMOND: And when you
21 talk about the provision within the adverse deviation
22 piece having been reduced, we talked a moment ago from
23 a hundred to seventy-five (75), and now from seventy-
24 five (75) to fifty (50).
25 Was that something that was approved by

1 the Corporation's external actuary?
2 MR. LUKE JOHNSTON: Yeah. The reason
3 it hasn't been booked is because Joe Cheng has only
4 been told that that's our intent. And what we told
5 him is that -- obviously that we're implementing an
6 ALM program. When -- at -- the last review that we
7 sent Joe Cheng hadn't been implemented yet.
8 So there was no evidence that we done
9 it, or anything, so we told him that our intent was by
10 October it would be implemented. You'd see the
11 matching of the duration and the dollars, and our
12 intent was to -- was to ask to lower the margin
13 further. And we have an IR on that. Just, you know,
14 all else equal you've -- if you've -- if you've
15 lowered your interest rate risk you'd expect your
16 margin to -- to follow. Yeah.
17 MS. CANDACE GRAMMOND: Thank you. I
18 just -- before we leave this section, I did have one
19 question about the -- the first item in the section,
20 the -- the lower budgeted physical damage claims then
21 forecasted. That's -- I appreciate it's only five
22 point four (5.4) but last year we heard about the fact
23 that physical damage had increased substantially.
24 Why the reduction? Is it -- is that
25 tied in with last years experience, or...

1 MS. HEATHER REICHERT: So it will be a
2 combination of items, right. So this will be a
3 combination of anticipating a slower growth in
4 physical damages because of what we saw in -- in the
5 last five (5), ten (10) years. And also that combined
6 with an increase in severity.
7 So the net of those is again not a very
8 significant change when you're considering that we've
9 got hundreds of millions of -- of physical damage
10 claims -- hundreds of millions of dollars of physical
11 damage claims in any given year. This is really a
12 very insignificant tweaking, I guess, of the -- of the
13 estimate.
14 MS. CANDACE GRAMMOND: Thank you. The
15 next section, number 3, relates to investment income.
16 I'm not going to ask you to go through each of the
17 components in a lot of detail, but it appears by
18 looking that the shift from forty-nine point nine
19 (49.9) of income that was projected last year to the
20 $10.8 million loss that's projected this year really
21 relates to again interest rates.
22 Is that fair to say?
23 MS. HEATHER REICHERT: Yes, it is.
24 MS. CANDACE GRAMMOND: And we looked
25 earlier at the interest rate details that was at Tab

1 12 of the book. Just so that we're clear, the
2 Corporation in making this updated forecast is relying
3 upon interest rates landing at two point zero-four
4 (2.04) at the end of the current fiscal year, and
5 that's up from one point three (1.3).
6 Do I have that right?
7
8 (BRIEF PAUSE)
9
10 MS. HEATHER REICHERT: I'm sorry, Ms.
11 Grammond, can you --
12 MS. CANDACE GRAMMOND: No -- no
13 problem.
14 MS. HEATHER REICHERT: -- show me
15 where you're getting the -- I'm just --
16 MS. CANDACE GRAMMOND: So --
17 MS. HEATHER REICHERT: -- just too
18 many numbers.
19 MS. CANDACE GRAMMOND: No, that's
20 okay. So what we just looked at for current year was
21 as filed in the GRA --
22 MS. HEATHER REICHERT: Okay, sorry. I
23 got it. I was looking at the wrong March.
24 MS. CANDACE GRAMMOND: Oh.
25 MS. HEATHER REICHERT: So March 2015

1 column forecast, which is the column that we used for
2 this General Rate Application, you'll see that for
3 '15/'16 it is -- well, it's going from one point three
4 (1.3) at the end of February 2015 to two point zero-
5 four (2.04) for the end of February 2016.
6 MS. CANDACE GRAMMOND: Now, we do have
7 some updated information on this chart, and I'm going
8 to come to that in a moment. That's some updated
9 interest rate information. I just have one additional
10 question. If -- Diana, if you can just go back to
11 where we were at -- Tab -- actually go -- go up one
12 page, if you would, to the first page of that tab.
13 We see something that struck the Board
14 advisors as unusual. And what that is -- so this is -
15 - I know we can't see it but this is for the current
16 year 2015/'16. If we look at the underwriting income
17 and loss line, which is about a third from the bottom,
18 we see that currently the Corporation is projecting
19 underwriting income of 25.7 million. That is an
20 unusual thing for the Corporation. Would you agree?
21 MS. HEATHER REICHERT: Poss --
22 possibly.
23 MS. CANDACE GRAMMOND: Your mic's not
24 on. Your -- your mic's not on.
25 MS. HEATHER REICHERT: Possibly. But

1 again, we base our rates on the net income. And
2 because, in this case, investment income in -- in
3 totality is forecasted to be negative because of the
4 impact of the rising interest rates on our bond
5 portfolio, that's that negative 10 million. So again,
6 all things -- we -- we look at it in totality, that
7 14.9 million plus whatever is being forecasted for '16
8 -- or sorry, this is '15/'16, I'm sorry.
9 So, yes -- yes, it's unusual, but I
10 would say we're probably in very unusual times with
11 the fact that interest rates are as low as they are,
12 but yet they're continuing to be forecasted to
13 increase, which is negatively impacting our bond
14 portfolio.
15 However, I just -- I need to remind the
16 panel that while we have a negative impact in
17 investment income from the bonds decreasing in value,
18 we have a positive impact on the claims liability from
19 that increasing forecast. The net of those two (2)
20 numbers is again going to be smaller than it was in
21 the past, and that's because during '15/'16 we
22 implemented the asset liability management. We -- as
23 at the end of August, we went to a zero bandwidth
24 duration gap between our liabilities and our assets.
25 So this -- the -- the 10.8 million loss

1 in investment income cannot be looked on -- at by
2 itself. That's made up of -- and I was trying to
3 explain yesterday. That's made up of income coming
4 from equities and real estate and infrastructure, so
5 there's income being projected. Then there's a bigger
6 loss being recognized on our bonds creating a net
7 negative. But that negative on our bonds is being
8 offset by a bigger positive on our claims liabilities.
9 So at the end of the day, in totality,
10 we are still forecasting almost a $15 million net
11 income, which is then being averaged with the --
12 sorry, that's this year's budget.
13 MS. CANDACE GRAMMOND: Ms. Reichert,
14 when I suggested that it was unusual I wasn't being
15 critical. It's just in every year that I've been
16 doing this, which is ten (10) or eleven (11), the
17 Corporation budgets for an underwriting loss. And the
18 investment income usually makes up that loss and
19 hopefully puts the Corporation with a net income for
20 the year. Seeing a projected underwriting income
21 offset negatively by negative investment income, it's
22 just very unusual.
23 MS. HEATHER REICHERT: Yes, you're
24 right, it is unusual. And I'll say again, but we are
25 in a very unusual environment with the interest rates

1 where they are.

2 MS. CANDACE GRAMMOND: So it's your

3 expectation, and I think we'll see this if we look

4 through the outlook period, that the Corporation will

5 be back to underwriting losses and seeing those losses

6 offset hopefully by investment income?

7 MR. LUKE JOHNSTON: I -- I'll say

8 something. Like Brian and Roger are aware of, like,

9 before we made the decision to include interest rates

10 in the forecast we would always have a very nice

11 flowing, constantly increasing investment, and common

12 claims would follow suit.

13 But we did make the decision that we

14 couldn't leave this hugely important item out of the

15 forecast anymore, right? Like, the -- the sensitivity

16 of -- of the forecast to interest rates is -- is

17 enormous. And not a lot of -- like, other places

18 don't all -- like, I've talked to other insurers. And

19 they don't all forecast, like, the interest rate

20 impacts like this, right?

21 So we're -- we're doing something a

22 little bit new for us, but we think it's -- as bizarre

23 as this looks, like, this is what the forecasters are

24 saying is going to happen. And if interest rates

25 really did go up two hundred (200) basis points this

1 is what it would look like. It hasn't been happening,
2 but -- but you're right, it is strange, from my
3 historical perspective, but we do think we have -- the
4 way our model's been working, that we -- this is what
5 it would look like if the forecast materialized.
6 MS. HEATHER REICHERT: And to answer
7 your specific question, yes, it is not forecasted to
8 continue. So if you look at our outlook periods, we
9 go back to forecasting an underwriting loss offset by
10 net positive investment income. So this is just an
11 anomaly year in -- in '15/'16.
12 MS. CANDACE GRAMMOND: Thank you. So
13 --
14 MR. REGIS GOSSELIN: Sorry, I have a
15 question. I just -- looking at Tab 12, page 2 of Tab
16 12. So there's a -- a table that reflects -- that
17 reflects the -- it's the table -- the page before last
18 of that section. Yeah, that table there. So -- so in
19 that case -- in this context here, we have had a drop
20 in interest rates. And the drop in interest rates
21 triggers a bigger change in claims liabilities, and
22 there's a change in marketable bonds. So, in other
23 words, claims liabilities have increased and there's
24 been a gain on bonds.
25 So, you know, the relative scale here

is what I'm getting at. So if -- if you go at what you're projecting now, you're projecting a -- a drop in PIPP offset by a -- a drop in the value of bonds. But the proportion has changed completely. In other words, it looks like the -- the bonds are changing more than the PIPP liabilities. And I -- I'm not sure what -- why that's happening.

MS. HEATHER REICHERT: That's because we are forecasting interest rates to increase.

MR. REGIS GOSSELIN: Okay.

MS. HEATHER REICHERT: So in an increasing interest rate environment the liabilities are improved more than what we lose on the bonds.

MR. REGIS GOSSELIN: Okay.

MS. HEATHER REICHERT: And again, when we are closer matched it -- it's a smaller --

MR. REGIS GOSSELIN: This is not what's happening here.

MS. HEATHER REICHERT: On -- on this particular page that you're looking at, in 2014/'15, what actually happened was interest rates decreased.

MR. REGIS GOSSELIN: Okay.

MS. HEATHER REICHERT: And in a declining interest rate environment our claims are more negatively impacted than how our bonds are

1 positive impacted. And, therefore, we end up with a
2 net loss.
3 MR. REGIS GOSSELIN: And so the -- the
4 relationship flips?
5 MS. HEATHER REICHERT: That's right.
6 And it all has to do with, again, in '14/'15 we had a
7 minus one (1) duration gap --
8 MR. REGIS GOSSELIN: I see. Okay.
9 MS. HEATHER REICHERT: -- between our
10 assets and our liabilities. So that's impacted this
11 as -- as well as the actual decline in the interest
12 rates.
13 MR. REGIS GOSSELIN: So absent that --
14 that gap --
15 MS. HEATHER REICHERT: This would be a
16 much smaller number.
17 MR. REGIS GOSSELIN: But the -- but
18 the -- the flip would still happen?
19 MS. HEATHER REICHERT: This -- the
20 flip would still happen. Decreasing interest rates,
21 as -- as did happen, will still have a negative impact
22 overall, but it will be much smaller. It's not going
23 to be -- it'll be in -- in the neighbourhood of less
24 than 10 million, as opposed to, you know, 30 million
25 or 40 million.

1 CONTINUED BY MS. CANDACE GRAMMOND:
2 MS. CANDACE GRAMMOND: We'll go then,
3 Diana, back to the interest rate table, which is just
4 a page down from where you were. Yeah. If you can
5 just scroll down. Perfect.
6 So just to -- so that we all have a
7 reminder of where interest rates have gone and -- and
8 may go from now, if we look at the column entitled
9 "March 2015 Forecast," which is just sort of off to
10 the left of centre of the screen. We see that for the
11 current year end the Corporation was forecasting, at
12 the time the GRA was filed, a two point zero-four
13 (2.04) interest rate.
14 You're with me?
15 MS. HEATHER REICHERT: I am now, yes.
16 MS. CANDACE GRAMMOND: And then to --
17 just to the left of that column we have the July 2015
18 update, which revises that two-o-four (2.04) to a one
19 point nine nine (1.99).
20 MS. HEATHER REICHERT: That's correct.
21 MS. CANDACE GRAMMOND: And then to the
22 right of the page, the second last column has the
23 August 2015 update, which I believe is the most recent
24 interest rate information that we have on the record
25 at this point. That is a further change to one point

1 nine five (1.95).
2 MS. HEATHER REICHERT: That's correct.
3 Although I did not give the actual interest rates.
4 The graph that I presented yesterday actually updated
5 the forecast as at the end of September. And that was
6 the -- the graph where I said if we had forecasted on
7 the basis of the end of September of 2015, it would
8 have indicated a 1.6 percent rate increase. So that
9 tells me that, again, we -- and I can get the interest
10 rates that are behind the graph that I presented
11 yesterday. But it's -- it's gone down a little bit
12 more -- the forecast of the interest rates --
13 MS. CANDACE GRAMMOND: Right.
14 MS. HEATHER REICHERT: -- have gone
15 down a little bit more.
16 MS. CANDACE GRAMMOND: Would you be
17 able to provide a chart in this form of what we're
18 looking at that updates to September?
19 MS. HEATHER REICHERT: Yes, I can.
20 MS. CANDACE GRAMMOND: On the in --
21 the info -- the exact information that you just
22 described that was used in your other graph?
23 MS. HEATHER REICHERT: Yes, we'll take
24 that as an undertaking and be able to provide that
25 fairly -- fairly quickly.

1 --- UNDERTAKING NO. 1: MPI to refile interest
2 table at PUB/MRI 2-6,
3 updated to September 2015
4
5 CONTINUED BY MS. CANDACE GRAMMOND:
6 MS. CANDACE GRAMMOND: Perfect. Thank
7 you. I think I'm going to leave that topic then for
8 the moment until we get that filing and perhaps the
9 answer to Pre-ask 1 as well.
10 MS. HEATHER REICHERT: Oh, okay.
11 MS. CANDACE GRAMMOND: Very nice. You
12 have the answer -- you have the interest rates or you
13 have the answer to Pre-ask 1?
14 MS. HEATHER REICHERT: I have the
15 interest rates...
16 MS. CANDACE GRAMMOND: Oh, okay. Oh,
17 I'll wait until it's circulated and -- and so forth.
18 So we talked a little bit about last year. We talked
19 about current year. I'm going to go then to year of
20 application. I'll ask you to go to tab 9 of the book
21 of documents, which is PF6.
22
23 (BRIEF PAUSE)
24
25 MS. CANDACE GRAMMOND: This is where

1 we see a comparison for the year of the application
2 between what the Corporation has applied for now and
3 what it thought the year would look like last year.
4 So we seen near the bottom of the
5 screen the net result line has changed from a roughly
6 $18 million income to an $11.4 million loss, which is
7 a swing of about just under 30 million.
8 That's right.
9 MS. HEATHER REICHERT: That's correct.
10 MS. CANDACE GRAMMOND: And as we
11 discussed, the Corporation considers this projected
12 result, together with that for the subsequent year,
13 which we don't need to leave this screen, but at this
14 point the Corporation is projection a $12.5 million
15 income for 2017/'18, which would roughly break even
16 with this projected net loss?
17 MS. HEATHER REICHERT: That's correct.
18 Oh, sorry, that's correct.
19 MS. CANDACE GRAMMOND: And as we know,
20 the Corporation takes this approach of looking at the
21 two (2) years together because of the fact that the
22 rates take about two (2) years to work their way
23 through the system?
24 MS. HEATHER REICHERT: It's -- it's to
25 calculate what the net situation is for the policy

1 year and policies are staggered. So half of them are
2 renewed in '16/'17 at the '16/'17 March rate and half
3 are renewed in the subsequent year.
4 MS. CANDACE GRAMMOND: So looking at
5 this table and what's projected for the year of the
6 application and considering that, can you tell us at
7 this point what impact last year's rate increase of
8 3.4 percent has had?
9 So has that worked its way into the
10 numbers that the Corporation is projecting for year of
11 application?
12
13 (BRIEF PAUSE)
14
15 MS. HEATHER REICHERT: So yes, the --
16 the 3.4 percent rate increase that took effect March
17 2015 is forecasted in the revenue projections for
18 2016/'17 and onward. So that is included.
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: Just a moment,
23 Madam Chair.
24
25 CONTINUED BY MS. CANDACE GRAMMOND:

1 MS. CANDACE GRAMMOND: Diana, I'm
2 going to ask you to go to tab 4 of the book of
3 documents, which is PF1. This gives us a multi-year
4 picture starting with last years actuals and moving
5 forward through current year, application year, and --
6 and subsequent.
7 We see at the top section of the table
8 the numbers for total net premiums written, which we
9 see increasing year over year from 824 million last
10 year to a projected 1.07 billion in 2020?
11 MS. HEATHER REICHERT: That's correct.
12 MS. CANDACE GRAMMOND: And those
13 numbers typically are projected to increase on some
14 basis year-over-year because of volume and upgrade
15 factor as opposed to any rate increases built in?
16 MS. HEATHER REICHERT: That's correct.
17 MS. CANDACE GRAMMOND: And I will have
18 some questions about volume and upgrade factor in a
19 couple of minutes, but -- and with respect to
20 investment income, if we can just scroll down a little
21 bit, Diana, we see firstly the underwriting result
22 line and then the investment income line that we've
23 spoken about a little bit.
24 And we do see some fairly significant
25 fluctuations in both of those lines if we go from left

1 to right?

2 MS. HEATHER REICHERT: Yes, we do.

3 MS. CANDACE GRAMMOND: And with

4 respect to investment income in particular for year of

5 application, which is the first year that's shaded in

6 grey, and the year next, we see very similar projected

7 investment income results of just under 13 million per

8 year?

9 MS. HEATHER REICHERT: Yes, that --

10 that's correct.

11 MS. CANDACE GRAMMOND: And then we see

12 very significant increases in projected investment

13 income for the last two (2) years of the table, which

14 are up over the hundred million dollar mark?

15 MS. HEATHER REICHERT: Yes, that's

16 correct. And the reason for that -- and again, I need

17 to remind the panel that you will get the -- you need

18 to look at what the component of the bond gains or

19 losses are, and in this case, it'll be -- there were

20 losses in the earlier years and not as significant

21 losses in the latter years, offset by the impact to

22 claims.

23 So to look at these numbers in

24 isolation is -- is a bit deceiving. The reason that

25 it looks so positive in the last two (2) years is,

1 when you look at the interest rate forecast in the
2 latter years, they're forecasted to stay relatively
3 flat, not go up and not go down. And because of that,
4 there is -- the -- the -- it's -- it's the slope of
5 the increase or decrease of the interest rates during
6 the year that impact on the value of the bonds. And
7 when that is flatter, the value of the bonds are not
8 negatively or positively impacted.
9 So what you're seeing here is going to
10 be more -- it's -- it's not offset by negative impacts
11 to bonds. That's why it's higher. So this is our
12 anticipated income from the gains on equities, from
13 dividends, from real estate, from infrastructure, and
14 whatever the interest is on the bonds that we have,
15 but not significantly on any gains or losses on the
16 bonds.
17 So that's why it looks odd, but again
18 it's -- it's based on what the forecasts were, what's
19 happening with them, and whatever is happening to the
20 bonds is being offset by what's happening to the
21 claims liabilities in these forecasts.
22 MS. CANDACE GRAMMOND: You commented
23 on the interest rates for those last two (2) years of
24 the table being flat, or constant, and I believe that
25 the range of those projections in terms of numbers at

1 this point is right around 3 1/2 percent?
2 MS. HEATHER REICHERT: Yes, that's
3 what the forecast has.
4 MS. CANDACE GRAMMOND: Now, while
5 we're looking at these investment income projections
6 for this five (5) or six (6) year period, can you -- I
7 -- I heard you yesterday say that the duration
8 matching now in place by the Corporation, and again,
9 we're going to come to questions later regarding the
10 details of that, but that that was fully implemented
11 as of the end of August of 2015?
12 MS. HEATHER REICHERT: That's correct.
13 MS. CANDACE GRAMMOND: And so when
14 does the full impact of that duration matching impact
15 the forecast that we're looking at?
16 MS. HEATHER REICHERT: It starts to
17 have impact obviously in the '15/'16 fiscal year, but
18 it has full impact in the '16/'17 and onward years.
19 MR. LUKE JOHNSTON: Just -- just to
20 add to that, the -- we tried to -- I'm sorry. We
21 tried -- I thought that was my microphone, sorry.
22 We tried to incorporate the
23 implementation impacts as best possible in the '15/'16
24 year, right, but the most uncertainty occurs during
25 implementation. So, for example, just, you know,

1 increasing the bonds or, you know, converting the --
2 to the asset allocations. There's more uncertainty
3 than usual, but post '15/'16 it should be stable,
4 like, the -- the new program should be in place and
5 stable.
6 MS. HEATHER REICHERT: And if I can
7 just add further. So our bond manager was -- when we
8 decided to implement the ALM, we needed to give our
9 bond manager a time frame under which he had to change
10 the duration of the bonds in order to match our
11 liabilities.
12 So in order not to have any dramatic or
13 unwant -- like, to -- in order to do it in -- in a --
14 in a controlled manner, we gave him until the end of
15 August to get to that point so that he could do that
16 in a very thoughtful way of getting to the duration
17 that we needed to get to and not have to sell a bunch
18 of equities and buy a bunch of bonds all at once and -
19 - and cause the Organization more disruption than --
20 than necessary.
21 So we gave him to the end of August.
22 He achieved that objective. And now, as Mr. Johnston
23 said, '16/'17, we will be fully stable with the
24 duration matching.
25 MS. CANDACE GRAMMOND: Now, the

1 document that's up on the screen at the moment is PF-
2 1, which is what the Corporation filed in June
3 regarding its projections for the -- the years shown.
4 And that was on the strength of the, I believe, March
5 interest rate information that the Corporation had at
6 the time?
7 MS. HEATHER REICHERT: That's correct.
8 MS. CANDACE GRAMMOND: We've spoken
9 about the updates to interest rates in July and
10 August. And you're going to file the September
11 information. I'm going to ask, Diana, you to go to
12 Tab 15 of the book of documents, which is 2-30 posed
13 by the Board in the Second Round. And I'm going to
14 ask you to go to, firstly, page 3 of that IR.
15
16 (BRIEF PAUSE)
17
18 MS. CANDACE GRAMMOND: It should be
19 Tab 15, PUB/MPI-2-30. And if we go to page 3, we're
20 going to find some interest rate information which is
21 contained within the -- the other document that we
22 looked at, but this just breaks it out in a -- in a
23 different way.
24 So what we asked for here was that
25 information be provided that would update to the

1 August 2015 interest rate information. And as we see
2 for the end of the current fiscal year, so I'm looking
3 just the second box from the bottom, we see the year
4 2016. And looking across to the right to the column
5 called, "August 2015," we see a closing interest rate
6 of 2.54 percent, which was down from two point seven
7 (2.7) used in the application.
8 Are you with me?
9 MS. HEATHER REICHERT: Yes, I am.
10 MS. CANDACE GRAMMOND: So that's a
11 sixteen (16) basis point decrease in interest rates,
12 right?
13 MS. HEATHER REICHERT: Correct.
14 MS. CANDACE GRAMMOND: And we asked
15 the Corporation to rerun the financial projections
16 that we were looking at in PF-1. So, Diana, if we
17 scroll down to page 1 of the attachment?
18
19 (BRIEF PAUSE)
20
21 MS. CANDACE GRAMMOND: You may have it
22 at a different PDF, but I think in the book of
23 documents it should be at the same tab.
24
25 (BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: Perfect. So
2 what we see here is the rerunning of PF-1. That
3 includes the August 2015 updated infor -- interest
4 information, which is a sixteen (16) basis point
5 decrease. And again, if we look at the two (2) shaded
6 columns, we see the projections for year of
7 application change to a $15 million loss. And then
8 there's a projected income for the subsequent year of
9 ten point four (10.4).
10 You -- you're with me?
11 MS. HEATHER REICHERT: Yes, that's
12 correct.
13 MS. CANDACE GRAMMOND: Now, would the
14 Corporation consider that result to be a breakeven?
15 MS. HEATHER REICHERT: Well, we --
16 essentially, yes. So how we would calculate what the
17 impact on rats would be, if this were the forecast at
18 March, would be averaging the 50 million negative with
19 the 10 million positive, so approximately a $4 1/2
20 million negative. Dividing that by two (2) is
21 approximately 2 million. And every 8 1/2 million is 1
22 percentage point on rates. So 2.2 million on a 8.5
23 million, you're talking about less than a quarter of a
24 percent.
25 So if -- if this had been the app -- if

1 this had been the forecast at the -- at the point of
2 our application, we would not likely have asked for a
3 point two-five (.25) rate increase. We would have not
4 considered that to be something that we would come
5 forward with. So from that perspective, we would have
6 considered this a breakeven forecast.
7 MS. CANDACE GRAMMOND: So nothing here
8 within these updated projections changes the
9 Corporation's position or views of the current rate
10 app that's pending?
11 MS. HEATHER REICHERT: No, it doesn't.
12 Nor does the one that we -- I showed you yesterday
13 that was updated at the end of September, which doing
14 that same calculation indicated approximately a 1 1/2,
15 1.6 percent rate increase. Because of -- it was done
16 purely to show that there is variability. But this
17 variability now that we have the asset liability
18 matching strategy in place, is much smaller than it
19 has been in the past.
20 And so it is something that we -- we
21 are comfortable in managing on a go-forward, and would
22 not revise our rate application to ask for the 1.6
23 percent.
24 THE CHAIRPERSON: Excuse me. Do you
25 think we should take a break at this time, just to see

1 if this will end? It's very difficult to hear.
2 MS. CANDACE GRAMMOND: That will be
3 fine. I'm about to go into questions on volume factor
4 and upgrade factor, so this would be a -- a fine time
5 for me.
6 THE CHAIRPERSON: Okay. We'll take a
7 fifteen (15) minute break, and hopefully we won't have
8 jackhammering when we come back. Thank you.
9
10 --- Upon recessing at 10:17 a.m.
11 --- Upon resuming at 10:36 a.m.
12
13 THE CHAIRPERSON: Okay. Welcome back
14 everyone. Just before we begin I -- I know -- I think
15 we've discovered that the jackhammers were set up
16 really well and they've got a huge hole marked off, so
17 I think we're going to be having them most of the day,
18 unfortunately.
19 But I will ask, if you wouldn't mind,
20 just speaking a little closer into your mics, because
21 sometimes it's very difficult to hear over that noise.
22 And just before we continue with Ms.
23 Grammond, I would like to welcome Mr. Brian Pelly, who
24 slipped in at the -- after the beginning of the
25 hearing. He's the actuarial consultant for the Public

1 Utilities Board. So, welcome.
2 We'll continue now again with Mr.
3 Grammond's cross-exam.
4 MS. CANDACE GRAMMOND: Before I begin,
5 Madam Chair, I think Ms. Kalinowsky has a couple of
6 exhibits, and then I believe the chairman has a
7 question. So we'll maybe go in that order, and then
8 I'll pick it up.
9 THE CHAIRPERSON: Okay, thank -- thank
10 you, Ms. Grammond. Ms. Kalinowsky...?
11 MS. KATHY KALINOWSKY: We have two (2)
12 exhibits here to be entered into the record. The
13 government of Canada ten (10) year bond rate 2015
14 forecast should be marked as MPI Exhibit number 9.
15
16 --- EXHIBIT NO. MPI-9: Government of Canada ten
17 (10) year bond rate 2015
18 forecast
19
20 MS. KATHY KALINOWSKY: And then we
21 have a series of pages from the transcript from the
22 2015 General Rate Application commencing at page 130
23 and going sporadically throughout the -- the hearing.
24 And that should be marked as MPI Exhibit number 10.
25

1 --- EXHIBIT NO. MPI-10: A series of pages from the
2 transcript from the 2015
3 General Rate Application
4 commencing at page 130 and
5 going sporadically
6 throughout the hearing
7
8 MS. KATHY KALINOWSKY: And I know that
9 Mr. Guimond would like to speak to that right now as
10 it addresses an issue that was raised by the Board at
11 the end of the hearing yesterday. Thank you.
12 THE CHAIRPERSON: Thank you, Ms.
13 Kalinowsky. Did you want to ask your questions first?
14 Mr. -- Mr. Gosselin will ask his question first, and
15 then we'll go to Mr. Guimond.
16 MR. REGIS GOSSELIN: I'm on Tab -- Tab
17 4, page 3, the table that shows the multi-year
18 statement of operations. And -- and the one obvious
19 outlier there that -- that I want to ask about is the
20 net claims incurred for the 2016 period, which is five
21 eighty-eight (588). If you look at the rest of that
22 line, I mean, we're -- we're getting -- it's a very
23 different number than the other numbers.
24 And -- and I -- I just wanted to know
25 why that is? What's -- what's causing that to be such

1 an aberrant number?

2 MR. LUKE JOHNSTON: Yes. So the main

3 reason would be interest rates. So the -- the equally

4 kind of outlier number is at the bottom in investment

5 income where it's negative 10 million. So you can see

6 the -- the interest rates have had a very large impact

7 on -- on both.

8 And just to put it in perspective, if

9 you look farther out in the forecast period when

10 interest rates are stable we're -- have about a

11 hundred million dollars a year of investment income.

12 So you're probably looking at a flat interest rate,

13 maybe ninety (90) to a hundred million there, so a big

14 swing in both claims and -- and investment income.

15 The other reason is the booking of the

16 actuarial interest rate provision in the '15/'16 year.

17 That alone is worth $36 million favourable. The --

18 the actuarial provision where we're lowering the

19 interest rate margin, that change alone is worth $36

20 million favourable in the -- in that year.

21 So if you add -- if you add the --

22 about 40 million back that would get you about 620 --

23 620 million, and then the remaining difference would

24 be interest rate related.

25 MR. REGIS GOSSELIN: Now, the -- this

1 was as of what date, this value?
2 MR. LUKE JOHNSTON: The -- yeah, this
3 is our GRA forecast of the March interest --
4 MR. REGIS GOSSELIN: March --
5 MR. LUKE JOHNSTON: -- rate forecast.
6 MR. REGIS GOSSELIN: Okay.
7 MR. LUKE JOHNSTON: That's right,
8 yeah.
9 MR. REGIS GOSSELIN: So have you got a
10 more recent value for this number, or...
11
12 (BRIEF PAUSE)
13
14 MS. HEATHER REICHERT: We -- we can
15 find one of the IRs where we updated the forecast to
16 reflect August interest rates, and that will have all
17 of the -- the same numbers. So we can -- we'll --
18 we'll find that, and be able to tell you what the
19 change in the five eighty-eight (588) would be based
20 on a updated forecast.
21 It would -- because the interest rates
22 were forecasted to go lower than what they were
23 forecasted in March, I'd expect that this five eighty-
24 eight (588) number would actually increase because it
25 wouldn't benefit from high -- as high a interest rate

1 increase.

2 MS. CANDACE GRAMMOND: I can be of

3 some --

4 MR. REGIS GOSSELIN: But there would

5 be a corresponding offset on the -- on the investment

6 income.

7 MS. HEATHER REICHERT: Exactly.

8 MR. REGIS GOSSELIN: I don't think --

9 MS. HEATHER REICHERT: Exactly.

10 MR. REGIS GOSSELIN: Is that the

11 number that's -- the more recent that -- that would be

12 in those interim statements, I guess. Although these

13 interim statements reflect the Corporation position,

14 right?

15 MS. CANDACE GRAMMOND: Mr. Chairman,

16 if you want to look at Tab 15 of the book of

17 documents, I think that's the most recent one that we

18 have. That's the question and answer at PUB MPI-2-30.

19 If you go to the third last page of that tab, yeah,

20 you'll find an update of PF-1. This would be based on

21 August 2015 interest rates, so that net claims

22 incurred number changes to six-o-two point four

23 (602.4).

24 MS. HEATHER REICHERT: But if you --

25 and so to reinforce the point that I was making about

1 -- because we have implemented the asset liability
2 matching partway through '15/'16, the net impact on
3 the net income, so on 2016 column there, you'll see
4 that the net income being projected is eleven million
5 five ten. And if you look back to Tab 4, based on the
6 March forecasted interest rates, it was 14.9 million
7 or 15 million, so a very small change in forecasted
8 net income despite a more significant change in
9 claims, and that's being offset by the change in
10 investment income.
11 So this is just showing how the asset
12 liability matching is helping to moderate the net
13 impact of the interest rates.
14 MR. REGIS GOSSELIN: So -- so the
15 change in interest rates from August to now would --
16 would have accelerated that difference?
17 MS. HEATHER REICHERT: As I was
18 stating yesterday, yes, there would still be a -- a
19 difference, but again, not as significant --
20 MR. REGIS GOSSELIN: Okay.
21 MS. HEATHER REICHERT: -- as -- as it
22 would have been in the past. So again, it will still
23 be, you know, less than a $10 million difference.
24 MR. REGIS GOSSELIN: But I guess the
25 question is: What's happening to net income?

1 MS. HEATHER REICHERT: So we can -- we
2 can provide you the same schedule. And I think -- did
3 -- we may have already pro -- we've got the interest
4 rates that -- that we've provided as an exhibit. We
5 can provide to you the -- the same type of table based
6 on the September interest rates so that you can see
7 what the impact is to net income.
8 MS. CANDACE GRAMMOND: Thank you. So
9 that'll be Undertaking number 2. You're going to
10 provide an update. It's, in essence, an update of PF-
11 1 or an update of PUB/MPI-2-30(c) attachment to
12 include as its basis the September 2015 interest rate
13 information?
14 MS. HEATHER REICHERT: Correct.
15
16 --- UNDERTAKING NO. 2: MPI to provide an update
17 of PF1 or PUB/MPI 2-30(c)
18 attachment to include as
19 its basis the September,
20 2015 interest rate
21 information
22
23 THE CHAIRPERSON: Thank you very much,
24 Ms. Reichert. Now, I believe, Mr. Guimond, you wanted
25 to comment on the MPI Exhibit number 10?

1 MR. DAN GUIMOND: That's correct.
2 Okay. I'd like to start. And this is for Mr.
3 Gosselin specifically about the discussion we had
4 yesterday, because it -- it -- to be honest, it took
5 me by surprise and -- and it concerns me, because I
6 think it's important that when we -- when we
7 communicate, that there's -- there's no
8 misunderstanding, and I think there might have -- very
9 well be one. And I wanted to go over it this morning
10 and address the issue and -- and go from there.
11 So we've provided you with some
12 transcripts of last year. So if we go to, you should
13 see on the first page, 130, we can see on line 6, 7,
14 8, and 9 where Mr. Gosselin is talking about the
15 amount -- starting to ask me questions about the
16 amount that would be transferred.
17 Then if we go to page 24, we start
18 introducing -- I'm sorry, to -- to line 24, we start
19 to introduce the -- that I want to close the gap, and
20 so the gap starts to -- to come through.
21 If we go to page 131, so I'm saying --
22 on page 131, line 6 to 9, I'm starting to say that we
23 want to get to the minimum amount as fast as possible,
24 and I'm talking about the minimum amount of the DSR
25 (sic) here, to close the -- the RSR, to close the gap.

1 And then I'm hoping that we can get to a range in the
2 RSR within four (4) years that will offer rate
3 predictability and stability.
4 And this is where I said, Until we get
5 into a range where, you know, you can absorb the
6 fluctuations, that the Corporation would be willing to
7 continue to transfer excess retained earnings to -- to
8 get to the minimum. Then it goes back to what I said
9 yesterday, where if we continue down this path, the
10 Corporation would be willing to transfer another $50
11 million if the minimum is two thirty (230), because
12 we're sitting at one eighty (180).
13 So then if we go to page 345, line 6
14 and 7 -- yeah. So page 345, line 6 and 7. This is
15 where we start to talk about both side of the equation
16 between the premium deficiency and the capital
17 deficiency. And then if we go on the same page to
18 line 18 to 20, is when I said, you know, I think the -
19 - if I recall last year, the actual rate indicator was
20 at three point six (3.6) when we had re-run the
21 number. And I said, Well, if we had three point four
22 (3.4), I'll be able to meet my mandate.
23 And, you know, we -- and then we -- you
24 can see this year how we cut $8 1/2 million and baked
25 it into the budget, and we're on track of -- of

1 cutting those costs. That's why we didn't need a rate
2 increase this year. And I had mentioned yesterday how
3 we're continue to work aggressively on cost cutting,
4 and mentioned, like, the closing of two (2) buildings
5 and so on.
6 So then if we go to page 346. This is
7 where I reiterate again at line 19, 20, and 21 where I
8 really want to get into the range of the RSR that
9 allows us to have rates that are predictable and
10 stable within four (4) years. But we want to get to
11 the minimum amount as fast as possible. So I put that
12 in the record there.
13 On page 347, line item 3, 4, and 5.
14 This is where I get the question from Ms. Grammond.
15 And then on page 12 -- I mean, I'm sorry, on line 12,
16 13, and 14 I want to say that we're serious about it
17 and we want to make a meaningful contribution and
18 transfer before the end of our fiscal year. And then
19 on line 24 and 25, that's where the hundred million
20 dollars.
21 And I think, Mr. Gosselin, that's where
22 it's very important that you and I in terms of -- of
23 communication, is the hundred million dollars in my
24 mind was approximately what was needed back then to
25 close the gap to get to the minimum retained earnings.

1 So -- so that, I think, is an important point, because
2 it goes to my credibility in terms of what I was
3 putting on the table.
4 So then on page 348, line item 1, 2,
5 and 3 is where I put in the record that we were going
6 to be transferring the lion's share. And because back
7 then it would have been possible that our excess --
8 you know, that -- that it would have even been worse
9 last year. We weren't sure how the winter would go
10 and the interest rate would go. So this is where, you
11 know, I'm saying we're going to transfer the lion's
12 share and then we'll see how it works out at the end
13 of the fiscal year.
14 And line item number 17, 18, 19, I say
15 it's safe that we'll be transferring some -- some
16 amount -- I've been asked again by Ms. Grammond. And
17 then on line 20, 21, 22, I say it's a serious
18 commitment on our -- from our board of directors to
19 put that on the table. And the transfer, again,
20 meaning -- it would be meaningful.
21 On -- on page 2,003, this is where --
22 this is the Board counsel closing comments now. And
23 line 22, 23, 24, and 25, I think this is where Ms.
24 Grammond say that we would transfer $100 million. And
25 again, it's important in my mind, we're always talking

1 about that would be the amount required to close the
2 gap to get to the minimum retained earning.
3 And then when we go to Ms. Kalinowsky's
4 closing argument on page 2,241, I think it's important
5 to -- to read from page 9 to 20 -- line 9 to line 24.
6 And it -- on -- on line 12 specifically:
7 "The commitment is that we want to
8 close the gap and get to the minimum
9 amount of retained earning as
10 quickly as possible. And then
11 hopefully within four (4) years, we
12 can get to -- to things."
13 So my point of putting -- to have this
14 discussion is that I apologize if there was a
15 misunderstanding. And even in the news release that
16 the regulator published of the hundred million
17 dollars, I always in my mind thought of that money as
18 closing the gap for the minimum retained earnings.
19 And because at the end of our fiscal year it happened
20 to be seventy-five and a half (75 1/2), that's what we
21 transferred.
22 And again, you can see how consistent
23 it is with my slide deck yesterday and what I said
24 yesterday that if we continue down this path, that the
25 Corporation is willing to transfer another $50 million

1 if it has to. Depending again what happens at the end
2 of the fiscal year, it might be less or more, but we
3 will make sure that the minimum amount is there.
4 So I -- I really apologize if there was
5 a disconnect. And -- it was -- it was my first time
6 here. Last year I was very nervous. This is high-
7 stake games, because the RSR, to me, is really how we
8 ensure the long-term success of public auto insurance
9 in Manitoba. It's that critical. So I -- I sincerely
10 apologize.
11 And I hope that by going through this
12 this morning, you can see that the intent and the
13 outcome I was consistent, and I apologize if -- if we
14 were not on the same page.
15 MR. REGIS GOSSELIN: Well, frankly I -
16 - I'm not sure who to blame, because I heard -- I
17 heard a hundred million, and obviously what you said,
18 it went -- I heard of someone making a case that it's
19 -- this may be an example of what you said and I heard
20 is two (2) different things, because I heard the $100
21 million, and you said, I -- I think it's clear from
22 the transcript that you were linking $100 million to
23 the minimum, so, okay, I -- I get it.
24 MR. DAN GUIMOND: Thank you. It's
25 very important to me. Thank you very much.

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Okay. Thank you

4 very much, Mr. Guimond. So we'll go back to Ms.

5 Grammond now.

6

7 CONTINUED BY MS. CANDACE GRAMMOND:

8 MS. CANDACE GRAMMOND: Thank you,

9 Madam Chair. Before I go into volume factor and

10 upgrade factor, I just have one (1) additional

11 question on interest rates for the moment. We'll have

12 more once we look at Exhibit 9 a little bit, but the

13 question is this: If -- are you aware if interest

14 rates were to stay the same through the end of this

15 fiscal year as they are today, so no change in

16 interest rates from today until the end of February of

17 2016, what would the net result to the Corporation be

18 for the current fiscal year?

19 Do you know that?

20 MS. HEATHER REICHERT: I don't have an

21 exact number off the top of my head. But if the

22 interest rates stayed flat, then I expect that there'd

23 be no impact of changing interest rates from now going

24 forward to the end of the year. So whatever the

25 actual impact has been up until this point in time,

1 from the beginning of our year to now, based on
2 whatever the changes in -- sorry, let me back up.
3 It's always critical what the ending
4 interest rate is at February 28th at the end of our
5 fiscal year. So February 28th, 2016. So if they
6 stayed at whatever they are right now, which I can't
7 remember what the rate is, one point six (1.6) or
8 something like that, our bonds would be valued on the
9 basis of that rate compared to what they were at the
10 beginning of the year.
11 So assuming that that's already all
12 been reflected in our August quarter results, then I
13 would not expect a significant, if any, change in
14 that. So whatever I presented yesterday, and the --
15 the numbers are all going through my head, as the net
16 impact of -- of interest rate changes on claims and
17 liabilities, I would assume that it would be pretty
18 close to that if they were to stay flat from now until
19 the end of the year, but I don't have an exact number.
20 MS. CANDACE GRAMMOND: If you don't
21 have an exact number, that's okay. But can you -- can
22 you go back and reference that maybe by way of
23 undertaking just so we have that number?
24 MS. HEATHER REICHERT: Sure. I mean,
25 we can actually -- if -- if you would like, we can

1 model to the end of this year if interest rates didn't
2 change from what they were -- and what I would propose
3 is from what they were at the end of August, because
4 that's a reference point that we all have. So we can
5 model flat interest rates from the end of August to
6 the end of our fiscal year and show what that looks
7 like from a -- a net income perspective.
8 MS. CANDACE GRAMMOND: That would be
9 fine. Thank you.
10 MS. HEATHER REICHERT: Okay.
11
12 --- UNDERTAKING NO. 3: MPI to model flat interest
13 rates from the end of
14 August to the end of their
15 current fiscal year and
16 show what it looks like
17 from a net income
18 perspective
19
20 MR. LUKE JOHNSTON: My -- my only
21 question on that undertaking is -- is that we -- if --
22 if it's only for that year, like, we -- I'm not sure
23 what we would put for all subsequent years. Like, we
24 could just, like, not show those, and just -- yeah,
25 okay. Yeah.

1 CONTINUED BY MS. CANDACE GRAMMOND:
2 MS. CANDACE GRAMMOND: Just for
3 current year.
4 MR. LUKE JOHNSTON: Okay.
5
6 (BRIEF PAUSE)
7
8 MS. CANDACE GRAMMOND: Okay. So on
9 then to some questions about volume factor and upgrade
10 factor. We spoke, Ms. Reichert, earlier this morning
11 about the fact that those two (2) pieces contribute to
12 an general increase in revenue year-over-year for the
13 Corporation. Let's talk first about volume factor.
14 So, Diana, I'll ask you to go to the
15 revenue section of the filing, which is in Volume II.
16 And in particular, page 6. And while we're going
17 there, and while Diana is getting that up, Ms.
18 Reichert, can you just explain for the record what the
19 volume factor pertains to?
20 MS. HEATHER REICHERT: I'm just going
21 to turn that over to my colleague.
22 MR. LUKE JOHNSTON: Yes. The volume -
23 - the volume factor is essentially the growth in our
24 earned vehicle units from year to year, so an earned
25 vehicle unit would be one (1) vehicle insured for the

1 full year. There's a few -- a few vehicle types that
2 have different earning periods, like motorcycles, but
3 in -- in a general sense. So if a vehicle is only
4 insured half a year, half a unit.
5 The reason we use earned units is
6 because we can multiply that number by the average
7 premium to get the total a premium will actually --
8 actually get. Yeah.
9 MS. CANDACE GRAMMOND: So would a
10 really simple explanation be that it's the growth in
11 the fleet in the --
12 MR. LUKE JOHNSTON: Slightly more
13 simple --
14 MS. CANDACE GRAMMOND: -- number of
15 units --
16 MR. LUKE JOHNSTON: -- than the one I
17 gave, yes. Yes.
18 MS. CANDACE GRAMMOND: Okay.
19 MR. LUKE JOHNSTON: Yeah.
20 MS. CANDACE GRAMMOND: And so we see
21 from the filing here up on the screen -- thank you,
22 Diana -- that the volume percentage factor that the
23 Corporation is using is at one point seven five (1.75)
24 per year, and that's to remain the same through the
25 outlook period?

1 MR. LUKE JOHNSTON: Yes. And the only
2 note on that is this is only for Highway Traffic Act,
3 HTA vehicles, so it excludes trailers and ORVs which
4 have very, very small premiums, so we don't -- we
5 don't use those to make the estimate.
6 MS. CANDACE GRAMMOND: If we go to
7 page 8 of the revenue section, which is just a little
8 bit father down...?
9
10 (BRIEF PAUSE)
11
12 MS. CANDACE GRAMMOND: We see the
13 basis on which -- and oh, sorry, Diana, just a little
14 bit -- if you can scroll up just so I can get the
15 narrative at the top of that page? Yeah, perfect.
16 So this -- this one point seven five
17 (1.75) is arrived at basically by doing an averaging
18 of past years experience?
19 MR. LUKE JOHNSTON: Yes. In this
20 case, the three (3), five (5), and ten (10) year
21 average were all pretty close to 1.75 percent.
22 MS. CANDACE GRAMMOND: And the actual
23 as we see in the chart near the bottom of the screen,
24 certainly the actual for the last fiscal year was
25 actually one point four one (1.41), and I believe that

1 was the actual for the year previous, as well?
2 MR. LUKE JOHNSTON: Yes, that's true.
3 We had a -- a couple years where we had some abnor --
4 abnormally high growth rates, and -- above two (2),
5 and the last couple years, we've -- we're below
6 average at one forty-one (141).
7 MS. CANDACE GRAMMOND: Is there any
8 consideration being given to changing the method by
9 which the percentage is arrived at based on the last
10 couple of years, or are you confident in the averaging
11 that's been done?
12 MR. LUKE JOHNSTON: No, it's a -- it's
13 a good -- good question. If you go to page 7, there
14 is a table -- and I don't know if you can get the --
15 at least the history in there. A little bit down.
16 That's good, yeah.
17 So obviously, the -- the volume factor
18 is -- is going to be influenced a bit by the
19 population growth of the province. That'd be a -- a
20 key factor. But we do take a longer-term view on this
21 assumption, and you can see if -- if we maybe
22 overreacted a little bit in 2011 and 2012, we might
23 have had a factor, you know, of 2 percent, 2.25
24 percent, et cetera. So given that, you know, the
25 three (3), five (5), and ten (10) are all coming in at

one point seven-five (1.75), we -- we're comfortable that there wasn't really a trend, but maybe just a couple low years here.

But, of course, if this persisted we've had to rethink that assumption.

MS. CANDACE GRAMMOND: And do you have a sense of where the current year is going?

MR. LUKE JOHNSTON: I don't have a reference for this, but in looking at the Q2 results, our -- I believe our revenue was about 6 to 7 million under budget. But our -- we -- our first check was on earned units, and they were very close to forecast.

So right now, as of Q2, we appear to be close to our one point seven-five (1.75).

MS. CANDACE GRAMMOND: Thank you. And just so that everyone understands the relevance of this in terms of dollars, if we go to PUB MPI-1-13. While -- just while Diana is pulling that up, what we asked the Corporation to do in that IR was to, in effect, rerun the net income with a quarter of a percentage point shift in the volume factor, again, just so that the Board has an idea of what -- what these means in dollars. And so as soon as that's up we'll just look at what the result of that is.

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: So we see in
4 the blue print this was a scenario reflecting a 2
5 percent rather than 1.75 volume increase. And if we
6 just scroll down to the net result line we see that
7 for the year of the application there's still a loss.
8 And -- and remembering that as applied for pursuant to
9 the GRA there was forecast an $11.4 million loss.
10 That loss is now improved to an $8.3 million loss.
11 So the effect of a quarter percentage
12 point in volume factor translates to about $3.1
13 million to the good?
14 MR. LUKE JOHNSTON: Per this exhibit,
15 yes. I do apologize because I -- I see how this table
16 has been updated. And if you -- if you notice the net
17 claims incurred line, it hasn't been changed as a
18 result of the upgrade -- or sorry, of the revised
19 volume forecast.
20 So what was done here is, purely just
21 to update the premiums would assume to have no affect
22 whatsoever on the claims, so that wouldn't really be
23 the case. Collision for sure is forecasted on a
24 collisions per vehicle basis. So if you were to have
25 more vehicles, the assumption, all else equal, would

1 be you'd have more collisions.

2 So you're right. What -- what you just

3 said is correct, but it does assume that the claims

4 forecast isn't impacted at all. So, unfortunately, we

5 -- that wasn't updated in that response. It's -- it

6 is -- it is a lot more work to do that. But it would

7 be less than the number you've quoted because claims

8 would also increase, or that would be our expectation.

9 MS. CANDACE GRAMMOND: And can you

10 give us a sense without doing that detailed work of

11 what that magnitude would be? If you can't, you

12 can't. But if you -- if you can tell us how the three

13 point-one (3.1) might be impacted, that would be

14 useful.

15 MR. LUKE JOHNSTON: Well, cla --

16 claims -- if you look at the 2016/'17 claims incurred,

17 which is the first grey column, claims are about 677

18 million relative to earned vehicle premium of -- of

19 eight seventy five (875). So if claims had a, you

20 know, equally sized impact from the volume factor, you

21 might get about three quarters of that impact

22 eliminated.

23 So if -- if there was a 4 million

24 impact, you might eliminate about 3 million from

25 higher claims. So just, you know, maybe the impact's

1 only a million, so we might assume that operating
2 expenses and all that stay the same, but -- but not
3 claims.
4 MS. CANDACE GRAMMOND: Thank you.
5 Just a couple of questions on upgrade factor. So,
6 Diana, if we can go back to the revenue section of the
7 filing, and page 8 where the upgrade factor section
8 begins.
9 Again just a brief explanation of what
10 the upgrade factor pertains to?
11 MR. LUKE JOHNSTON: This one (1)
12 probably deserves a -- a longer explanation. So the
13 upgrade factor is really the natural premium growth
14 that we -- that we have just from changes in the fleet
15 composition. So if -- if we didn't change any rates
16 and a customer sold their old car and got a new one
17 (1), well, we'd get more premium -- premium. Because
18 we charge a higher rate for that new vehicle usually.
19 Similarly, if you lived in rural and rates were lower,
20 and you moved to the -- to Winnipeg or just, you know,
21 we'd get an upgrade from that, too.
22 So we track the upgrade from -- from
23 all of those sources. We -- we split out one (1)
24 piece for DSR, because we really want to see what DSR
25 is doing to the upgrade factor. And DSR upgrade is

1 really the change in the average discount level that a
2 customer receives. So if -- if on average people are
3 getting a 20 percent discount, and then it goes up to
4 21 percent because of better driving, we've got less
5 premium without changing any rates, just because
6 people have been driving better. So that -- that's
7 what DSR upgrade would be. And -- and again, that
8 could be -- that could be positive or negative, but
9 you can see historically it's -- the overall upgrade
10 runs at about 2 1/2 percent.
11 MS. CANDACE GRAMMOND: And just on
12 that distinction between vehicle upgrade and driver
13 upgrade, if I can refer to it that way, this is the
14 first year that the Corporation is including the --
15 the DSR, or the driver component, in its forecast?
16 MR. LUKE JOHNSTON: That's correct.
17 We expected DSR results to be unstable and -- and we
18 came to the Board and said we really had no idea what
19 people would do under DSR. So now that we do have
20 some experience, and we have some -- we can see the
21 tracking error of our previous forecasts, we're
22 comfortable that they're -- they're credible enough to
23 -- to start including them in the -- in the forecast.
24 MS. CANDACE GRAMMOND: And just so the
25 Board has an idea, and this is -- it's referenced in

1 the filing, but if we just stay with the screen that
2 we've got for the moment, I think you'll agree that
3 the vehicle upgrade factor that the Corporation's
4 using continues to be 2.6 percent.
5 So any variations that we see in this
6 chart on the screen from two point-six (2.6), whether
7 lower or higher, that's the impact of the DSR piece?
8 MR. LUKE JOHNSTON: Correct.
9 MS. CANDACE GRAMMOND: Now, I'll ask
10 you, Diana, to go back to PUB/MPI-1-13, which is again
11 the sensitivity analysis. We're going to go to (b) of
12 that IR this time, which is again a re-running of the
13 financials this time with a quarter percent change in
14 upgrade factor. And we see -- if we can just scroll
15 down, it'll be in the next attachment.
16
17 (BRIEF PAUSE)
18
19 MS. CANDACE GRAMMOND: So this is
20 using a two point nine-five (2.95) upgrade instead of
21 the two point seven (2.7) that the Corporation is
22 proposing for the year of application. And if we can
23 scroll down to the net result line.
24
25 (BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: We see, again,
2 a change in the projected loss. It was eleven point
3 four (11.4) in the application as filed. And with
4 this change it's now five point eight (5.8). So it's
5 a $5.6 million improvement.
6 And tell me whether -- so do I have
7 that right, first of all?
8 MR. LUKE JOHNSTON: Yes.
9 MS. CANDACE GRAMMOND: Okay. And can
10 you tell us now whether your earlier comment regarding
11 a corresponding adjustment or increase in claims cost
12 would also apply to upgrade?
13 MR. LUKE JOHNSTON: Yes, it does. But
14 -- but in a -- a less obvious way. In theory, like,
15 when we set our rates we -- we're assuming that we
16 have the rates right for every vehicle that we -- that
17 we rate. So if somebody does sell an old vehicle and
18 -- and buy a new one we're assuming we're getting the
19 breakeven rates that we need on either vehicle.
20 So you would hope that claims costs
21 would move with premium. So true, but in theory they
22 would -- they would tend to offset each other, but in
23 reality it's much harder to forecast exactly what that
24 upgrade factor will be and how it impacts all our
25 coverages and everything.

1 So in this case it would be harder to
2 apply that. But a portion of that difference would be
3 offset. It's harder for me to estimate the -- the
4 percentage of it.
5 MS. CANDACE GRAMMOND: But it would be
6 less of an impact than with volume factor?
7 MR. LUKE JOHNSTON: Correct.
8 MS. CANDACE GRAMMOND: Okay. Diana,
9 I'm going to ask you to go back to the revenue section
10 and go to page 24 of the revenue section, which deals
11 with driver premiums.
12
13 (BRIEF PAUSE)
14
15 MS. CANDACE GRAMMOND: Now, if we go
16 to -- oh, exactly where you are, the top of page 24.
17 Thank you. We see here last years numbers and
18 projected numbers for specifically driver premiums as
19 opposed to vehicle premiums, correct?
20 MR. LUKE JOHNSTON: Correct.
21 MS. CANDACE GRAMMOND: And we see that
22 the Corporation is forecasting less revenue in the
23 current year, '15/'16 for earned driver premiums than
24 it did -- or sorry, than it is in the outlook period.
25 So it looks like it -- the numbers change by 3 or $4

1 million year over year going forward, but also, what's
2 being forecast this year is a few million less than
3 what was forecast last year.
4 Is that right?
5 MR. LUKE JOHNSTON: Yes, that's right.
6 And -- and this -- this has been happening pretty
7 consistently since we put DSR in. The -- the
8 behaviour of the demerit drivers has really
9 consistently improved even in -- even in that really
10 bad winter that we had we still saw improvement on the
11 demerit level driver's driving experience.
12 So the -- whether it's, you know, the
13 ins -- the additional premiums or just the better
14 information that they're receiving in their renewal,
15 they -- they can see now what happens to them if they
16 do good or -- or not good. Whatever the impact, it's
17 -- it's been improving that experience on the lower
18 DSR levels.
19 And every year we get real data. We
20 revise our forecasts and we have an increasingly
21 optimistic view of these drivers, which obviously
22 lowers the amount of surcharge revenue we get from
23 them on the driver's licence.
24 MS. CANDACE GRAMMOND: And if we just
25 scroll down a little bit we see the Corporation

1 provided some narrative with respect to what you're
2 describing. I just want to have you confirm that this
3 positive movement on the scale, which translates into
4 less premium for the Corporation has been the case in
5 both las -- of the last two (2) fiscal years?
6 MR. LUKE JOHNSTON: Yes, so keep --
7 again, keep in mind that '13/'14 was considered one
8 (1) of the worst collision years ever. So like a 1:40
9 type winter. And then '14/'15 flipped to the opposite
10 of that and we had one (1) of the best winters we've
11 ever had. So in '13/'14 there was -- there was more
12 at fault claim movements because there was more
13 claims. Again, this wasn't demerit drivers so much,
14 but just everyone.
15 But what's interesting is minor
16 conviction rates are falling drastically too. So
17 people are, you know -- sure, there could be changes
18 in enforcement too, I agree, but it seems that there's
19 a correlation between behaviour on both the at-faults
20 and the conviction side, which is great.
21 So in -- in '13/'14 even though we had
22 more at fault claims we had a -- a really large drop
23 in minor convictions, almost 20 percent, so that's
24 less revenue for us on the -- because less -- less
25 steps down. And then on -- in '14/'15 we had a

1 combination of both. We had a 9 percent drop in at
2 fault claim movement on the scale and then we had an
3 additional 6 percent drop in minor convictions.
4 So clearly that would -- that would be
5 a lot of -- if that hadn't happened we'd have a --
6 more driver revenue, and that's all that's being
7 reflected in the forecast.
8 MS. CANDACE GRAMMOND: Thank you. I'm
9 going to move, Madam Chair, to some questions with
10 respect to investments, so completely different area
11 that what we've been speaking about so far this --
12 this morning.
13 I'm going to ask you to go to Tab 10 of
14 the book of documents, which is an excerpt of the
15 investment income section of a filing, pages 5 and 6.
16 And if we go to the second page of that tab, page 6 we
17 see -- and I'll -- I'll just start down my line of
18 questions while -- while we're getting that up on the
19 screen.
20 We see on page 6 in the top half of the
21 table there's some historical information, and some
22 projections with respect to the overall balance within
23 the Corporation's investment portfolio. That's the
24 total asset line?
25 MS. HEATHER REICHERT: Yes, that's

correct.

MS. CANDACE GRAMMOND: And so we see that as of the end of the last fiscal year, which is 2014/'15, so in the left-hand side of the -- the table, that the balance in the portfolio was just over $2.6 billion as at that date?

MS. HEATHER REICHERT: Correct.

MS. CANDACE GRAMMOND: And the Corporation is projecting that the balance in the -- sorry, I -- I really feel like I'm yelling but I'll continue to do so, I guess.

MR. REGIS GOSSELIN: We're troopers, Ms. Grammond.

MS. CANDACE GRAMMOND: What's that?

MR. REGIS GOSSELIN: I said we're troopers.

MS. CANDACE GRAMMOND: Yes, we are.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: It appears that the -- the Corporation is projecting that the overall balance in the portfolio will continue to increase through the outlook period, and according to this projection topping out at just over 3 billion by 2019/'20?

1 MS. HEATHER REICHERT: Yes, that's
2 correct.
3 MS. CANDACE GRAMMOND: And I
4 understand from earlier years that the funds that the
5 Corporation has available for investment are primarily
6 unearned premiums and unpaid claims funds?
7 MS. HEATHER REICHERT: That's correct.
8
9 (BRIEF PAUSE)
10
11 MS. CANDACE GRAMMOND: Still looking
12 at the top part of this particular chart we see that
13 in the last fiscal year, 2014/'15, the Corporation had
14 about one point one (1.1) of the $2.6 billion
15 portfolio invested in Canadian fixed income bonds?
16 MS. HEATHER REICHERT: Correct.
17 MS. CANDACE GRAMMOND: And those are
18 interest rate sensitive.
19 MS. HEATHER REICHERT: Correct.
20 MS. CANDACE GRAMMOND: And I
21 appreciate the - - the matching, and -- and I'm not
22 asking you to -- to go there at this point. We see
23 immediately underneath that line item the MUSH line,
24 which first of all stands for Municipalities,
25 Universities, Schools, and Hospitals. Is that

1 correct?

2 MS. HEATHER REICHERT: Not hos -- not

3 -- sorry, it wouldn't -- not -- not universities.

4 It's Municipalities, Schools, and Hospitals. Not

5 Universities.

6 MS. CANDACE GRAMMOND: Okay. Fair

7 enough. Thank you for -- for correcting that. Those

8 bonds which are shown at 607 million are not interest

9 rate sensitive. That's correct?

10 MS. HEATHER REICHERT: Correct. We

11 don't -- we carry MUSH bonds at book value throughout

12 the -- the term of the MUSH bonds. They are not

13 revalued to market value as the -- the Canadian fixed

14 income is.

15 MS. CANDACE GRAMMOND: And the MUSH

16 bonds are classified as HTM, or held to maturity?

17 MS. HEATHER REICHERT: Correct.

18 MR. REGIS GOSSELIN: Could -- could I

19 ask a few questions about that in relation to the MUSH

20 bonds? So the rate at which you buy these bonds

21 relative to say ten (10) year government of Canada

22 bonds, what's the spread between the bonds -- the bond

23 returns?

24 MS. HEATHER REICHERT: So from our

25 investment policy statement we have allocations -- max

1 -- or minimum targeted and maximum allocations for
2 each of the different categories. And MUSH -- MUSH
3 bonds, I think we have a maximum allocation in any one
4 time is 25 percent. So we manage the portfolio not to
5 have MUSH bonds exceed 25 percent of our entire
6 portfolio, because they are less liquid than the other
7 types of bonds. So that's how we -- we managed that,
8 so they'll be 25 percent within -- as we were talking
9 about yesterday, the total fixed income portfolio of
10 bonds is a maximum of 70 percent -- or a target of 70
11 percent of our total portfolio, so, yeah.
12 Did that answer your question?
13 MR. REGIS GOSSELIN: No, what I was --
14 what I --
15 MS. HEATHER REICHERT: Sorry.
16 MR. REGIS GOSSELIN: What I was trying
17 to find out was the -- the spread in interest rate
18 between a Government of Canada bond and a typical
19 municipal bond.
20 MS. HEATHER REICHERT: Okay, I'm
21 sorry. I misunderstood the -- the question. So the
22 answer to that question is 1.89 percent. And that's
23 based on the five (5) year historical average that
24 we've seen. And that's the spread -- that's the MUSH
25 spread over the forecasted Government of Canada ten

1 (10) year bond yield.
2 MR. REGIS GOSSELIN: So I'm a
3 municipality. And I'd like to borrow money to boo --
4 to build water plants. So I would issue a bond?
5 MS. HEATHER REICHERT: Actu --
6 actually, it's the -- the Provincial Government that -
7 - that issues the bond, and then provides funding to
8 the municipality or the school or the hospital. So --
9 so it is a -- a Government of Manitoba bond that is
10 issued at a -- a set rate for a set period of time.
11 MR. REGIS GOSSELIN: So the rate that
12 the municipality would pay the Provincial Government
13 for that bond would be just a flowthrough, or the --
14 would the -- the Government of Manitoba be getting a
15 premium for that?
16 MS. HEATHER REICHERT: I -- I don't
17 know the mechanics of that. I just know that what we
18 achieve from buying those is a -- a spread of -- of
19 about almost 2 percent.
20 MR. REGIS GOSSELIN: We're trying to -
21 - it's not about you, it's about the water and sewer
22 utilities that we -- that we regulate, as well. I'm
23 trying to understand what they're paying and how they
24 get the money. So I'll -- I'll ask the question to
25 the Provincial Government. Thank you for that.

1 CONTINUED BY MS. CANDACE GRAMMOND:

2 MS. CANDACE GRAMMOND: Now, in terms

3 of the composition of the Corporation's investment

4 portfolio, we heard you say yesterday that there's

5 going to be a change to the mix following on the ALM

6 study that the Corporation received.

7 If we go to the investment income

8 section of the filing and page 12 of that, we'll see a

9 breakdown of the various asset categories and the old

10 targets and the new targets. I think when we talked

11 about it yesterday -- or when you talked about it

12 yesterday, you referenced the shift from 60 percent in

13 bonds, twenty (20) in equities, and twenty (20) in

14 other to seventy (70), fifteen (15), and fifteen (15)?

15 MS. HEATHER REICHERT: That's correct.

16 MS. CANDACE GRAMMOND: We do have a

17 little bit more detail on page 12 just so that

18 everyone's aware of that. I'll just wait one (1)

19 moment while we get that pulled up.

20

21 (BRIEF PAUSE)

22

23 MS. CANDACE GRAMMOND: So we see here

24 the fixed income across the top, and then just a bit

25 of a -- a breakdown in terms of Canadian equities

1 decreasing, Canadian real estate decreasing, and
2 infrastructure decreasing while US equities remain the
3 same?
4 MS. HEATHER REICHERT: Yes, that's
5 correct.
6 MS. CANDACE GRAMMOND: Now, we asked
7 the Corporation an IR with respect to the shift from
8 its current allocation to what Aon has suggested. And
9 the answer to that is at Tab 14 of the book of
10 documents. So this gives us some information with
11 respect to the Corporation's movement from what it has
12 to what it's going to have.
13 So if we look at the answer or the
14 attachment to 1-54 at Tab 14, we see a table that
15 reflects -- thank you, Diana -- that reflects at the
16 left the actual allocation. And there is a footnote
17 that that's as at year-end February 2015, correct?
18 MS. HEATHER REICHERT: That's correct.
19 MS. CANDACE GRAMMOND: And then we see
20 in the third column, Aon's proposed allocation.
21 And then in the fourth column, the
22 forecasted allocation, which is, again, footnoted as
23 the average allocation of quarter end balances for the
24 current fiscal year?
25 MS. HEATHER REICHERT: Correct.

1 MS. CANDACE GRAMMOND: So when --
2 like, just looking at these, if we take the -- just
3 the first one as an example, the fixed income line, we
4 see that as at -- at least for the average of the
5 quarter end balances and current year, we're not quite
6 at the 70 percent yet.
7 When does the Corporation anticipate
8 that the full transition will have been completed to
9 the seventy (70), fifteen (15), and fifteen (15) that
10 Aon has proposed?
11
12 (BRIEF PAUSE)
13
14 MS. HEATHER REICHERT: So when we talk
15 about matching the assets with our liabilities, so the
16 first and most important matching is on the dollar
17 value of our assets to our liabilities. So the 70
18 percent is -- is a target per se, but first and
19 foremost is we want to match the dollar amount of our
20 assets to our equities. So that's how the -- the
21 modelling is done. So we don't continue to buy fixed
22 income bonds in -- in excess of the dollar amount that
23 we need to match to the claims liabilities. That's
24 not the -- that's not the first thing. The first
25 thing we do is match the dollar amounts.

1 So the 70 percent is a target. It was
2 calculated roughly to be representative of how much we
3 thought we would need in the portfolio in order to
4 match our liabilities and give us that flexibility as
5 the liabilities continue to grow. But in this initial
6 stages, the 67.4 percent of the total portfolio would
7 be what would have been required to match the claims
8 liabilities.
9 MS. CANDACE GRAMMOND: So do you have
10 a sense of when the Corporation will be at the seventy
11 (70), fifteen (15), fifteen (15), having made the
12 investments needed pursuant to the -- the matching
13 process that you've described?
14 MS. HEATHER REICHERT: I -- I don't
15 off the top of my head. It'll be a very fluid --
16 fluid process. So as the claims liabilities grow,
17 we'll continue to match. That -- that is how our bond
18 manager knows that they are going to be held
19 accountable.
20 MS. CANDACE GRAMMOND: Thank you. I'm
21 going to leave, then, the composition of the portfolio
22 and the -- the percentages per asset class and go to
23 investment income. We've talked about investment
24 income a little bit. And -- and, Diana, just so you
25 can get a head start, we're going to go back to Tab 10

1 of the book of documents, and the page 5, which is the
2 first page of that tab.
3 We've talked, Ms. Reichert, about
4 historically the -- the Corporation budgeting for an
5 underwriting loss to be made up by investment income
6 and how that has changed a little bit. But I think
7 you would agree that investment income continues to be
8 a critical part of the Corporation's revenue.
9 Is that fair?
10 MS. HEATHER REICHERT: Yes, it does.
11 MS. CANDACE GRAMMOND: And so we see
12 on the screen the investment income earned by the
13 Corporation as a whole for a variety of different
14 years. And at the very bottom of the table, we see
15 Basic's share for last year, the 2014/'15 year, of
16 83.3 percent.
17 MS. HEATHER REICHERT: That's correct.
18 MS. CANDACE GRAMMOND: And I will have
19 some questions about that percentage and how it's
20 changed. But I'll -- I'll come to those in a moment.
21 For now, if we focus on the actual dollars of
22 investment income, we see from the left-hand side, the
23 2010/'11 year total investment income to the
24 Corporation of just over a hundred million. And that
25 fluctuating over the ensuing years, and last year

1 2014/'15 being 226.1 million.
2 MS. HEATHER REICHERT: That's correct.
3 MS. CANDACE GRAMMOND: Basic's share
4 of that 226.1 million last year was the hundred and
5 eighty-eight (188) that we spoke of earlier?
6 MS. HEATHER REICHERT: Correct.
7 MS. CANDACE GRAMMOND: And so if we
8 look at the results for 2014/'15 and what was included
9 within that investment income, we see in the first
10 section of the table, or the top section that relates
11 to bonds, 64.6 million in income in bonds. Is that
12 correct?
13 MS. HEATHER REICHERT: Yes, that's
14 correct.
15 MS. CANDACE GRAMMOND: And the next
16 section, 36.8 million in equities?
17 MS. HEATHER REICHERT: Correct.
18 MS. CANDACE GRAMMOND: And in the
19 third section, 143.5 million in gains?
20 MS. HEATHER REICHERT: Correct.
21 MS. CANDACE GRAMMOND: And I
22 understand that these significant gains that are --
23 that were received in the last fiscal year were due to
24 the interest rates declining throughout the course of
25 that year that we spoke of earlier.

1 MS. HEATHER REICHERT: That's correct.
2 MS. CANDACE GRAMMOND: Now, if we go
3 back to the total investment income line, which is the
4 third last line on the -- on the table, we talked
5 about the left half of the page, the historical up to
6 and including 2014/'15, and then we see for 2015/'16
7 through to 2019/'20 the projections. And we've spoken
8 about the loss that's projected for the current year
9 followed by more modest investment income in the year
10 of the application and year following, and then back
11 to more significant levels thereafter.
12 And I -- I now appreciate that you
13 commented on this a little bit earlier, but this is,
14 in essence, the result of interest rate impact and the
15 duration matching that the Corporation has put in
16 place. Is that fair? And feel free to add as you
17 wish.
18 MS. HEATHER REICHERT: Sure. That --
19 that's correct. And just to reiterate -- reiterate
20 what I was trying to explain earlier, if you look at
21 the third last line that Ms. Grammond has -- has
22 focussed on, and you see the minus twelve (12) and
23 then the plus fifteen (15), plus fifteen (15), and
24 plus one twenty (120), plus one twenty-nine (129), in
25 -- in millions, and looking up to the middle of that -

1 - of those same columns where you see marketable
2 bonds, unrealized gains and losses as a negative
3 hundred and eight (108), negative seventy-four (74),
4 negative seventy-nine (79), a positive three (3), and
5 a positive almost four (4), so if we had removed those
6 -- and that's what I was trying to explain earlier.
7 If you take out the -- the impact of
8 the gains and losses on the marketable bonds that are
9 as a result of the forecasted changing interest rates,
10 and which are very closely matched to the offsetting
11 impact to claims by those same changing interest
12 rates, you would -- the net -- the net investment
13 income forecast is relatively stable throughout that
14 outlook period.
15 So if you take -- and just to do a
16 couple of the -- the columns. So if you take minus
17 twelve point nine (12.9), so say minus 13 million in
18 total that's forecasted in '15/'16 and remove the
19 minus a hundred and eight (108), that would be a
20 positive $95 million worth of income, which, as I had
21 said before, is made up of -- you can see the amounts,
22 65 million in interest income, 20 million in dividend
23 income, keep on going down that column, fifteen (15) -
24 - fifteen (15) and change in Canadian equities, et
25 cetera.

1 So the total of all of those other
2 components of our portfolio represent about 95 million
3 in investment income in '15/'16. So, yes, very
4 important that we generate that kind of income to help
5 to offset what would otherwise need to be achieved
6 through premiums.
7 If you look at '16/'17 where the total
8 forecasted investment income is 15 million, and go up
9 to see that in that year, we have seventy-four point
10 eight (74.8) and twelve point two (12.2) of marketable
11 bond gains either realized or unrealized, so that's
12 about 86 million.
13 So you -- so you impact -- sorry, you
14 take that 86 million, we would have other investment
15 income of eighty-six (86) and fifteen (15), so a
16 hundred and -- a hundred and one (101), very similar
17 to the ninety-five (95) that we forecasted for
18 '15/'16. And I could do that for the rest of the
19 years to show that in essence, there isn't a huge
20 fluctuation other than to do with the interest rates,
21 which are being totally offset by the impact to
22 claims.
23 So we are forecasting relatively
24 stable. There is some growth, obviously, in some of
25 our investment income portfolio items, but it isn't to

1 the same extent that it would appear when you just
2 look at the numbers very -- very quickly.
3 MR. REGIS GOSSELIN: But, you know,
4 the -- the issue here for our -- for me, at least, is
5 if you look at that line total at the bottom there,
6 you know, you look at the total investment income over
7 the last five (5) years, you know, the lowest it's
8 ever been is 83 million, and we're projecting losses
9 this coming year and a modest net income for the
10 following year.
11 So it suggests to me that, you know,
12 we're setting rates based on our loss that historical
13 experience -- historical experience shows that we're
14 underforecasting.
15 MS. HEATHER REICHERT: And I -- I
16 appreciate the -- the comment entirely. And we have
17 been talking about this for several years that the
18 bank forecast, and that wonderful slide that we have
19 that shows the bank forecasts, going -- or forecasting
20 increasing interest rates for the last five (5) or I'm
21 not sure how many years, when in fact, interest rates
22 were going down.
23 So when interest rates go down, this
24 investment income, because of the impact on our bonds
25 is -- is a lot higher. And so again, in our outlook

1 period, interest rates are being forecasted to
2 increase, which is negatively impacting on this
3 forecast.
4 But now the -- the important point is
5 we have an almost equal offset to what's happening in
6 the claims liabilities. In the years that -- that you
7 see here in '10/'11 and '11/'12 when we were not
8 perfectly matched, in some cases we were at a minus
9 two (2) duration. The last year we were at a minus
10 one (1). We weren't perfectly matched as it related
11 to the dollars that were invested in asset -- in bonds
12 compared to our liabilities and the interest rates
13 were going down. We were taking significant net
14 losses as a Corporation.
15 So the asset/liability matching
16 strategy very much is -- is going to help the
17 Corporation have a much more stable net income
18 forecast that we just weren't able to -- to do
19 previously when the interest rates were going down
20 like they were.
21 MR. BYRON WILLIAMS: Madam Chair, it's
22 -- way in the back, Mr. Williams here. I'm sorry,
23 mostly we've been able to hear this morning. I did
24 hear Ms. Reichert's answer. I didn't hear the -- the
25 -- Board member Gosselin's question. And I just

1 wonder, out of courtesy, so I don't have to read the
2 transcript tomorrow, if you could just repeat it?
3 And I apologize for interrupting.
4 THE CHAIRPERSON: Go ahead, Mr.
5 Gosselin.
6 MR. REGIS GOSSELIN: Okay. What --
7 what I was asking about, Mr. Williams, is the total
8 investment line at the bottom would, you know, looking
9 at the last five (5) years' results, the lowest we've
10 been -- we've achieved as an investment income is $83
11 million.
12 And if you go -- the go-forward basis
13 starting with '15/'16, we're showing a -- a net loss
14 and then we're -- we're showing modest income of about
15 15 million go-forward. So my question was: What is
16 causing -- you know, what do we do with these numbers,
17 because clearly, historical experience has been much
18 higher.
19 And -- and the answer, you heard.
20 Okay.
21 THE CHAIRPERSON: Okay. Thank you.
22 Go ahead, Ms. Grammond.
23 MS. CANDACE GRAMMOND: Thank you,
24 Madam Chair. I seem to be missing a reference in my
25 notes for the next section, so I need to find that

1 before I can proceed, so just give me a moment.
2
3 (BRIEF PAUSE)
4
5 CONTINUED BY MS. CANDACE GRAMMOND:
6 MS. CANDACE GRAMMOND: Thankfully, my
7 colleagues have helped me and I have found the
8 reference for where we are going. It is the
9 investment income section, Attachment H. And what it
10 is is a comparison of actual versus benchmark returns
11 by asset class. So I apologize for the delay, and
12 thank my colleagues for their help.
13 Just while we're getting -- sorry, I
14 said -- said, "Appendix H." It's actually Attachment
15 H. While we're getting that pulled up on the screen,
16 Ms. Reichert, every year, MPI sets an expected return
17 benchmark for, first of all, its overall fund, but
18 also each of its asset classes.
19 That's correct?
20 MS. HEATHER REICHERT: Yes, that's
21 right -- correct.
22 MS. CANDACE GRAMMOND: And then, at
23 the end of the fiscal year and perhaps at other times
24 also, but certainly at the end of the fiscal year, the
25 Corporation compares the actual results with the

1 benchmark?

2 MS. HEATHER REICHERT: Correct.

3 MS. CANDACE GRAMMOND: So what we see

4 here across the -- the top of the page, the line item,

5 "MPI total fund," we see the actual return for the

6 last fiscal year was 10.4 percent whereas the

7 benchmark was twelve point two (12.2)?

8 MS. HEATHER REICHERT: Correct.

9 MS. CANDACE GRAMMOND: And as we --

10 MS. HEATHER REICHERT: And, of course,

11 that's a weighted and combined benchmark because the

12 benchmarks are on each individual class of investment.

13 MS. CANDACE GRAMMOND: That's the

14 overall for the whole fund, and that's corporate --

15 corporate-wide?

16 MS. HEATHER REICHERT: Correct.

17 MS. CANDACE GRAMMOND: As we move

18 across to the right-hand side of the page, we see

19 previous years and the comparisons between actual

20 returns and benchmarks in each of those years. So it

21 looks like for the previous two (2) fiscal years, the

22 returns exceeded the benchmark, but in the last fiscal

23 year, it didn't quite -- didn't quite exceed benchmark

24 or it didn't quite reach the benchmark.

25 Is that fair to say?

1 MS. HEATHER REICHERT: Right. On the
2 last two (2) columns on -- or the last two (2) years
3 represented on this -- on this particular table, the
4 actual was less than what the benchmark was. That's
5 correct.
6 MS. CANDACE GRAMMOND: Right. So in -
7 - in 2011 and 2012 year ending, the benchmark was not
8 achieved. In 2013 and 2014, the benchmark was
9 exceeded?
10 MS. HEATHER REICHERT: Correct.
11 MS. CANDACE GRAMMOND: And in 2015,
12 which is the year that we'll focus on, again, the
13 benchmark was not achieved. We see that the equities
14 did not -- and in particular for the moment, the
15 Canadian equities did not achieve benchmark?
16 MS. HEATHER REICHERT: Well, again,
17 you have to look at the specifics under the Canadian
18 equities. So the large capitalization equities did
19 not --
20 MS. CANDACE GRAMMOND: Yes.
21 MS. HEATHER REICHERT: -- achieve the
22 benchmark, whereas our small to mid-cap equities, in
23 fact, exceeded quite handsomely the benchmark.
24 MS. CANDACE GRAMMOND: And why would
25 we have a negative benchmark for that category?

1 MS. HEATHER REICHERT: I can't
2 remember the specific benchmark for that particular
3 type of equity, but that would be indicating that
4 whatever that benchmark was was -- often what they do
5 is it's a certain combination of equities within a
6 particular benchmark. So that benchmark for that year
7 meant that those equities saw a decline in value.
8 Now, when the Corporation -- oh, sorry.
9 When the Corporation doesn't meet a benchmark, whether
10 it's one (1) of the specific subclasses benchmark or
11 whether it's the overall, what does the Corporation do
12 with that information? Does it review it and try to
13 make adjustments for future?
14 MS. HEATHER REICHERT: So there is a -
15 - within our investment policy statement an attached
16 operational statement where we monitor all of our
17 investment managers on behalf of the department of
18 finance. And so we're continually looking at how they
19 are doing relative to benchmark. If they are
20 consistently not meeting the benchmark, and I believe
21 it's over a -- over a six (6) month period, we'll --
22 we'll -- and just let me check the exact time frame.
23
24 (BRIEF PAUSE)
25

1 MS. HEATHER REICHERT: Sorry, I -- I
2 thought six (6) months was a little too short.
3 Because with the equities and the way that equities
4 can move quite significantly in any given period, we
5 actually are monitoring it on a four (4) year rolling
6 -- rolling performance vis-a-vis the benchmark. So
7 that we aren't reacting just when they are below
8 benchmark for a few months, because the market can
9 rebound rel -- relatively quickly. So we look at it
10 over a four (4) year rolling. We're constantly doing
11 that.
12 If we start to see that they are
13 consistently significantly below the benchmark, then
14 we have a -- a -- I'm trying to remember what the name
15 of the policy is.
16
17 (BRIEF PAUSE)
18
19 MS. HEATHER REICHERT: Okay. So it's
20 a manager monitoring termination policy. So if they
21 are consistently below based on that policy, then they
22 become on a watch list. Then they're given six (6)
23 months to a year -- they're given one (1) year to
24 improve their performance. And if they don't perf --
25 perform -- or, sorry, improve their performance, then

1 there are other steps that we take. And ultimately
2 we'll terminate a manager if they are not achieving --
3 achieving the objectives that we have established.
4 And it -- and it has occurred.
5 MS. CANDACE GRAMMOND: Thank you.
6 MR. REGIS GOSSELIN: Have you ever --
7 have you ever contemplated moving away from investment
8 managers to just buying a bundle of ETFs and managing
9 those on your own?
10 MS. HEATHER REICHERT: Well, we do
11 have some ETFs, but our investment in the US equities
12 is done through ETFs. So it's a passive investment
13 strategy that we use. Typically the returns on -- on
14 the -- the passive, or the value added that that
15 passive investment manager can bring to the
16 organization, is not as great as it is for those that
17 we have active investment managers managing on our
18 behalf. So we have a diverse portfolio for that very
19 reason, so that we can achieve a higher overall return
20 by the diversification that we have.
21 So it -- from -- from our review of our
22 investment policy and our allocation to the different
23 types of -- of assets classes that we have, we're
24 quite comfortable that having a part in passively
25 managed ETFs is fine. But to do that for our entire

1 equity portfolio we think would -- would hurt our
2 overall returns and the value that -- that we could
3 get from our investments.
4
5 (BRIEF PAUSE)
6
7 MS. CANDACE GRAMMOND: Diana, I'm
8 going to ask you to go to the --
9 MR. REGIS GOSSELIN: I'm sorry, I just
10 -- I just --
11 MS. CANDACE GRAMMOND: -- estimate --
12 MR. REGIS GOSSELIN: -- want to
13 challenge that a little bit. Because if I'm looking
14 at -- you know, I'm looking at the results here. You
15 know, one (1) was below the benchmark, '02 was be --
16 '12 was below the benchmark. You were a little bit
17 higher in the '13, higher on the '14, and we're back
18 down below the benchmark. Thirty (30) -- three (3)
19 years of below the benchmark.
20 So I guess the question is: we're
21 paying big -- you know, pa -- you're paying big money
22 for investment managers that are generally performing
23 below the benchmark. So, you know, without -- without
24 dissecting all that I -- I just -- I'm just wondering
25 out loud here whether you might be better off in a --

1 and, you know, maybe this is not the right venue.
2 Maybe it's something for you to think about.
3 But at some point -- and I -- you know,
4 looking at the -- if we look over ten (10) years I'd
5 be interested to see what -- what the performance of
6 your investment managers has been relative to the
7 benchmark. And -- so maybe it's not for today, but at
8 some point we should take a look at that seriously,
9 and -- and ask -- collectively ask ourselves, Are we
10 getting value from these investment managers.
11 MS. HEATHER REICHERT: Thank you for
12 that. Just to -- to make a comment. When we did the
13 asset liability management strategy study, one of the
14 things that was looked at was: What is the optimal
15 composition of our entire investment portfolio on a
16 risk reward basis?
17 So we're comfortable that we have
18 mitigated the risk while having the optimal potential
19 of adding value to our investment portfolio. So it's
20 -- it's a balance. It's a combination. I understand
21 your -- your comment, but we're quite comfortable that
22 based on the -- the information and the studies that
23 we've done that we've -- we've struck what we feel to
24 be a good balance between the risk and the reward.
25 MR. REGIS GOSSELIN: Yeah. I'm not

1 sure we're talk -- we're -- we seem to be talking
2 apples and oranges. I'm not challenging the asset
3 location. I'm simply saying, You've got -- portfolios
4 are being managed by -- by investment companies, and
5 on the face of it looking at this data I'm -- I'm just
6 challenging to -- you to -- to -- I guess wondering
7 whether or not you'd be better off just buying ETFs
8 and getting the same -- you know, getting a benchmark
9 performance and not having to pay investment managers
10 who may not be giving you the kind of yields you
11 should be get -- expecting for the money you're
12 paying.
13 MS. HEATHER REICHERT: No, I -- I
14 appreciate that. And that is part of what we do look
15 at within the equity classification its -- itself. So
16 it -- equities are a long -- they're a long-term hold,
17 right, and so there will be occasions -- and -- and I
18 appreciate, yes, we do pay fees to have it actively
19 managed, but there are occasions even in this five (5)
20 year period that you look -- that you look at where
21 the returns on the actively managed portfolios have
22 far exceeded what we would have achieved on the
23 passively managed ETFs.
24 So it is an overall -- it's -- so it's
25 a long-term view, and -- and it is something that we

1 are continually looking at risk and reward, and
2 diversification within that.
3
4 (BRIEF PAUSE)
5
6 MS. CANDACE GRAMMOND: Diana, if you
7 can pull up page 29 of the investment income section
8 in Volume II, I would appreciate it.
9
10 (BRIEF PAUSE)
11
12 CONTINUED BY MS. CANDACE GRAMMOND:
13 MS. CANDACE GRAMMOND: Oh, sorry.
14 Page 29. If I didn't say that I thought I did. Maybe
15 I just didn't say it loudly enough, I apologize. So
16 if we just scroll down a little bit to see the chart
17 there? That's perfect. Thank you.
18 This chart relates to the total return
19 assumptions for Canadian equities. Are you with me?
20 MS. HEATHER REICHERT: I'm with you.
21 MS. CANDACE GRAMMOND: And we see for
22 the 2016 GRA, this is at the bottom of the table, the
23 return assumption is 7.4 percent up just slightly from
24 last year. That's correct?
25 MS. HEATHER REICHERT: Yes, that's

1 correct.

2 MS. CANDACE GRAMMOND: And these

3 return assumptions are based on a long-term average as

4 reflected there at the -- the title to the column?

5 MS. HEATHER REICHERT: Okay.

6

7 (BRIEF PAUSE)

8

9 MS. HEATHER REICHERT: Sorry.

10 MS. CANDACE GRAMMOND: That's okay.

11 It's based on a long-term average as indicated?

12 MS. HEATHER REICHERT: Yeah. The --

13 the first column there shows how we used to forecast

14 our equity returns, and then the -- the second column

15 is showing what we are currently using as the basis

16 for that forecast. So I guess it was a historical --

17 historical average, or -- or whatever, on -- in that

18 first column, but -- but we're just showing what it

19 would have been if we continued to use the method that

20 had been used in 2009 and forward.

21 We changed that. It was a -- in a

22 Board order. The Board directed that for our equity

23 forecast that we should be using the fifth percentile

24 twenty (20) year annualized return on the S&P/TSX

25 index. So that's -- that's what we've been using

1 since 2013.

2 MS. CANDACE GRAMMOND: And as I

3 understand it, those return assumptions include two

4 (2) components. One (1) is dividend yield and one (1)

5 is capital return.

6 Is that right?

7 MS. HEATHER REICHERT: That's correct.

8 MS. CANDACE GRAMMOND: I'm not going

9 to go into a lot of detail about that, but I am going

10 to ask you to go forward, Diana, in this same

11 document, to page 36, which deals with the same

12 component, but US equities instead of Canadian.

13 Are you with me, Ms. Reichert?

14 MS. HEATHER REICHERT: Yes, I am.

15 MS. CANDACE GRAMMOND: Now, I

16 understand that the return assumption for US equities,

17 and this is indicated on the last line of section 6.5,

18 is the same percentage as is used for Canadian, that

19 7.4 percent?

20 MS. HEATHER REICHERT: Correct.

21 MS. CANDACE GRAMMOND: And I

22 understand that the Corporation's US equities are

23 managed passively, as you've mentioned. And as I

24 understand it, and -- and correct me if I'm wrong,

25 typically there are no realized gains within the US

1 equities until they are sold to rebalance.
2 Is that correct?
3 MS. HEATHER REICHERT: Yes, that --
4 typically, yes. I'll answer that.
5 MS. CANDACE GRAMMOND: And the shift
6 to passive management was made a few years ago, I
7 believe?
8 MS. HEATHER REICHERT: I think it was
9 two (2) years ago.
10 MS. CANDACE GRAMMOND: And we -- we
11 asked the Corporation a question in the First Round of
12 IRs. And we -- we can go there, but we may not need
13 to. It's PUB/MPI-1-46(a), and we -- we asked about
14 the US return assumption being projected or set based
15 on US historical information, and that -- that it
16 would be seven point seven (7.7) instead of seven
17 point four (7.4).
18 Can you tell us whether the Corporation
19 has a position with respect to making that change?
20 MS. HEATHER REICHERT: From my
21 perspective, seven point seven (7.7) versus seven
22 point four (7.4) is not a very significant difference.
23 As you can see from the comparison on that table that
24 we had before, I think that was page 29, the way that
25 we used to forecast equities gave a lower return.

1 Since we changed it, we have been using -- it -- it's
2 been a considerably higher -- higher amount that we're
3 using to forecast the -- the equities.
4 That's a long-term view. As you can
5 see, some years will be less than that. Right now,
6 we're having a difficult time in equities. Other
7 years might be well in excess of that, but we have to
8 do a forecast that looks at what we think might happen
9 in the longer-term.
10 I am personally nervous that a 7.4
11 percent year-over-year-over-year is a -- attainable
12 for equities, but that is the -- the method that we've
13 been using. So to use that for the US equities, I'm
14 comfortable, especially if you were to use historical
15 US equities and it's in and around and very close to
16 the same. So it isn't something that we have looked
17 at in a great amount of detail, but we are continually
18 looking at how we are forecasting our different
19 returns on our different investment portfolios to
20 ensure that they continue to be something that we're
21 comfortable with.
22 This one, because the Board has
23 supported and approved and, in fact, elected to use
24 this particular method, that's what we're using, and -
25 - and we are carrying that through onto the US equity

1 as well.

2

3 (BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: I appreciate

6 your comments. Would you agree though that, at least

7 in principle, using US information for the US equities

8 would be more accurate?

9 MS. HEATHER REICHERT: In principle,

10 yes. And when we do look at that comparison and it's

11 as close as it is to what we're using for Canadian,

12 then I'm comfortable continuing to use the Canadian

13 forecast.

14 MS. CANDACE GRAMMOND: Thank you.

15 Madam Chair, I have a couple of more sections on

16 investments. I -- I don't think it'll take me very

17 long, but I know that it is noon, so if you want to

18 break for lunch now, I can finish off with investments

19 when we come back, and then I'll be moving into some

20 actuarial matters thereafter.

21 THE CHAIRPERSON: I think people are

22 ready to break. I think with the noise, it's got a

23 little more difficult to hear everything. So yes,

24 please, we'll take our lunch and we'll return at 1:15.

25 Thank you.

1 --- Upon recessing at 12:02 p.m.
2 --- Upon resuming at 1:16 p.m.
3
4 THE CHAIRPERSON: Okay. I hope you
5 enjoyed your lunch. We're going to begin our hearings
6 for this afternoon. And just before Ms. Grammond
7 continues with her cross-examination I have two (2)
8 questions from the panel and we're going to begin with
9 Ms. Proven. She has a question for the MPI panel.
10 MS. SUSAN PROVEN: Just so that you
11 know that we never stop thinking about MPI, even in
12 our lunch hours we're talking about it. So I was just
13 wondering about the vandalism coverage that was talked
14 about yesterday and how it was decided that it would
15 be applied to only those who buy down and use
16 Extension coverages of two hundred (200) and three
17 hundred (300) deductable.
18 Which I'm just wondering why, or who
19 made the decision that it would be in that category
20 and not generally available to every policy holder,
21 because I'm thinking that pretty well all of us could
22 be subject to vandalism, although, it's less likely to
23 happen to me where I live than it is in the inner city
24 where my girlfriend lives. It seems to be quite
25 common there.

1 So why was the decision made to target
2 only the -- the -- or maybe it wasn't your decision,
3 maybe it was made by somebody else. Can you respond
4 to that, please?
5
6 (BRIEF PAUSE)
7
8 MR. DAN GUIMOND: Just in one (1)
9 second. Thank you.
10
11 (BRIEF PAUSE)
12
13 MR. DAN GUIMOND: The Corporation made
14 a -- a recommendation to the Government of Manitoba
15 and it's the Government of Manitoba who makes the
16 ultimate decisions in terms of coverage to regulation,
17 accepted the -- the recommendation and modified the --
18 the regulation to be able to -- to change the coverage
19 on our Extension line of lines.
20 MS. SUSAN PROVEN: Okay.
21 MR. DAN GUIMOND: That's how the --
22 the decision was -- how it went through, the process.
23 MS. SUSAN PROVEN: Okay. Thank you.
24 MR. REGIS GOSSELIN: Yeah, I'm not
25 sure that's the question that was asked though. The

1 question that was asked is why wasn't that coverage
2 available to everyone, not just -- and not just the
3 ones with the higher deduct -- the lower deductable?
4 MR. DAN GUIMOND: When we look at
5 vandalism -- sorry.
6
7 (BRIEF PAUSE)
8
9 MR. DAN GUIMOND: Vandalism consists
10 of about ten thousand (10,000) claims per year. And
11 for a severity of approximately thirteen hundred
12 dollars ($1,3000). So Basic is a -- a compulsory
13 product and we try and keep that product -- the price
14 of that product as low as possible. And we try not to
15 force people buying insurance that they may not need.
16 So this particular situation arose out
17 of a particular section of the city that -- that was
18 asking for help. And so we talk with the city
19 councillor who sent us a -- some information and asked
20 if we could do something to help. So when we looked
21 at all the information we came to the conclusion that
22 vandalism is a police enforcement issue. It's not
23 necessarily a -- an insurance issue.
24 So then we -- we work with the -- the
25 police and the justice system and we saw that the

1 frequency of claims for that particular area dropped
2 from seventy-seven (77) to seven (7). I think I might
3 have put that in the record at standing committee.
4 And once that was done then we looked at, Well, what
5 are the expectations of our customers and -- and what
6 do they consider to be fair, what's reasonable.
7 And so the whole idea of choice was
8 important. And we saw in our -- in our Extension line
9 that that's where the customers, they -- they like
10 choice, but they want to use our -- our competitive
11 lines to tailor the Basic policy in terms of what
12 their needs are and buy maybe extra things that they
13 need or don't need. So when you look at a two hundred
14 (200) and one hundred dollar ($100) deductable you're
15 going to see that over the time based on customer
16 expectations that we've changed some of the limits on
17 those products. Like, for example, glass or wildlife
18 collision. And now vandalism. We align those
19 expectations.
20 But again it's about -- we felt that in
21 terms of meeting our customer expectation it was about
22 choice, not having to buy it. And that's why we also
23 didn't modify the three hundred dollar ($300)
24 deductable because you can see that the three hundred
25 (300) -- that all the covers are three hundred dollar

1 ($300) deductible.

2 So -- so it's all about choices, and

3 what we -- we the Corporation felt that what the

4 public would accept. And also by doing it this way,

5 it's -- it's a way of -- of aligning in terms of

6 customer expectations, just like wildlife or glass,

7 and so on, and then you can decide to buy it or not to

8 buy it.

9 So the key driving factor of the

10 Corporation was customer choice and expectations based

11 on how we've been involving those lines of business,

12 and not to force people to buy things that -- that

13 they may not need, like from a -- from a -- the intent

14 of Basic, which is to ensure that people are -- are

15 not -- don't find themselves in the street so to speak

16 because of an automobile accident.

17 MR. REGIS GOSSELIN: None of my

18 business, but why is it so low? Like three dollars

19 ($3) is -- seems to be incredibly low for that kind of

20 coverage. If -- if an incident cost you thirteen

21 hundred dollars ($1,300), it means you would have to

22 have -- you'd have to have four hundred (400) cars --

23 four hundred (400) vehicles to cover off the one loss.

24 MR. DAN GUIMOND: Yeah. Well, the --

25 the idea -- again in terms of choice and

1 affordability, even for -- you know, that's very
2 important in terms of our extension lines, and that's
3 why on the one hundred (100) and two hundred dollar
4 ($200) you -- everybody -- there's about -- we have
5 about 85 percent market penetration on -- on that. So
6 because of everybody that buys it you're contributing
7 to the pool, and it -- it pays -- it pays for the
8 claims, right.
9 And that's why didn't want to have a
10 solution for River Heights. We wanted to have a
11 solution that would align with our customer
12 expectations based on how we've evolved those
13 particular products, like I said like with -- with
14 wildlife or -- or glass and so on.
15 And then it also -- you'll see that it
16 corresponds to the data we provided to you with our
17 value equation, the regression and analysis that I
18 put, in terms of fairness. Like when you do things.
19 Like how a customer expects you to behave. So you're
20 going to -- if -- if you look at that data you'll see
21 the concept of fairness.
22 So if we would have done something just
23 for River Heart -- Heights, that wouldn't have worked.
24 If -- if we align it to their expectation in terms of
25 particular covers where people felt it's not fair to

1 be paying for that, like -- like a rock on your
2 windshield or -- or wildlife with a domestic -- a
3 collision with a domestic animal, or things of that
4 nature, then we align that based on the expectations
5 of our customers.
6 MR. REGIS GOSSELIN: Yeah. My
7 question is -- I think it's probably best directed to
8 Ms. Reichert. And -- and it has to do with the -- I'm
9 looking, for example, at the -- the second quarter
10 financial statements, page 1. And it is the graph
11 that compares the rates being paid for a vehicle -- a
12 similar vehicle across the country.
13 And it's showing, for example, a
14 comparison between the rates paid in Winnipeg versus
15 the rates paid in Regina very specifically. And then
16 if you go to the Application itself, the overview on
17 page -- on page 15 of the overview, there's another
18 graph...
19
20 (BRIEF PAUSE)
21
22 MR. REGIS GOSSELIN: I'm sorry, it's
23 page 14. So -- so when you look at the comparison in
24 premiums for that vehicle in Regina versus Mani --
25 versus Winnipeg, so we're seeing the Manitoba rates

1 creeping up much more quickly than the rates in
2 Regina. So, I mean, that's the comparison. So -- so,
3 for example, when we first started out this comparison
4 Winnipeg was paying eleven twenty (1,120) and Regina
5 was paying a thousand seventy-nine (1,079). Now we're
6 at fourteen hundred and fourteen (1,414) in Winnipeg
7 and they're at twelve hundred (1,200) in Winni -- in
8 Regina.
9
10 (BRIEF PAUSE)
11
12 MS. HEATHER REICHERT: What you're
13 referencing, the -- those are three (3) different
14 scenarios of -- so if you look at the -- the legend on
15 the side there, the green -- the green is a thirty-
16 five (35) year-old couple, both claims and conviction
17 free. That's not representative -- like, they're all
18 the same year. I'm not sure if -- the way I heard
19 your question, it sounded like you -- you thought that
20 eleven twenty (1,120) was three (3) years ago and
21 eleven sixty-five (1,165).
22 MR. REGIS GOSSELIN: Okay.
23 MS. HEATHER REICHERT: It -- it's two
24 (2) -- or, pardon me, three (3) different scenarios of
25 -- of an insured group, if you will.

1 MR. REGIS GOSSELIN: Okay. I get it
2 now. But I'm hearkening back to previous years now,
3 where clearly there was -- there's been a growing
4 spread in the difference in cost between Regina and
5 Winnipeg for the same vehicle.
6 MS. HEATHER REICHERT: Okay. So the--
7 MR. REGIS GOSSELIN: So -- so, for
8 example, if we were to take the twenty-one (21) year-
9 old male, or say -- let's use something more -- more
10 neutral. A forty-nine (49) -- a forty (40) year-old
11 couple in -- in Winnipeg versus a forty (40) year-old
12 couple in Regina. It seems to me that when we first
13 started doing this com -- when I first started looking
14 at these comparisons we were, you know, Winnipeg might
15 have even be a bit lower than Regina. And it seems
16 now the opposite is happening, where Winnipeg is
17 becoming more expensive than Regina.
18 So I'm trying to relate that to the
19 graph that is showing up in the overview, which seems
20 to suggest that rates in Manitoba are not increasing
21 as rapidly as the rates in Regin -- in Saskatchewan.
22 So I'm trying to -- I'm trying to reconcile those two
23 (2).
24 MR. LUKE JOHNSTON: It's -- it's
25 definitely -- as you're aware the -- the graphic in

1 the -- in the second quarter report is -- is really
2 just three (3) profiles, like, three (3) examples. So
3 it doesn't necessarily equate to the overall average,
4 which would be consistent with the overview section.
5 But you would think directionally you would -- it --
6 it would move that way.
7 Saskatchewan is the most similar to us,
8 but we'd really have to have a better understanding of
9 -- of how they rate. There are definitely some
10 differences between our rating system and theirs, and
11 some coverage differences, too. So I wouldn't want to
12 speculate on the -- on the reasons, but they've also
13 had issues with deficient premiums.
14 You know, like, for -- we've talked
15 about motorcycles here sometimes, or motorcycles
16 being, like, a hundred percent rate increase in
17 Saskatchewan and they wouldn't put it through, right?
18 So it's very hard to do apples to apples. But the
19 reason we -- we point often to this Stats Canada
20 report is because, of course, it has nothing to do
21 with -- we didn't create it, right? Somebody else put
22 it together. Yeah.
23
24 (BRIEF PAUSE)
25

1 MR. DAN GUIMOND: I -- I'm not sure if
2 you're aware that SGI doesn't have to go in front of
3 the regulator every year. So the timing of the
4 increases also has a big impact in terms when you do
5 it year over year. It's -- so depending on when the
6 increases kick in, that makes a difference too.
7
8 (BRIEF PAUSE)
9
10 THE CHAIRPERSON: Okay. Thank you
11 very much. Now we'll go back to Ms. Grammond with her
12 cross-examination.
13 MS. CANDACE GRAMMOND: Thank you,
14 Madam Chair. Yeah. Go ahead.
15 MR. LUKE JOHNSTON: I can't remember
16 exactly when this was asked, but I believe a Board
17 member asked how many short-term motorcycle policies
18 were there in a year. So, Mr. Houghton, yeah. So I'm
19 told that over the last four (4) years about seventy-
20 five hundred (7,500) a year customers buying these
21 short-term policies. And I -- I initially was -- I
22 thought that was a very large number. Because there
23 was about fifteen thousand (15,000), sixteen thousand
24 (16,000) policies or units.
25 So I'm -- I -- I did ask about it and

there are a lot of people that will just come for the weekend, or -- or they're on vacation that week, or whatever it is. And they -- you know, they ride their sport bike for the weekend. And then they don't use it, you know, for the next month, so. So we'll look into that a bit more in terms of how it affects the rating of motorcycles and whether we think that makes sense.

For all other vehicles there's about fifty (50) to sixty thousand (60,000) one (1) to five (5) day permits per year. So it's not like motorcycles are the only one, but proportionately, that's a pretty large number, yeah.

MS. SUSAN PROVEN: The other thing that I did think about as I'm riding along last night was the difference in terms of the value of these bikes. And I think he was talking about a Harley Davidson, right? And we know that's a whole different category of bike than all these little scooters that I see people riding to work on.

So I'm wondering if, you know, there's a big differential between what people have to pay for the little scooter that gets them to work every day versus the big bike that they take out on the highway for a massive trip somewhere. I'd be interested in

1 that.

2 MR. LUKE JOHNSTON: That's actually,

3 yeah, a very common question that -- so I'll -- I'll

4 go meet with the CMMG at their -- at their meetings.

5 So someone will say, Well, my -- my motorcycles worth,

6 like, seven hundred dollars ($700) and you're charging

7 me, like, twelve hundred dollars ($1,200) to insure

8 it, and it really has very little to do with the value

9 of the bike, so -- so the connection is sometimes

10 made.

11 Mopeds aren't very expensive. Moped

12 rates are low. Well, it's -- it's really mopeds don't

13 drive over 50 kilometres. They don't go out on the

14 highway and get in big accidents. They don't -- so

15 their -- their PIPP claims are less, or less severe,

16 typically, whereas the bikes that -- like, the sport

17 bikes have the high speed. And when there's high

18 speeds there's injuries.

19 The -- the value of the bike definitely

20 plays a bit of a role in the rate. Like, a more

21 expensive bike will -- does have a higher rate, but

22 the -- the majority of it, the 85 percent, is PIPP.

23 So, yeah, it is a -- people often associate insurance

24 with the value of their vehicle. And, fortunately,

25 most people don't have to experience PIPP, right, but

1 when they do, they're glad it's there, obviously.
2
3 CONTINUED BY MS. CANDACE GRAMMOND:
4 MS. CANDACE GRAMMOND: I'm going to
5 finish on the investment-related questions. But
6 before I go back to that, I do have one (1) followup
7 question from one (1) of the earlier exchanges that
8 you and I had, Ms. Reichert, relating to interest
9 rates and the impact of different interest rate
10 changes upon results.
11 So I'm going to ask you to go to Tab 11
12 of the book of documents. This is PUB/MPI-1-5, and
13 it's the (b) attachment. So it's the second last page
14 at Tab 11.
15
16 (BRIEF PAUSE)
17
18 MS. CANDACE GRAMMOND: So we did look
19 at this before, but I just want to start with this,
20 and then take you to the next. Just scroll down a
21 bit, Diana, if you could. So when we're looking at
22 the net income line, thi -- and for context, this is a
23 comparison between 38 million, which was last year's
24 GRA forecast for outcome in '14/'15 compared with an
25 $82.4 million projected loss. That was the projection

1 as at Pre-Ask 5 from last year. And then the actual
2 result was the 2.4 million income, right?
3 So we talked about the $85 million
4 swing from -- from the Pre-Ask to the actual and --
5 and so forth. So here's my first question: The Pre-
6 Ask 5 which reflected the 82.5 projected no -- net
7 loss was a comparison between the GRA as filed, and
8 then an eighty-one (81) basis point shift.
9 Do you recall that? Or feel free to --
10 to look it up.
11 MS. HEATHER REICHERT: Yes, I recall
12 that -- I think that was what we had talked about
13 before, was the eighty-one (81) basis points reflected
14 in the last column of the previous page.
15 MS. CANDACE GRAMMOND: That's right.
16 So -- so just -- so if we can -- can note those
17 details just for a moment. Eighty-one (81) basis
18 point shift gave rise to, in essence, a $44 million
19 impact. So that's between the $38 million loss and
20 the $82.4 million loss, okay? So eighty-one (81)
21 basis points, 44 million.
22 Are -- are we -- are you with me so
23 far?
24 MS. HEATHER REICHERT: Yes. Continue.
25 THE CHAIRPERSON: Okay. So here's --

1 here's my next question. We looked earlier at tab 12
2 of the book of documents. So, Diana, if we can go
3 back to tab 12, this is PUB/MPI-2-6. And I'm looking
4 at page 2 of that tab. This is the table that has the
5 -- just scroll down a little bit if you could.
6 Right. That's the table with the pure
7 int -- interest rate impact and we talked about this
8 earlier as well?
9 MS. HEATHER REICHERT: Correct.
10 MS. CANDACE GRAMMOND: Now, here's my
11 question: So a moment ago we talked about the eighty-
12 one (81) basis point shift which gave rise to a forty-
13 eight (48) -- or a $44 million impact. We now are
14 looking at a hundred and thirteen (113) basis point
15 shift in the right-hand column that gives rise to an
16 $84 million impact on the bond portfolio and a net
17 overall impact of 38 million.
18 Can you explain why those two (2)
19 scenarios are not -- do not seem comparable in
20 relative terms?
21 MS. HEATHER REICHERT: Okay. So what
22 impacts -- or sorry, the change in interest rates from
23 the beginning of the period to the end of the period
24 is what impacts the value of the bonds and the value
25 of the liabilities. The eighty-one (81) basis points

1 that we just referenced from the interest rate table
2 that's under tab 11 of eighty-one (81) basis points is
3 one (1) quarter compared to another quarter.
4 So what you have to look at is what --
5 what was the assumed overall change in interest rates
6 from the beginning of the forecasted period to the end
7 of the forecasted period in March, which again, I
8 apologize, because this was the discussion we had
9 previously that the table didn't show what the ending
10 February 2014 interest rate was and I believe I
11 communicated that that was 2.43 percent.
12 So when you look at the March 2014
13 standard you're going from February 2014 -- sorry,
14 February 2014 rate of 2.43 percent up to 3.14 percent
15 at the end of February 2015. So that is fifty-seven
16 (57) and fourteen (14), so that's a seventy-one (71)
17 basis point change that was forecasted in last year's
18 GRA.
19 When you update that for October 2014
20 you still have the same starting point of two point
21 four three (2.43), but now it's going to two point
22 three nine (2.39), which is the -- a change of seven
23 (7) or four (4) or whatever that -- that was, I think,
24 if I've got that right. So the change in interest
25 rates from seventy (70) -- what did I just say the

1 number was? Seventy (70) something basis points to
2 four (4) basis points, that's the -- the change that
3 we're talking about, not just looking at one (1)
4 quarter within that period, which was a change of
5 eighty-one (81) basis points.
6 If that -- I don't know, that might be
7 more confusing than it's worth, but.
8 MS. CANDACE GRAMMOND: I think I
9 understand what -- what you're saying and -- and maybe
10 my question wasn't particularly clear. And if that
11 was the case I apologize. We're just trying to get a
12 sense of why in one (1) scenario an eighty-one (81)
13 basis point change gives rise to a $44 million impact,
14 but in the scenario that's on the screen we're talking
15 about a more significant shift in basis points. This
16 is a hundred and thirteen (113) basis points, yet the
17 in -- the impact on the bond portfolio is double,
18 roughly, the -- the amount from the first example.
19 That -- that's the question.
20 MS. HEATHER REICHERT: First, it's not
21 going to be exactly linear, so -- so eighty-one (81)
22 to one thirteen (113), it's not going to be exactly
23 linear. And -- and again, this is what would have
24 been actually -- in -- in a 1.13 percent change in
25 interest a hundred and thirteen (113) basis point

1 change in interest rates, this is reflect --
2 reflecting what the actual net impact to our net
3 income was, not a change between one (1) scenario and
4 another scenario.
5 And that change of eighty-one (81)
6 basis points between one (1) scenario and the other
7 scenario that you're referencing was only a change in
8 one (1) quarter of that and doesn't reflect what the
9 change was from what we forecasted to occur during one
10 year to what we then updated the forecast to occur
11 during that same year.
12 So I don't believe that we -- still
13 we're not comparing apples to oranges in the numbers
14 that -- that are being quoted.
15 MS. CANDACE GRAMMOND: Thank you.
16 Okay. We're going to go back to investment income,
17 and I'll give you the reference, Diana, in a moment.
18 We looked earlier at Tab 10 of the book of documents,
19 and we'll -- we don't necessarily need to go back
20 there.
21 We -- we had noted, Ms. Reichert, that
22 Basic's share of investment income in 2014/'15 was
23 83.3 percent. You'll recall that?
24 MS. HEATHER REICHERT: Yes, that
25 sounds right.

1 MS. CANDACE GRAMMOND: And that was --
2 thank you, Diana -- that was somewhat less than the
3 allocation that Basic has had in the last couple of
4 years. We see 83.2 percent in 2010/'11, and then we
5 see an increase to 85 or 86 percent for the next three
6 (3) years, and then dipping down to eighty-three point
7 three (83.3) and forecasted to stay in that range.
8 Can you comment upon the decrease in
9 the allocation to Basic?
10 MS. HEATHER REICHERT: Yes, I can. If
11 -- Diana, if you could go to page 48 of the investment
12 section in Volume II?
13
14 (BRIEF PAUSE)
15
16 MS. HEATHER REICHERT: So this
17 particular page within the -- within the Application
18 shows the calculation of the 83.3 percent that is
19 being used throughout the forecast period. So how the
20 allocation is determined is -- is as laid out here.
21 What direct liabilities and equities
22 can be attributed to each of either Basic or directly
23 to the other lines. So we go through the -- the
24 liabilities and the equities, and determine which are
25 directly -- so unearned premiums. We know exactly

1 what unearned premiums are associated with the Basic
2 line of business.
3 As we do unpaid claims. We know which
4 are directly attributed to the Basic line of business.
5 So we go through and attribute all of the direct
6 liabilities and direct assets to the various lines of
7 business. And then you can see there's a very small
8 amount that's allocated to a line of business just in
9 order to make it equate to the -- the total of the
10 direct assets. So that's -- that's a really small
11 amount.
12 So then the -- that -- that total of
13 the -- of the assets and liabilities I guess kind of
14 combined as a -- as a proportion of the total assets
15 and liabilities is how the 83.3 percent was
16 calculated. So that is -- is how we forecast it based
17 on what we know as at that point in time at the end of
18 February 2015 when we're doing the forecast moving
19 forward.
20 For the -- at the end of the year when
21 all of our known information has been determined, then
22 based on actual assets and liabilities relative to the
23 lines of business, then that -- the same calculation
24 is updated based on the actual results. And then
25 that's how the investment income is allocated to

1 Basic, and then to the other lines.
2 So the difference between the eighty-
3 five (85) and the eighty-three (83) would represent
4 the actual assets and liabilities. So it could have
5 been -- again, it could have been something to do with
6 how good or bad a -- a winter we had, how much claims
7 liabilities increased or didn't increase compared to
8 what had been used at the end of the previous year.
9 So it's updated to reflect the actual
10 allocation, and it's based on what you see in front of
11 you here. So I don't have the specifics to say, Oh,
12 well, it was because the lia -- like, in front of me,
13 I don't have it. You know, because the liabilities
14 were, in fact, larger in those years than -- than what
15 had been forecasted to be this year. I -- I don't
16 have that -- that detail, but that's the -- the
17 essence behind why that will change from year to year.
18 MS. CANDACE GRAMMOND: Thank you. I'm
19 going to ask, Diana, that we go to attachment G to the
20 investment income section of the filing, which I
21 believe is the last attachment at that section. And
22 if you can go to page 3 of attachment G? We see the
23 totals of the unrealized gains within the Corporation.
24 This is as at February 28th of 2015,
25 Ms. Reichert?

1 MS. HEATHER REICHERT: Yes, I believe
2 so. Yes.
3 MS. CANDACE GRAMMOND: And I
4 appreciate what's up on the screen is a -- is just the
5 third page, but we see the total -- the very last line
6 says, "Total MPI."
7 And at the far right, we see 105.6
8 million in unrealized gains?
9 MS. HEATHER REICHERT: That's correct.
10 MS. CANDACE GRAMMOND: And that's
11 comprised of immediately above fifty-three point six
12 (53.6) in US equities. And then second line from the
13 top, 51.9 million in Canadian equities?
14 MS. HEATHER REICHERT: Yes, that's
15 correct.
16 MS. CANDACE GRAMMOND: And I believe -
17 - and if you want to consult the second quarter
18 report, you're certainly welcome to. I have the page
19 reference.
20 But at -- as at the end of the second
21 quarter, I believe the unrealized gains in the
22 Corporation were 62.7 million? That's page 16.
23
24 (BRIEF PAUSE)
25

1 MS. HEATHER REICHERT: Yes.
2 MS. CANDACE GRAMMOND: And can you
3 tell us whether the Corporation has realized any of
4 these gains?
5 MS. HEATHER REICHERT: Based on how
6 they are shown on the quarterly financial statement,
7 they have not been realized as at August 31st. I
8 can't tell you if there's been anything since then. I
9 -- I don't have that. If they -- if there had been
10 any realized in the first six (6) months of the year,
11 you would see that reflected in the accumulated other
12 comprehensive income schedule, which is on the bottom
13 of page 9 of the quarterly report.
14 MS. CANDACE GRAMMOND: Yes. And
15 Diana's just going to go there.
16 MS. HEATHER REICHERT: So from this --
17 this table for the -- well, let's look at the six (6)
18 months ended August 31st, 2015.
19 MS. CANDACE GRAMMOND: Yes.
20 MS. HEATHER REICHERT: You will see
21 that there's a reclassification of net realized gains
22 related to -- to equities of $4 million. So that
23 means that in the first six (6) months, we realized 4
24 million of actual gains in -- in equities for the six
25 (6) months ended twenty (20) -- August 31st, 2015.

1 MS. CANDACE GRAMMOND: Now, we asked a
2 -- a question of the Corporation in PUB/MPI-1-56.
3 And, Diana, if you wish to -- to pull up PUB/MPI-1-56,
4 that would be fine. That IR references when gains are
5 realized, in what circumstances gains are typically
6 realized. I believe there are four (4) of those
7 circumstances referenced, and I'll just list those
8 while the -- the document's going to be brought up.
9 One (1) is when the portfolio requires rebalancing.
10 You're familiar with that?
11 MS. HEATHER REICHERT: Yes, I am.
12 MS. CANDACE GRAMMOND: Another is when
13 changes to the investment strategy are implemented?
14 MS. HEATHER REICHERT: That's correct.
15 MS. CANDACE GRAMMOND: Another is when
16 equity managers are terminated?
17 MS. HEATHER REICHERT: Correct.
18 MS. CANDACE GRAMMOND: And another is
19 when investment managers take the action to realize a
20 gain?
21 MS. HEATHER REICHERT: Correct.
22 MS. CANDACE GRAMMOND: Okay. Now, I
23 understand that, pursuant to the Corporation's
24 investment policy statement, the Corporation may
25 request a realization of gains subject to the ratio of

1 market value to book value exceeding 105 percent. And
2 I believe we've had evidence in the past that -- or,
3 yeah, as reflected here at item B that that hasn't
4 been done since 2007?
5 MS. HEATHER REICHERT: Correct.
6 MS. CANDACE GRAMMOND: Now, you
7 testified yesterday and today that the full effect of
8 the duration matching has been implemented as of
9 August 31st, 2015. With that change, does the
10 Corporation anticipate that rebalancings will occur
11 more frequently?
12 MS. HEATHER REICHERT: I -- I don't
13 know that we would expect that it would recur more
14 frequently. I guess that is possible if we had to
15 increase our fixed income bonds more than whatever net
16 cash we received in a particular period, but -- but I
17 -- I can't say if it's going to happen more or less
18 frequently.
19 A lot depends on what actually happens
20 in the markets and -- and how various classification
21 or asset sectors are valued relative to the total
22 portfolio whether or not we were in the rebalancing
23 situation.
24 We have to be over -- over or under a
25 target by -- for six (6) months before we're going to

1 actually take action to -- to rebalance the portfolio.
2 It is not something that you want to be doing on a
3 monthly or even a quarterly basis.
4 MS. CANDACE GRAMMOND: And does the
5 Corporation model rebalancing within its investment
6 income forecasts that are prepared?
7 MS. HEATHER REICHERT: Yes, we do.
8 MS. CANDACE GRAMMOND: So when we look
9 at the forecast for investment income -- and -- and
10 this is Tab 10 of the book of documents, page 5. We
11 had this document up earlier today. It's the one that
12 provides the -- both the historical and projected
13 investment income returns.
14 When we're looking at the forecast
15 there for the equities, does that assume some turnover
16 within the portfolio to meet rebalancing needs?
17 MS. HEATHER REICHERT: Yes, it -- it
18 would, in particular, if you look at the US equities
19 realized gains. So being a passively managed
20 portfolio, it being not actively managed, so there's
21 not active sales of that, you can see that there are,
22 in fact, some realized gains in the outlook period.
23 MS. CANDACE GRAMMOND: Ms. Reichert,
24 I'm just going to ask you to pause for one (1) sec.
25 MS. HEATHER REICHERT: Oh, sorry.

1 MS. CANDACE GRAMMOND: Diana, can we
2 go to the page before, page 5, instead of page 6?
3 MS. HEATHER REICHERT: Sorry.
4 MS. CANDACE GRAMMOND: No, that's
5 okay. I just -- it's just better if --
6 MS. HEATHER REICHERT: Yeah.
7 MS. CANDACE GRAMMOND: -- we have it
8 in front of us.
9 MS. HEATHER REICHERT: So about the
10 middle of that page, if you look at, "US equities
11 realized gains," and look across that, you'll see
12 there are some small gains being forecasted,
13 approximately 3 million for the '15/'16, '16/'17, et
14 cetera.
15 So when -- when we rebalance and that
16 impacts the US equities position, that's when gains
17 would be realized. So there is rebalancing that is
18 occurring in -- in the forecast periods.
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: Thank you, Ms.
23 Reichert. I'm going to move away, then, from the
24 investment issues and start on some actuarial-related
25 questions. So, Ms. Reichert, you can rest for a bit,

1 and we'll make Mr. Johnston do some work.

2 MS. HEATHER REICHERT: Are you sure

3 you don't want me to take a stab at the actuarial

4 questions?

5 MS. CANDACE GRAMMOND: Well --

6 MS. HEATHER REICHERT: Never mind,

7 never mind.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE GRAMMOND: Sorry. Slight

12 change in my next request. Madam Chair, can we have

13 about a three (3) minute break just so that the

14 advisors can chat for a moment before we move forward?

15 THE CHAIRPERSON: Yes, you may.

16 MS. CANDACE GRAMMOND: Thank you.

17

18 --- Upon recessing at 1:56 p.m.

19 --- Upon resuming at 2:00 p.m.

20

21 THE CHAIRPERSON: Okay. We're ready

22 to resume.

23 MS. CANDACE GRAMMOND: Thank you,

24 Madam Chair.

25

1 CONTINUED BY MS. CANDACE GRAMMOND:
2 MS. GRAMMOND: So, Mr. Johnston, I'm
3 going to start with some questions regarding the
4 target capital rate-setting methodology. First of
5 all, I would ask that you confirm that MPI is
6 proposing that the lower limit of the target capital
7 range be estimated based on the DCAT, which the
8 Corporation prepares internally?
9 MR. LUKE JOHNSTON: Correct.
10 MS. CANDACE GRAMMOND: And based on
11 the current DCAT as filed, MPI proposes a lower limit
12 of that target capital range of 231 million in total
13 equity.
14 MR. LUKE JOHNSTON: Correct.
15 MS. CANDACE GRAMMOND: And that's an
16 increase of the two hundred and thirteen (213)
17 proposed previously.
18 MR. LUKE JOHNSTON: That's right.
19 MS. CANDACE GRAMMOND: Can...
20
21 (BRIEF PAUSE)
22
23 MS. CANDACE GRAMMOND: And just to
24 clarify, Mr. Johnston, the 213 million that was
25 proposed was proposed last year, and as well this year

1 in the earlier verison of the DCAT?
2 MR. LUKE JOHNSTON: Correct. It was
3 two twelve (212) this year before we amended it, but
4 whatever. Close -- close enough for capital purposes,
5 yeah.
6 MS. CANDACE GRAMMOND: And it was two
7 thirteen (213) last year?
8 MR. LUKE JOHNSTON: That's right.
9 MS. CANDACE GRAMMOND: Now, can you
10 also confirm that the lower limit of the target
11 capital range is being expressed in terms of -- sorry.
12 Can you confirm that the lower limit of the target
13 capital range expressed in terms of the RSR balance
14 instead of total equity is not being proposed this
15 year as was done last year?
16 MR. LUKE JOHNSTON: That's correct.
17 And --and the reason for doing that is last year, it
18 wasn't clear to me that we were going in a particular
19 route. Like, we had an RSR base target. We were
20 recommending total equity, but we hadn't heard from
21 the Board their -- their thoughts on -- on retained
22 earnings or total equity.
23 So what I heard, at least, during the
24 last -- there was order -- and collaborative process
25 was that total equity was at least substantially

1 agreed upon, and that's what we are -- make our
2 recommendation on.
3
4 (BRIEF PAUSE)
5
6 MS. CANDACE GRAMMOND: Thank you.
7 Diana, I'll ask you to pull up Tab 16 of the Board's
8 book of documents. It's PUB/MPI-3-3. And just the
9 beginning part of the response to that IR. Thank you.
10 So the Corporation has stated in the
11 response at 'A' that without the ALM program, the
12 proposed lower limit of the target capital range would
13 have been 242 million of total equity.
14 That right?
15 MR. LUKE JOHNSTON: That's correct.
16 MS. CANDACE GRAMMOND: And that's
17 about $11 million more than what's being requested at
18 this time?
19 MR. LUKE JOHNSTON: That's true, but I
20 do notice that this scenario hasn't been updated for
21 the amended version that we provided in, I believe it
22 was PUB-3-1. So we'd have to rerun the two (2) year
23 scenario without the ALM and restate this impact. We
24 can do that if -- if you want to make that an
25 undertaking.

1 MS. CANDACE GRAMMOND: We'll take that
2 undertaking. Thank you.
3 MR. LUKE JOHNSTON: Thanks.
4
5
6 --- UNDERTAKING NO. 4: Regarding the lower limit
7 of target capital range,
8 MPI will update amendment
9 PUB-3-1 by re-running a
10 two-year scenario without
11 ALM and restate impact
12
13 CONTINUED BY MS. CANDACE GRAMMOND:
14 MS. CANDACE GRAMMOND: Now, Mr.
15 Johnston, with respect to the upper limit, can you
16 confirm that MPI is proposing a -- a target capital
17 range of 366 million of total equity?
18 MR. LUKE JOHNSTON: Confirmed.
19 MS. CANDACE GRAMMOND: And that's
20 based on the minimum capital test, or MCT ratio of 100
21 percent?
22 MR. LUKE JOHNSTON: That's right.
23 MS. CANDACE GRAMMOND: And the three
24 sixty-six (366) that's being require -- or requested
25 this year is increased from 323 million proposed last

1 year?

2 MR. LUKE JOHNSTON: Correct.

3 MS. CANDACE GRAMMOND: And to what

4 does the Corporation attribute this increase of 43

5 million in the proposed upper range -- or upper limit

6 of the target range?

7 MS. HEATHER REICHERT: I can take that

8 question. So last year, when -- when we filed the

9 MCT, there had been -- there had been one (1) area, I

10 think that there had been a question about what we

11 were using for a particular -- a particular line on

12 the -- on the MCT. But what was not picked up by

13 ourselves or any of the Intervenors was that we had

14 actually neglected to, on the summary form, include

15 interest rate risk.

16 So it's a particular line item in the -

17 - in the calculation of the MCT that was missed from

18 last year. Had we properly included that, the

19 restated MCT for last year would have been, instead of

20 three hundred and twenty-three (323), which I think

21 became actually amended at some point to three twenty-

22 five (325), so instead of being the three twenty-three

23 (323), it would have been three hundred and fifty-

24 eight (358) rounded.

25 So last year's MCT should have been

1 three fifty-eight (358). That's compared to this
2 year's MCT of three sixty-six (366). So a very slight
3 increase of 8 million, and that is just reflective of
4 the components that go into the MCT calculation, which
5 is increasing liabilities and that -- those -- those
6 types of things.
7 So it's -- it's an understandable and
8 reasonable increase year-over-year in the MCT of about
9 8 million, in fact.
10 MS. CANDACE GRAMMOND: So it has
11 nothing to do with the Corporation's risks changing
12 since last year?
13 MS. HEATHER REICHERT: There would be
14 pluses and minuses. So there would be some, I -- I
15 expect, some -- some items that would have gone down
16 because of the -- the risk having decreased, but
17 others going up, so the net impact was 8 million.
18
19 (BRIEF PAUSE)
20
21 MS. CANDACE GRAMMOND: Thank you.
22 Diana, I'm going to ask you to pull up the DCAT
23 report, the most recent one filed.
24
25 (BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: And we'll go
2 specifically to page 5, which I think you've got the
3 top of page 5 there. We'll just scroll up a bit.
4
5 (BRIEF PAUSE)
6
7 MS. CANDACE GRAMMOND: Okay. Mr.
8 Johnston, looking at that first narrative paragraph
9 that's just at the top of the screen we see that the
10 Corporation is stating:
11 "As described in detail in Section 4
12 we've restated the base forecast to
13 more accurately reflect the
14 forecasted changes to future premium
15 deficiencies and deferred policy
16 acquisition cost write downs."
17 Are you with me?
18 MR. LUKE JOHNSTON: Yes.
19 MS. CANDACE GRAMMOND: Can you explain
20 the interplay between premium deficiencies and
21 deferred policy acquisition expense or cost write
22 downs, and what those accounting treatments represent?
23 MR. LUKE JOHNSTON: Sure. In the --
24 when we do the actuarial review of claims we also look
25 at our premium liabilities. And we have to ensure

1 that the -- the outstanding premiums are sufficient to
2 cover the actual claims associated with those
3 premiums. So if we set rates on a certain basis, say
4 on higher interest rates, and the interest rates end
5 up being really low or the collision forecast ends up
6 being significantly higher than we thought, it might
7 be that the premiums we're collecting are not
8 sufficient to even cover the costs of the claims and
9 expenses.
10 So if that's the case, you may have a -
11 - a premium deficiency. And you have to note -- the
12 actuary will have to note that in the report. And we
13 -- in recent years we have had that issue. We've had,
14 I believe, premium deficiencies as large as 20
15 million. And that was largely because interest rates
16 did fall way lower than we expected and the dis -- the
17 present value of those costs relative to the premiums
18 we collected was -- were high. And we also had the
19 issue with the rising collision severity and the --
20 all that kind of stuff was unexpected.
21 So that's kind of the -- the high level
22 explanation. In terms of our forecasting, what we've
23 always done on -- in the forecast is basically assume
24 that there'd be no change in the premium deficiency
25 through time. And usually we don't have one (1). And

1 we're always setting break even rates that kind of
2 makes -- make sense. For our current situation, where
3 we do have a premium def -- deficiency and the Board
4 has just approved a 3.4 percent rate increase in the
5 DCAT here, what I'm saying is that there's a material
6 change that we're expecting to the premium deficiency
7 DPAC because of that, and it needs to be included.
8 So we talked about this last year, and
9 we very much wanted to put this in our -- in our base
10 model. But the -- the calculations are -- are very
11 complex and it's hard to do this on a dynamic basis.
12 Our intent is to get this as part of our regular model
13 next year.
14 One (1) of the other reasons that we
15 don't include it in the GRA forecast is that we
16 wouldn't want to have a recovery in deficient premiums
17 influence the rate indication in the -- in the rating
18 year. So, for example, if -- if your premiums were
19 $20 million deficient -- $20 million deficient and the
20 Board said, you know, We agree and you need a rate
21 increase, and they restored the rates to the
22 sufficient level. If the premium deficiency were to
23 go away and have 20 million positive net income in the
24 next rating year we wouldn't want you to say, Oh, you
25 know, like, you need a rate decrease, right? Like,

1 that wouldn't make any sense.

2 So at a minimum we need to keep that

3 line out of the net income so we're showing break even

4 for those policies, not a recovery of def -- you know,

5 deficient rates from -- from previous years. That's -

6 - that's kind of why we've left it out of -- out of

7 the base forecast.

8 But all I'm doing here is noting that

9 this is a material impact, and as the actuary running

10 the DCAT I need to revise the base scenario to reflect

11 that reality that -- that we -- going to -- going to

12 expect a recovery in this amount if the base forecast

13 materializes.

14 MS. CANDACE GRAMMOND: So let's talk a

15 little bit then about the dollar impact. Diana, if

16 you can just scroll up a little bit, so we can see the

17 bottom -- sorry, the other way. Yeah. There we go.

18 Just so we can see both tables of numbers. We've got

19 the top table, Mr. Johnston, that reflects the

20 original base, and then the bottom table reflecting

21 the restated base.

22 Can you comment upon the financial

23 impact that flows from the restatement?

24 MR. LUKE JOHNSTON: Yes, the -- the

25 majority of the recovery occurs in '15/'16 where we do

1 get the 3.4 percent rate increase to Basic. And
2 thereafter, there's some up and downs, hovering around
3 zero. And that -- that's considered normal for Basic
4 because we are breakeven. We're always right on that
5 cusp of a premium deficiency or -- or not because we
6 have no profits to -- as a buffer.
7 But, yeah, that vast majority of that
8 is recovered in the '15/'16.
9
10 (BRIEF PAUSE)
11
12 MR. LUKE JOHNSTON: One (1) -- maybe
13 I'll add to that while we're talking about it. This
14 will be assessed in Oc -- October 31st review. So
15 again, as an example, if interest rates are -- are way
16 lower than we expected and -- when we set the rates,
17 it might not be true that this recovery occurs.
18 But this, of course, is going on the
19 expectation of what was in the -- in the -- the GRA
20 base forecast interest rate scenario.
21 MS. CANDACE GRAMMOND: So let me ask
22 you this. If next year this restatement is going to
23 be provided again within the GRA forecast, how is it
24 going to be isolated from the original?
25 MR. LUKE JOHNSTON: Yeah, our plan is

1 to -- underneath the net income line to include this
2 adjustment as a listed item, and then have kind of a
3 sum total net income which would flow at least into
4 the retained earnings total equity statements, and
5 you'd see all the impact.
6 MS. CANDACE GRAMMOND: So would the
7 breakeven projections that the Corporation provides
8 for year of application and following year be assessed
9 before the restated scenario?
10 MR. LUKE JOHNSTON: Yes, that would be
11 our intent, again, for the reasons, like, you wouldn't
12 want recovery of deficient premiums in -- in a
13 previous year to impact this year's rate setting
14 process.
15
16 (BRIEF PAUSE)
17
18 MS. CANDACE GRAMMOND: Okay, just
19 before we leave page 5 of the DCAT here we'll note in
20 the restated base scenario table, the second table, we
21 see the third line item down, which is call, "Net
22 income restated." And looking across we see for
23 current year a net income of 43 million, for the year
24 of the application a net loss of 11 million, for the
25 following year a net income of 17 million, and so on.

1 You're with me? Okay, so just --
2 MR. LUKE JOHNSTON: Yes.
3 MS. CANDACE GRAMMOND: -- noting that,
4 and in particular, noting the net result for year of
5 application, that $11 million loss. I want to now go
6 to another page within the DCAT report and just be
7 able to compare what we're going to look at to what
8 we've just seen.
9 So, Diana, can you go to page 55 of
10 this same report?
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: Diana, can you
15 just go down a little bit farther so we can see?
16 Perfect.
17
18 (BRIEF PAUSE)
19
20 MS. GRAMMOND: Mr. Johnston, the --
21 the first complete table up on the screen represents,
22 as I understand it, the interest rate decline scenario
23 with management action but excluding the impact of the
24 ALM study?
25 MR. LUKE JOHNSTON: Yes. The one (1)

1 on the -- the screen, the first, the -- the table at
2 the top of the screen right now, yes, yeah.
3 MS. GRAMMOND: Yeah. The first
4 complete table, that's what that is?
5 MR. LUKE JOHNSTON: Yeah. Sorry, I
6 was looking at the -- the page but, yes, the one you
7 have on the screen.
8 MS. GRAMMOND: Yeah. So interest rate
9 decline scenario with management action but excluding
10 ALM. And what we see for the year of the application
11 at the net income line, which is fourth line from the
12 bottom, is a negative impact of 105 million?
13 MR. LUKE JOHNSTON: Correct.
14 MS. GRAMMOND: So that's a $94 million
15 decline from the $11 million negative impact that we
16 saw in the base, the revised base scenario that we
17 looked at a moment ago?
18 MR. LUKE JOHNSTON: That's right.
19 MS. GRAMMOND: So that was a $94
20 million swing and then if we look at the bottom table
21 on the screen, this is now same interest rate decline
22 scenario with and without ALM. So we see, first of
23 all, that that's the whole table but if we look at the
24 third line from the bottom where it say "Net Income
25 Including ALM", so including the -- the impact of ALM,

1 we've now got for the same year a negative impact of
2 79 million.
3 MR. LUKE JOHNSTON: Correct.
4 MS. GRAMMOND: And offsetting again
5 that from the 11 million from the original revised
6 base scenario, that's -- that negative impact
7 standalone would be 68 million?
8 MR. LUKE JOHNSTON: That's right.
9 MS. GRAMMOND: So if we compare from
10 the first table the one o five (105) less the eleven
11 (11), which was ninety-four (94), to the seventy-nine
12 (79) less the eleven (11), which is sixty-eight (68),
13 it's actually an improvement of 26 million with ALM?
14 MR. LUKE JOHNSTON: Correct.
15
16 (BRIEF PAUSE)
17
18 MS. GRAMMOND: Fifty-five, please.
19 It's page 55 of the DCAT that we're looking at.
20 Now if we put those numbers in a
21 percentage, I believe we would come out with the
22 following: We've got a $26 million improvement if we
23 consider that as against the $94 million swing that we
24 referred to in the first table. We have a reduction
25 by about 28 percent by applying the ALM to these

1 numbers.

2 MR. LUKE JOHNSTON: The percentage

3 sounds reasonable. I'll accept that. And again, not

4 all of it but a good portion of it has to do with the

5 ALM being on a corporate basis. So we're still going

6 to have impacts to Basic when interest rates change

7 but it should be less as it's showing.

8 MS. GRAMMOND: But -- and I understand

9 that point but leaving that aside for the moment, if

10 the impact of ALM is roughly 28 percent, that's the

11 twenty-six (26) into ninety-four (94), doesn't that

12 leave about 72 percent of the change that's not

13 immunized by ALM?

14 MR. LUKE JOHNSTON: Yes, that's the

15 math and even the -- you'll note the scenario with ALM

16 still had the negative impact you referenced here, 79

17 million.

18 We could, as we've done in other

19 places, we have shown that on a corporate basis the

20 matching is very close but on Basic it's still --

21 there still will be differences. So I don't have a

22 breakdown of every component of that impact. I would

23 assume the vast majority of it, of course, is just the

24 difference between the impact on -- on claims and on

25 market values, but there may be some -- there may be

1 other impacts as well.

2

3 (BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: So, Mr.

6 Johnston, we -- we just want to make sure that we

7 understand the -- the whole of the Corporation's

8 evidence on this. When we had evidence from Ms.

9 Reichert earlier today there were comments to the

10 effect that most of the interest rate risk was

11 addressed by ALM.

12 Based on what you're saying in this

13 context it would appear that that certainly is the

14 case for Corporate, but with respect to Basic there's

15 still some ground to cover in terms of immunization?

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: I can't remember

20 your exact characterization of -- of this, but it --

21 it is true that if you look at it on a Corporate basis

22 we're matching the claims liabilities to the -- to the

23 assets. As we just noted when -- when Ms. Reichert

24 was talking about investments, only 83 percent of the

25 investment impacts are allocated to Basic. The -- the

1 vast majority, if not almost all of claims impacts are
2 for Basic. The other lines don't have interest rate
3 sensitive liabilities. So there is still a slight
4 disconnect there.
5 But again, we've -- we've lowered it.
6 I'm not sure -- I'm -- I'm struggling a little bit
7 with this percentage reduction idea, but I -- I get
8 your point. It -- there is still mismatch in Basic,
9 just to a less -- a lessor extent.
10 MS. CANDACE GRAMMOND: And -- and I
11 don't think we're disputing that -- that the mismatch
12 is lessened in Basic, but we're trying to get an idea
13 of the magnitude, right, because it's been very clear
14 over the last couple of days that in the past interest
15 rate risk has been -- has had a huge impact upon the
16 Corporation's bottom line, right.
17 So the Board needs to be very clear on
18 what improvement and the extent of any improvement of
19 applying ALM and the duration matching that's been
20 spoken about.
21
22 (BRIEF PAUSE)
23
24 MR. LUKE JOHNSTON: No, I -- I
25 understand your point. The interest rate decline

1 scenario itself is a -- is a good -- if -- if Basic
2 was perfectly matched on dollars -- on -- on Basic
3 claims dollars and Basic fixed income assets then
4 there would be likely hardly any impact, right. So I
5 can't remember the exact interest rates in this
6 scenario, but likely we're talking about interest
7 rates that fall to a very low level and stay there.
8 So what you're seeing here is the
9 existing ALM with the line of business allocations
10 that exist and what type of impacts at the current
11 time you'd expect to see if -- if such a scenario
12 occurred.
13 MS. CANDACE GRAMMOND: And I -- I
14 think we're on the same page, Mr. Johnston. I know
15 you said a minute ago, you know, you're not 100
16 percent sure about these percentages that we're
17 suggesting and I'm happy to go through it again,
18 because I appreciate that it's a little bit
19 complicated.
20 However, it does appear that on the
21 basis of these numbers and within this scenario, Basic
22 is mismatched to the extent of approximately 75
23 percent. If -- if the ALM improves the matching by
24 roughly 26 percent -- or 28 percent, even if we say,
25 you know, one-quarter (1/4) to one-third (1/3), that

still leaves a whole lot exposed, doesn't it?

MR. LUKE JOHNSTON: I'm not -- I -- I'm not sure I would use the percentages that you're talking about. But there is still exposure. I won't -- I -- I agree with that. And -- and as -- as you can see from -- from the net income, including ALM line, there -- there's impacts relative to base forecast if interest rates decline. And that is, again, largely from a non-perfect match within Basic. But overall, a good match on -- on a corporate basis.

MS. CANDACE GRAMMOND: And -- and I appreciate that you may not prefer the approach of using percentages, but on the math that's presented here, those percentages are what they are.

Is that not fair to say?

MR. LUKE JOHNSTON: Between these two (2) scenarios, yes. The -- that's the -- that roughly 28 percent decrease that you spoke of. Yeah. Is that fair?

MS. CANDACE GRAMMOND: Thank you.

MR. LUKE JOHNSTON: Yeah.

MS. CANDACE GRAMMOND: Thank you.

(BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: I -- the --
2 that's fine, Mr. Johnston. I -- I think we agree that
3 pursuant to these scenarios, interest rate risk for
4 Basic has not been completely eliminated.
5 MR. LUKE JOHNSTON: Correct.
6 MS. CANDACE GRAMMOND: I'm going to
7 go, then, to some questions about the minimum capital
8 test. And Diana, I'm going to ask you to go to page
9 10 of the DCAT report that we're looking at.
10
11 (BRIEF PAUSE)
12
13 MS. CANDACE GRAMMOND: In paragraph
14 numbered 1, that's roughly in the middle of the
15 screen, we see the Corporation stated in bold font
16 that -- that it will:
17 "Use the currently available MCT
18 guideline, i.e. the 2014 MCT
19 guideline as of the year-end date of
20 the DCAT report."
21 That's right?
22 MR. LUKE JOHNSTON: That's right.
23 MS. CANDACE GRAMMOND: Can you tell us
24 what was the effective date of this 2014 MCT guideline
25 that's been referenced?

1 MR. LUKE JOHNSTON: I'll -- I'll take
2 that as an undertaking, or just -- I don't know if it
3 has to be an undertaking, but I'll -- I'll get back to
4 you on that.
5 MS. CANDACE GRAMMOND: For the
6 purposes of tracking, it would probably be good if we
7 did call it as an undertaking. So that's advise of
8 the effective date of the 2014 MCT guideline
9 referenced on page 10 of the DCAT report.
10 MR. LUKE JOHNSTON: Yes. Thanks.
11
12 --- UNDERTAKING NO. 5: MPI to advise of the
13 effective date of the 2014
14 MCT guideline referenced
15 on page 10 of the DCAT
16 report. They will also
17 explain why the January
18 2015 guideline was not
19 utilized for the DCAT
20 period ending February 28,
21 2015
22
23 CONTINUED BY MS. CANDACE GRAMMOND:
24 MS. CANDACE GRAMMOND: That's just for
25 the court reporter's reference.

1 And the -- can -- can you comment on
2 whether the -- the phrase '2014 MCT guideline', is --
3 is that a -- a label that comes from OSFI, the Office
4 of Superintendent of Financial Institutions? Or is
5 that a -- a label that you're using just for drafting
6 purposes?
7 MR. LUKE JOHNSTON: Yeah, I -- I
8 believe it's just a label, like, an -- a internal
9 label. I am going, basically, from what internal
10 staff and -- and finance are telling me they're able
11 to do, an -- an update at a given year-end. So I'll
12 get you the effective date of that guideline, and
13 maybe along with that undertaking, just a -- we -- we
14 talked about -- about this a bit last year, about why
15 using a -- a future guideline is problematic for us.
16 So I can -- I can expand on that, too.
17
18 (BRIEF PAUSE)
19
20 MS. CANDACE GRAMMOND: Can you comment
21 now on why it's problematic to...?
22 MR. LUKE JOHNSTON: I -- I can't. I
23 just recall asking what they were able to do, and they
24 said that they could not do that, so I'll -- I'll get
25 back to you on that, yeah.

1 MS. CANDACE GRAMMOND: Thank you. Can
2 you confirm that what's referenced as the 2014 MCT
3 guideline is the one that's used in the current DCAT
4 through the five (5) year forecast period?
5 MR. LUKE JOHNSTON: Yes, however the
6 MCT was constructed at year-end is the -- is the same
7 guideline as used throughout the model. So the model
8 doesn't contemplate the future version of the
9 guideline, it just updates to what we have today and -
10 - and flows that through.
11 MS. CANDACE GRAMMOND: Now, I
12 understand that there is a current OSFI MCT guideline
13 that became effective on January 1st of this year.
14 Are you aware of that?
15 MR. LUKE JOHNSTON: Yes, I'm aware
16 there's a -- a more current guideline, yes.
17 MS. CANDACE GRAMMOND: And what is the
18 year-end date of the current DCAT?
19 MR. LUKE JOHNSTON: Feb. 28, 2015.
20 MS. CANDACE GRAMMOND: So can you
21 comment...?
22
23 (BRIEF PAUSE)
24
25 MS. CANDACE GRAMMOND: So we're trying

1 to understand, given the Corporation's statement that
2 it will use the currently available MCT guideline, why
3 the January 15 guideline wasn't utilized for the DCAT
4 for the period ending February 28th, 2015?
5 MR. LUKE JOHNSTON: Yeah, no, that's a
6 fair question. And I'll -- I'll answer that with that
7 undertaking.
8
9 (BRIEF PAUSE)
10
11 MS. CANDACE GRAMMOND: Can you tell us
12 whether MPI is working with the current MCT guideline,
13 that is the one effective Jan -- January 1st, 2015,
14 whether basically MPI is doing any work with that
15 guideline at this point, or is it utilizing what's
16 referred to as the 2014 guideline?
17 MR. LUKE JOHNSTON: My -- I don't
18 believe internally, we're -- we're working with any
19 guideline right now. Typically, we'll go through the
20 forecasting process. The year-end will come. And
21 then once the finance area's completed regular year-
22 end, they'll work on compiling the -- the MCT results.
23 So I -- I don't believe they're working
24 on anything right now.
25 MS. CANDACE GRAMMOND: Okay. And --

1 and maybe my question was badly phrased. But has MPI
2 taken any steps to understand the impact of the
3 current guideline, the January 1st, 2015, guideline,
4 upon the calculated MCT ratio?
5 MR. LUKE JOHNSTON: Not in any
6 extensive detail.
7 MS. CANDACE GRAMMOND: Does MPI intend
8 to do so?
9 MR. LUKE JOHNSTON: Well, when we
10 update our MCT at this year-end, we'll do a similar
11 reconciliation of the impacts. And if -- of course,
12 if there's bigger changes that -- that affect the --
13 the figure, we'll -- we'll note those in the analysis.
14 MS. CANDACE GRAMMOND: And file with
15 the Board?
16 MR. LUKE JOHNSTON: Correct.
17 MS. CANDACE GRAMMOND: Now, is the
18 Corporation aware of the draft OSFI MCT guideline
19 that's scheduled to become effective in the new year,
20 January 1st, 2016?
21 MR. LUKE JOHNSTON: Again, aware, but
22 not analyzed in any great detail.
23 MS. CANDACE GRAMMOND: So you can't
24 tell us about any of the potential implications of
25 that guideline at this point?

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: No, we can't. And

4 just recognizing that it -- it's still in -- in draft

5 format.

6 MS. CANDACE GRAMMOND: And once that

7 guideline becomes effective January 1st of 2016, will

8 the statement by the Corporation that we referred to

9 at item 1 continue to hold? Will the Corporation use

10 what will then be the currently available MCT

11 guideline for the DCAT?

12 MR. LUKE JOHNSTON: Yeah, our -- well,

13 our intent is to use the effective guideline at the

14 time of -- of the year-end. That's -- that's the

15 intent, yeah.

16 MS. CANDACE GRAMMOND: So if the

17 guideline becomes effective January 1st, and the year

18 ends February 28th, then it should always be the --

19 the newest guideline?

20 MS. HEATHER REICHERT: Subject to

21 whatever needs to occur in order to be able to

22 implement, or reflect, and interpret the guideline

23 that's effective at that time.

24

25 (BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: Now, when the
2 Corporation proposes the use of MCT as the basis to
3 set the upper limit of the target capital range, does
4 it intend to use -- or to mean that it's going to use
5 a particular version of the MCT as defined by a
6 particular OSFI guideline, or is the intention more
7 fluid, just that it will automatically change as
8 changes to the MCT come down the pipe?
9 MR. LUKE JOHNSTON: My -- my
10 expectation is we'd always continue to update to the -
11 - to the latest effective MCT.
12 MS. CANDACE GRAMMOND: Does the
13 Corporation agree that as MCT is changed by -- changed
14 by OSFI, any target capital limit based upon the new
15 MCT will need to be revisited to determine if the
16 limit needs to be changed in responses to changes to
17 the MCT?
18
19 (BRIEF PAUSE)
20
21 MR. LUKE JOHNSTON: Yeah, I don't -- I
22 don't expect that the -- the MCT will somehow become
23 invalid for us to use, or that a hundred percent would
24 no longer be appropriate. Like, the -- I very much
25 expect the MCT will be constantly revised and be made

1 appropriate by the -- the people that maintain that
2 test.
3 But of course, we're -- I -- you know,
4 if we're going to have this as our capital target, it
5 would be very much my expectation that we would
6 outline the changes with the Board every year, similar
7 to what Ms. Reichert did. There wasn't significant
8 changes there, but -- but of course, if -- whatever
9 changes occur, we'd outline that, and share that with
10 the Board.
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: And just
15 recognizing that the Corporation is asking that the
16 Board implement the MCT at a hundred percent for the
17 upper limit and -- and is looking for that order over
18 the next couple of months, we need to ensure that we
19 understand how this may go thereafter, right?
20 So let me ask it this way: If -- let -
21 - let's assume for -- for the purposes of this
22 question that the Board says, Okay we'll implement MCT
23 at a hundred percent for the upper limit, and then in
24 January of 2016 or January 2017, or whenever, some
25 change comes from OSFI and pursuant to that change,

1 the Corporation recalibrates and now it's 90 percent
2 and not a hundred, would that not change the upper
3 limit of the target capital range?
4 We're -- we're trying to get our head
5 around how something like that might unfold in the
6 Corporation's view.
7
8 (BRIEF PAUSE)
9
10 MR. LUKE JOHNSTON: Again I -- I don't
11 -- of course, I don't know everything that's going to
12 happen in -- in the future with the MCT. But again,
13 there's a 100 percent capital requirement. I don't
14 know what drastic thing would change that would make
15 us move from that recommendation and -- and pick 85
16 percent. But, of course, we'll take those changes as
17 they happen, and -- and assess -- and assess them.
18 And again, similar to the -- the DCAT
19 lower limit itself, the -- the Corporation still
20 intends to be very collaborative on this piece. So if
21 there's -- if there's something that we can do to give
22 the Board more confidence in this -- the use of this
23 target, by all means, like, I'm obviously happy to
24 have conversations with the -- Mr. Pelly and Ms.
25 Sherry or whoever else wants to be involved in that to

1 make sure we're doing what we need -- need to -- to --
2 free to have confidence in that -- in that number.
3
4 (BRIEF PAUSE)
5
6 MS. CANDACE GRAMMOND: I'm -- I'm
7 going to ask one (1) more question on this, just to --
8 to see if we can find some common ground. As I
9 understand it, the Corporation is coming to the Board
10 and saying, We want to use the MCT, which is
11 administered by OSFI, right? But we want to use this
12 test that exists out there.
13 Under our calculations, a hundred
14 percent is the ratio at which our upper limits should
15 be set. If the test changes, the Corporation redoes
16 its calculations and now the output is 90 percent.
17 Wouldn't that change the Corporation's
18 position?
19 MR. LUKE JOHNSTON: I guess my
20 confusion is what calculations are you referring to?
21 Like, if I calculate the MCT, I'll -- it'll show what
22 100 percent MCT is -- is equal to. So I -- I'm -- I'm
23 -- I guess I'm just unclear what -- what you mean when
24 you say, Do the calculations and get 90 percent.
25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: I'm -- I'm
4 referring to the calculation of the Basic MCT ratio,
5 and if, due to changes in the MCT itself, that
6 calculation leads to a different result?
7 MR. LUKE JOHNSTON: Again, maybe --
8 maybe I'm just misunderstanding, but we can talk this
9 through. Our intent is so the -- the guideline
10 changes. We'll update it, figure out what 100 percent
11 MCT is, let's say next year it's three seventy-two
12 (372), and we'll bring that number to the Board and
13 say, This is 100 percent MCT as of this particular
14 year end. Here's what changed. And that we would
15 keep doing that every year going forward.
16 MS. CANDACE GRAMMOND: So in -- in
17 your -- in the scenario that you just used as an
18 example, the ratio is always a hundred percent?
19 MR. LUKE JOHNSTON: Yes, that's our
20 intention, yeah.
21 MS. CANDACE GRAMMOND: Mr. Guimond,
22 you look like you want to say something.
23 MR. DAN GUIMOND: I -- I just wanted
24 to ask a clarification about the question, because I -
25 - back and forth -- so the Corporation right now as

1 based on what it knows, it -- it wants to use 100
2 percent MCT, right? And today, it yields a certain
3 number that makes the Corporation feel comfortable in
4 terms of their range.
5 So is your question theoretically is
6 based on changes to how MCT is calculated that
7 theoretically, maybe the Corporation, instead of being
8 satisfied at 100 percent might be satisfied at 80
9 percent or 90 percent, what happens?
10 Is that your question?
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: I -- I think
15 the short answer is yes. I think -- I think the
16 perspective certainly of the Board advisors is that
17 the Corporation is asking the Board to accept the MCT
18 as the -- the measuring stick at a hundred percent,
19 but the MCT is a -- an animal that's administered by
20 OSFI.
21 So if OSFI makes a change, MPI reruns
22 its numbers and now that dollar output is different.
23 Maybe the hundred percent is no longer a hundred
24 percent. Maybe it's eighty (80) or ninety (90). So
25 before the Board accepts this proposal, if that's what

1 it's going to do, we need to understand how the future
2 may go and how those kinds of changes may be dealt
3 with.
4 MR. DAN GUIMOND: So -- so does it
5 help with the tests when I put in yesterday that the
6 Corporation is willing to revisit in five (5) -- in
7 four (4) or five (5) years? Right? That's what I
8 said. That -- that -- it's very important right now
9 because of the volatility that we face. We're -- we
10 want to have the 100 percent MCT, and we want to be
11 able to get -- we're saying it's going to take about
12 four (4) years just to get somewhere in the middle of
13 the range where, you know, the -- the unexpected
14 events can be absorbed so our -- our ratepayers are --
15 are immunized against going up and down. We want
16 rates that are predictable and stable.
17 So -- so I think it's all hypothetical,
18 what you're asking. But we do agree that maybe at a
19 certain interval there should be a review. And we're
20 -- we're -- that's why I suggested last -- yesterday
21 that maybe in four (4) years from now we review it.
22 And -- and the underlying assumption is that a hundred
23 percent would stay relevant for us for the next couple
24 of years because of the situation we're in.
25 So does that help? The -- the concept

1 of having a review point at a certain interval to say,
2 Hey, does this make sense?
3 MS. CANDACE GRAMMOND: We'll certainly
4 note that and -- and I know that the Board will take
5 that evidence into account. Yeah, I don't think we
6 have any further questions on that at this time.
7 Madam Chair, I'm going to move to a related, but
8 slightly dis -- different area. So if you want to
9 take the afternoon break this would be a good time for
10 me.
11 THE CHAIRPERSON: Why don't we take
12 about a twelve (12) minute break and come back at
13 three o'clock.
14
15 --- Upon recessing at 2:50 p.m.
16 --- Upon resuming at 3:04 p.m.
17
18 THE CHAIRPERSON: Okay. Thank you
19 very much. We'll begin again with our session. And,
20 Ms. Grammond, if you could continue with your cross-
21 examination.
22 MS. CANDACE GRAMMOND: Thank you,
23 Madam Chair.
24
25 CONTINUED BY MS. CANDACE GRAMMOND:

1 MS. GRAMMOND: Mr. Johnston, before I
2 go to the next section of my questions I'm going to
3 ask one (1) more question about the last line. And
4 Mr. Guimond can jump in if you wish. But he -- here's
5 what we're trying to understand, and I'll -- I'll just
6 try to give a -- a simple example that Mr. Pelly and I
7 spoke about.
8 So at present the Corporation has taken
9 the MCT pursuant to what's called the 2014 MCT
10 guideline. It's run a calculation, and the number
11 that's output of that calculation is 366 million,
12 which is what the Corporation is asking for at this
13 time for upper limits.
14 MR. LUKE JOHNSTON: That's right.
15 MS. CANDACE GRAMMOND: Okay. So what
16 happens if OSFI makes some changes to the test, the
17 Corporation does a new calculation under the new test,
18 and the output is 500 million? Is the Corporation
19 going to review that and say, Now we want a different
20 percentage? Or is the Corporation going to say, Well,
21 a hundred percent's 500 million, so that's -- that's
22 what we want? That -- that's what we need to try to
23 understand as best we can.
24 MR. LUKE JOHNSTON: Yes, and -- and
25 all my testimony was really saying is that we believe

1 it's highly unlikely that a hundred percent MCT,
2 deemed relevant and applicable for the industry, would
3 -- would make that jump. But if that did happen, for
4 -- for sure, like, that -- that's a very material,
5 significant change to the target. We'd have to re --
6 you know, re-think, re-discuss, collaborate on that
7 particular issue. That order of magnitude, for sure.
8 That would be worthy of a -- revisiting that.
9 Is that -- is that fair?
10 MS. CANDACE GRAMMOND: That helps.
11 Thank you. Okay. Diana, I'm going to ask you to go
12 to page 8 of the DCAT report. I believe it's just a
13 couple of pages back. Perfect. So these questions
14 will relate to the upper limit for the target capital
15 range. And what we see on page 8 is a summary that
16 deals with the Corporation's efforts to provide the
17 implied probability level of an adverse event that
18 would cause a reduction in total equity equivalent to
19 the proposed MCT-based upper limit.
20 Fair to say?
21 MR. LUKE JOHNSTON: That's fair.
22 MS. CANDACE GRAMMOND: And the report
23 reflects in the third paragraph on the screen that an
24 estimated one (1) in forty-seven (47) year event
25 before consideration of management and regulatory

1 action would be required to exhaust the 366 million
2 total equity indicated by the hundred percent ratio at
3 present.
4 Is that right?
5 MR. LUKE JOHNSTON: That's right.
6 MS. CANDACE GRAMMOND: Diana, if we
7 can just scroll down a little bit? We want to get to
8 that first table -- thank you -- on page 8. This
9 table, as I understand it, reflects the modelled total
10 equity fiscal year-end balances over the forecast
11 period for this estimated one (1) in forty-seven (47)
12 year adverse event.
13 Is that right?
14 MR. LUKE JOHNSTON: That's right.
15 MS. CANDACE GRAMMOND: And it would
16 appear that for the last year reflected in the table,
17 that's 2019/'20, we see a total equity balance of
18 negative 104 million.
19 Is that right?
20 MR. LUKE JOHNSTON: That's right.
21 MS. CANDACE GRAMMOND: And the next
22 table, the second one that's just at the bottom of the
23 screen, shows the model total equily -- equity fiscal
24 year-end balances over the forecast period restated to
25 start with 366 million in total equity as at the end

1 of the current year, 2015/'16.
2 Is that right?
3 MR. LUKE JOHNSTON: That's right.
4 MS. CANDACE GRAMMOND: And can you
5 comment upon why these two (2) tables differ by a
6 constant of 104 million for each successive year
7 shown?
8 MR. LUKE JOHNSTON: Yeah, this is just
9 the -- the whole idea of -- of restating the initial
10 value to show that -- that the impact would, if you
11 start at three sixty-six (366), fall to the -- the
12 zero, just to show that -- that this -- this scenario
13 would, in fact, do that. That's -- that's all that's
14 happened, yeah.
15 MS. CANDACE GRAMMOND: Let me ask you
16 this. If Basic had an additional 104 million in total
17 equity, and if we are comparing the top table to the
18 bottom table, that's the difference that we see in
19 year 1, wouldn't one expect higher levels of
20 investment income to be earned, for example, and
21 perhaps other factors that would change the net income
22 contribution to retained earnings and, therefore,
23 total equity in the subsequent years?
24 MR. LUKE JOHNSTON: I agree that would
25 -- that would be reasonable. If -- if the question is

1 why -- or that that is not happening, that's -- I can
2 look into that. Yeah. I don't have an answer for --
3 on the details of that right here, but, yeah.
4 MS. CANDACE GRAMMOND: Thank you. If
5 you could undertake, then, to review that question of
6 why the $104 million spread is maintained throughout
7 the years shown from Table 1 to Table 2, we'd
8 appreciate it.
9 MR. LUKE JOHNSTON: No problem.
10
11 --- UNDERTAKING NO. 6: MPI to review why the $104
12 million spread is
13 maintained throughout the
14 years shown from Table 1
15 to Table 2
16
17 CONTINUED BY MS. CANDACE GRAMMOND:
18 MS. CANDACE GRAMMOND: Diana, if you
19 could just scroll down a little bit on the same page?
20 So in that next paragraph, the Corporation has stated
21 that it was unable to arrive at an estimate for the
22 probability level of an adverse scenario, including
23 management and regulatory action, that was sufficient
24 to exhaust the 366 million of total equity again being
25 proposed as the upper limit.

1 Is that right?
2 MR. LUKE JOHNSTON: That's right.
3 MS. CANDACE GRAMMOND: And the
4 Corporation goes on to say that it approximates that
5 such an adverse scenario would be expected to occur at
6 a frequency of less than one (1) in two hundred (200)
7 years?
8 MR. LUKE JOHNSTON: Yes, based, of
9 course, purely on the modelling that we've developed
10 for this DCAT, that is the -- that is the output.
11 MS. CANDACE GRAMMOND: So if I
12 understand that comment or that statement correctly,
13 none of the five thousand (5,000) or so simulations
14 run for this adverse scenario exhausted the 366
15 million in total equity?
16 MR. LUKE JOHNSTON: With management
17 action? Yes. Yeah. Inclusive of management action?
18 Yeah. And what -- and what we've -- there was this
19 discussion of dynamic management action when we were
20 doing the collaborative exercise. And we continue to,
21 at least internally, we continue to struggle with how
22 to do that dynamically. But for this case, where
23 you're talking about such an extreme event, we assume
24 that we would apply the maximum management action for
25 the whole period, so the 5 percent.

1 So just -- and so if you think about
2 that 5 percent one (1) time, right, is 40 plus
3 million, and then you're talking 80 million, and then
4 a hundred and twenty (120), so it -- it can bring down
5 the scenario massively. So it went from a -- the same
6 scenario essentially being a one (1) in forty-seven
7 (47) year event to being not happening at all when --
8 when management action is applied. So the -- the
9 power of the -- of the rate change assumption is -- is
10 significant. And -- and that makes sense, yeah.
11 MS. CANDACE GRAMMOND: Now, Mr.
12 Johnston, would you agree that this modelling result
13 implies that this adverse scenario is at least as
14 remote as a one (1) in five thousand (5,000) year
15 event?
16 MR. LUKE JOHNSTON: I believe -- yeah,
17 I -- I believe there's a question on that. And I
18 don't have the reference, but our -- our answer was
19 that in -- in this -- at this scale, out at -- at --
20 in these kind of remote events, our confidence in the
21 probability estimate obviously declines. We're
22 talking about maybe one (1) or two (2) events might
23 pop up here.
24 We're making the assumption that all
25 our models are just perfect, and all it -- you know,

1 like, we know exactly what one (1) in one hundred
2 (100) year events look like, and et cetera, et cetera.
3 But again, as I've already state -- all -- already
4 stated, of the modelling we did run, this -- this one
5 survived all scenarios, so to speak.
6
7 (BRIEF PAUSE)
8
9 MS. CANDACE GRAMMOND: Okay. So, Mr.
10 Johnston, you would agree that modelling is really a
11 simplification of reality, and while an event may be
12 modelled as a one (1) in two hundred (200) year event,
13 it's actually possible that it's a much more remote
14 event?
15 MR. LUKE JOHNSTON: Abs -- absolutely.
16 There's -- one (1) thing we have to be clear on -- on
17 the DCAT is that we've -- we have collaborated on
18 these scenarios, and we've been here talking about,
19 say, equity returns and, you know, maybe we should
20 exclude the data from before 1956, or -- or maybe we
21 should not look at inflation from the '70s and -- and
22 all that type of stuff, right?
23 But, like, some people might argue that
24 those things can stop. We've settled on certain
25 models, and decided they're appropriate. Other

1 actuaries might think that they're -- you know, they -
2 - the -- the bell curve is bigger. But based on this
3 modelling that -- that we've done, these are the
4 results.
5 But I -- I -- again, I -- there's --
6 there's judgement involved in this, and -- and one (1)
7 of the reasons we look at the MCT is because there is
8 more -- you know, that there's more of an industry
9 standard around that measurement, and it is objective
10 and it is comparable to others beyond what we've done
11 here together just for MPI and the DCAT.
12 So it gives you something else to
13 benchmark to, right? Because I think we've done a
14 really good job in the DCAT, but realistically, our --
15 our ability to -- to estimate these really far out
16 scenarios is -- there's --there's judgment and
17 subjectivity and -- and risk in those estimates, for
18 sure.
19 MS. CANDACE GRAMMOND: And the
20 scenarios really are designed to give an approximation
21 of what may happen?
22 MR. LUKE JOHNSTON: Absolutely, yeah.
23 MS. CANDACE GRAMMOND: So can you tell
24 us about the Corporation's rationale for requesting
25 the upper limit as it is that would be sufficient to

1 allow Basic to withstand a one (1) in two hundred
2 (200) year event, or perhaps a one (1) in five
3 thousand (5,000) year event, before looking at a
4 rebate or surplus dividend to policy holders?
5 MR. LUKE JOHNSTON: Yeah. It's really
6 related to the comments I just made that there is a
7 external objective standard that others are using at
8 100 percent, and it's used as the minimum for -- for
9 some other public insurers and a hundred and fifty
10 (150) for others. We think that that -- we're not
11 asking it to be our minimum, we're asking it to be our
12 absolute maximum.
13 But we -- we think that risk assessment
14 is also important. We have, again, developed a
15 internal DCAT that is MPI specific, and we're asking
16 that that be the minimum, but we think that upper
17 target -- industry standard target, regardless of
18 what's shown on here, is important for the Board to
19 know and -- and benchmark against. And it also
20 creates a -- a workable range for us to -- to manage
21 the rate volatility within.
22 So we think we have two (2) -- as I --
23 as I talked about the other day, you know, a private
24 insurer might have their regulatory minimum at 150
25 percent MCT and they'll do an internal risk

1 assessment, and they might peg their -- their kind of
2 upper capital needs at some much higher number. We've
3 done the reverse here. We've done -- we've said the
4 monopoly needs less. We don't need a hundred percent
5 MCT. We need some number much lower.
6 I think MPI's made a lot of compromises
7 on the scenarios to make them, you know, agreeable and
8 realistic with everybody, and we've got a number
9 that's a hundred plus million lower than 100 percent
10 MCT. So we think we've got a -- a collaborative-based
11 number at the bottom. We have a nice objective
12 industry standard at the top. That seems like a -- a
13 verybul -- a very reasonable band to operate -- to
14 operate in.
15 MS. CANDACE GRAMMOND: Thank you, Mr.
16 Johnston. Just a -- a couple more questions for you.
17 Going back to the lower limit for the target capital
18 range, can you confirm that the modelling of DCAT
19 adverse scenarios potentially reflect rate level
20 increases and/or RSR rebuilding surcharges, but does
21 not include any modelling of transfers of excess
22 retained earnings from the competitive lines?
23 MR. LUKE JOHNSTON: Yes, that's
24 correct. There's a -- soon to be no -- no transfers
25 from the competitive lines. And obviously, we just

1 had one (1), right? So that said, let's say that
2 there's a -- a non-zero probability that we're going
3 to do it again. We know that there's this risk to
4 Basic that, as I said, were two thirty-one (231)
5 minimum. We have to do that exercise pre-transfer.
6 Like, because with the number -- what would the number
7 be if you assumed that we would just transfer excess
8 retained earnings from Extension automatically?
9 So this is a standalone Basic 1:40
10 impact as Mr. Guimond spoke of earlier. If we want
11 to, you know, keep the capital at the minimum, we have
12 the ability, at least right now, to -- to likely prop
13 that up. But this exercise, I think it's appropriate
14 to -- to do it on the assumption that those won't
15 occur and the money might not always be there to -- to
16 do that as well.
17
18 (BRIEF PAUSE)
19
20 MS. CANDACE GRAMMOND: Thank you.
21 Okay. I'm going to leave that area for the moment.
22 You'll be back up again tomorrow, just -- so don't get
23 too comfortable. I'm going to go to some questions
24 with respect to benchmarking.
25 And I'm going to ask Diana to go to the

1 benchmarking section of the filing. And I believe
2 it's in Volume I. I'm just going to confirm that.
3 Yeah, it's Volume I, Diana. Benchmarking labelled as
4 "BNK."
5
6 (BRIEF PAUSE)
7
8 MS. CANDACE GRAMMOND: And I'm going
9 to ask you to go to page 15 of the benchmarking
10 section in Volume I.
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: And I know,
15 Diana, you're going to pull that up very shortly.
16 What we have on page 15 is a -- a graphic that the
17 Corporation has provided which reflects four (4) areas
18 of its benchmarking framework. And Mr. Guimond had
19 this in his PowerPoint yesterday.
20 So I'm going to ask a few questions
21 about each of these areas, mainly the first two (2),
22 the operational efficiency measures and the IT service
23 delivery capability measures. So we'll start with
24 operational efficiency. And this is where the -- the
25 work of the Ward Group comes in.

1 Is that correct?
2 MS. HEATHER REICHERT: Yes, that's
3 correct.
4 MS. CANDACE GRAMMOND: Diana, I'm
5 going to ask you to go to page 22 of this benchmarking
6 section, where we find some narrative provided by the
7 Corporation. And in particular -- just if you could
8 scroll down a little bit further? We've got the
9 details here of who the Ward Group benchmarks the
10 Corporation against, or who the Corporation is
11 compared to. And we've got the three (3) benchmark
12 groups listed.
13 Ms. Reichert, you're familiar with
14 those?
15 MS. HEATHER REICHERT: Yes.
16 MS. CANDACE GRAMMOND: Can you tell us
17 whether within any of those three (3) benchmark groups
18 there are other public insurers, or are these all
19 private?
20 MS. HEATHER REICHERT: I understand
21 that there are other public insurers within the --
22 within those benchmark groups, yes.
23 MS. CANDACE GRAMMOND: Do you know how
24 many public insurers, and within which of the groups?
25 MS. HEATHER REICHERT: No, I don't

1 have those details. I -- I just know that there are
2 other public insurers. And I know that there are
3 other public insurers in Canada that, for instance,
4 are in the Canadian group.
5 MS. CANDACE GRAMMOND: Would you be
6 able to -- to give us that information? I -- I
7 appreciate you may not be able to tell us which
8 insurers they are, but if we can get a sense of how
9 many of the insurers in those other groups are public
10 insurers, that would be helpful.
11 MS. HEATHER REICHERT: I think that I
12 should be able to provide that. I know that we do not
13 have a list of all of the groups in the benchmark,
14 because that is proprietary to Ward Group. But I
15 think that they will tell me the -- the number of
16 public versus private.
17 MS. CANDACE GRAMMOND: Thank you. So
18 --
19 MS. HEATHER REICHERT: That's an
20 undertaking.
21 MS. CANDACE GRAMMOND: -- we'll have
22 that as an undertaking.
23
24 --- UNDERTAKING NO. 7: MPI to provide the number
25 of public versus private

1 insurers in the benchmark
2 groups used by the Ward
3 Group
4
5 CONTINUED BY MS. CANDACE GRAMMOND:
6 MS. CANDACE GRAMMOND: Now, we looked
7 briefly at some of the Ward Group comparators and --
8 and outputs yesterday in the course of Mr. Guimond's
9 presentation. We know that Ward Group has been
10 engaged by the Corporation for a number of years now
11 to provide the benchmarking.
12 MS. HEATHER REICHERT: Yes, I believe
13 it's four (4) years.
14 MS. CANDACE GRAMMOND: I -- I agree,
15 2010 being the first year. And I believe that was the
16 oldest data that was shown yesterday.
17 MS. HEATHER REICHERT: Yes.
18 MS. CANDACE GRAMMOND: And I believe
19 we don't have in the filing any Ward Group
20 benchmarking information for the last fiscal year, the
21 2014/'15 year. Is that correct?
22 MS. HEATHER REICHERT: That's correct.
23 MS. CANDACE GRAMMOND: And can you
24 explain why that's the case? Is there a lag of time?
25 MS. HEATHER REICHERT: Yes, there is.

1 They -- they -- it takes them some time, practically a
2 year, basically, to take the actual results and run it
3 through their analysis and their comparisons and
4 prepare their reports, so it takes some time.
5 MS. CANDACE GRAMMOND: So when will
6 the Corporation receive the Ward Group report for the
7 2014/'15 fiscal year?
8 MS. HEATHER REICHERT: For the
9 2014/'15 year, I believe we actually just received it
10 about a week ago.
11 MS. CANDACE GRAMMOND: Is the
12 Corporation in a position to file it with the Board?
13 MS. HEATHER REICHERT: We can't file
14 the -- the report. We could provide -- if that's
15 helpful, we could provide the same measures that are
16 within this benchmarking section from that Ward Group
17 report.
18 MS. CANDACE GRAMMOND: And I
19 appreciate from previous years that you don't file the
20 actual report, but you file -- whether it's an
21 annotated version or however you want to refer to it,
22 there are some measures from that report that have
23 been shared with the Board in the past. And if the
24 Corporation will do that again over the course of this
25 proceeding, that would be helpful.

1 MS. HEATHER REICHERT: I'll take that
2 as an undertaking.
3 MS. CANDACE GRAMMOND: Thank you.
4
5 --- UNDERTAKING NO. 8: MPI to provide measures
6 from the benchmarking
7 section from the Ward
8 Group report for the
9 2014/15 fiscal year
10
11 CONTINUED BY MS. CANDACE GRAMMOND:
12 MS. CANDACE GRAMMOND: And so what
13 does the Corporation do with the Ward Group
14 information once received? Obviously, it -- it
15 reviews it. But how does MPI utilize the outcome of
16 that analysis for moving forward?
17 MS. HEATHER REICHERT: Generally, it
18 is presented to -- to the executive group. And we
19 look at and -- and have that input from the individual
20 that actually does the analysis. So he gives us his
21 reflections on how MPI is doing relative to the others
22 in the -- in the benchmark group. We look at it as it
23 relates to trends from -- from MPI's perspective.
24 So we look at our actual rates to see
25 if the -- for MPI if they are improving or have been

1 improving over the four (4) years.
2 We try to understand if they haven't
3 improved, or even if they have improved, why that
4 might be and may query the -- the analyst from the --
5 the Ward Group on any insights that he could provide
6 to us. So it really is used as a gauge internally on
7 how we're doing compared to ourselves year over year.
8 We look a little bit at how we relate
9 to other Canadian insurers and how we relate to the --
10 the total group benchmark. But as has been explained
11 in this benchmarking section both this year and last
12 year, being a public insurer and being compared to a
13 group that includes many private insurers that are
14 profit generating entities, many of the combined
15 benchmarks don't make sense to be a target, let's say,
16 for MPI.
17 So that's why our -- our focus is more
18 on looking at our benchmarks year over year for MPI to
19 see, again, if we're improving, or if we're not
20 improving, why that might be and whether or not there
21 is something that we should be looking at internally
22 to change our -- our operations.
23 We have not made changes to operations
24 on the basis solely of looking at these benchmarks.
25 It is just an indicator. And we manage our operations

1 and look at ways to improve operations irrespective of
2 the benchmarking information.
3 MS. CANDACE GRAMMOND: So just on
4 that, the -- and I -- I hear your evidence about
5 focussing on internal benchmarks and how you're doing
6 compared to -- to previous years.
7 Does the Corporation have the ability
8 to ask the Ward Group or some other group to
9 specifically compare the Corporation with, for
10 example, SGI or ICBC, to get a better external
11 benchmark comparator?
12 MS. HEATHER REICHERT: No,
13 specifically, the Ward Group will not do that type of
14 comparison. They will not take -- I believe, and I'll
15 find out for sure, that there are other Canadian
16 insurers within that -- Canadian public insurers
17 within that group. And specifically, the Ward Group
18 will not compare one (1) specific entity within their
19 group to another entity within that group.
20
21 (BRIEF PAUSE)
22
23 MS. CANDACE GRAMMOND: Now, we saw
24 earlier I believe in the context of the second quarter
25 report some information that the Corporation had

1 provided regarding its rates compared with rates in
2 other jurisdictions, and we also have that information
3 at the benchmarking Appendices AI-12.
4 Can you comment on the process that the
5 Corporation undertakes to compare its rates with rates
6 of other jurisdictions?
7 MS. HEATHER REICHERT: Sure. Simply -
8 - simply stated each year we go -- it's a specific
9 company that is hired that, as we indicated, goes to -
10 - goes to private insurers within the various
11 jurisdictions that we are comparing ourselves to, and
12 says -- and -- and does a guess -- a quote, if you
13 will. So if you're a forty (40) year-old person, no
14 claims, with a sixteen (16) year old son driving this
15 type of vehicle what would be your -- your insurance
16 rate for the -- that particular year in -- in
17 question.
18 So it's done by an independent company
19 that specifically goes and researches the -- the rates
20 on the basis of the -- of the different portfolios
21 that we provide. And for those that are the public
22 insurance companies, we go directly ourselves and ask
23 for that -- that specific.
24 So we try as best as possible to get an
25 apples to apples comparison. It is difficult because

1 the benefits within the MPI plan are better than any
2 other in -- in the country as it relates to the Basic
3 insurance and our PIPP coverage. So even though we're
4 -- we're comparing a forty (40) year-old driver with
5 no demerits to -- with a sixteen (16) year-old son,
6 what have you, what the difficulty is, is: What are
7 the benefits that they are getting in Alberta for that
8 portfolio relative to bodily injury versus what they
9 get in Manitoba.
10 So while we're comparing a price, it's
11 very difficult to be able to say whether that price is
12 for an apple to apple policy coverage. So -- but
13 that's what we do. We -- we have an independent
14 company that goes and provides the information back to
15 us on a -- on a independent basis.
16 MS. CANDACE GRAMMOND: And if I heard
17 you correctly, the independent company does the -- the
18 estimating, or obtains the estimates from the private
19 insurers but MPI obtains information from the public
20 insurers itself.
21 MS. HEATHER REICHERT: Right. It's
22 more readily available from the public insurers, so we
23 are able to do that. But we have to get this -- a
24 private insurer is not going to give MPI what their
25 insurance rates are, so we -- we do it through an

1 independent company.

2 MS. CANDACE GRAMMOND: And I have your

3 comments about comparisons and coverage, and -- and so

4 forth but even bearing those issues in mind, how does

5 the Corporation utilize this information once it --

6 once it obtains it? I mean, obviously it puts

7 information into its annual report, and it provides

8 the information to the Board as part of the GRA

9 filing.

10 But beyond those two (2) things, does

11 the Corporation do anything with the information?

12 MS. HEATHER REICHERT: It has not often

13 been the case that we have not been he lowest in the -

14 - in those portfolios across the country. On the

15 occasions when we are not the lowest, and there's a --

16 maybe a significant difference between ourselves and

17 Saskatchewan, then we do look into, Well, why would it

18 be that theirs is lower than ours?

19 So that's -- that's more of an

20 understanding -- from an understanding perspective.

21 Also, we put it in our annual report, and our -- and -

22 - every year because that is one of the -- one of the

23 -- the requirements, or -- or one of our overall

24 corporate objectives is to provide the lowest priced

25 insurance across the country. So we're continually

1 assessing that, and putting it in our annual report to
2 -- to respond to that particular corporate objective.
3 MS. CANDACE GRAMMOND: Thank you. Oh,
4 go ahead. I may have some more questions on Ward
5 Group but I'll wait until the undertaking is complied
6 with and we have the most recent information to ask
7 those.
8 The second objective that we looked at
9 in the graphic that had the four (4) squares related
10 to IT service delivery capability and we know that the
11 Corporation engages Gartner Consulting to conduct an
12 annual review of the Corporation's IT service
13 including, I believe, management and expenditures.
14 Is that fair to say?
15 MS. HEATHER REICHERT: Yes, there's
16 several different criteria that they look at, but
17 management is -- is one (1) of them, yes.
18 MS. CANDACE GRAMMOND: And in the past
19 we've had as part of the GRA process the Gartner
20 scorecard, I believe it's called, that reflects its
21 various views across a number of -- of areas. This
22 year we don't have that and -- and that was because
23 the timing that the scorecard was going to be provided
24 has been changed.
25 Is that right?

1 MS. HEATHER REICHERT: Yes, that's
2 correct. So in the past -- last year the Ward Group
3 was based on a previous year end and the Gartner Group
4 was based on a more current year end. So they weren't
5 done in the same year end -- or on the same year end.
6 We wanted to get them in sync. So we could not move
7 up the timing of the Ward Group analysis. As I said,
8 we -- we just got it in October, like just, or end of
9 September. So what we did was push back when the
10 Gartner Group information was available.
11 So we have not yet received the CIO
12 scorecard for the Gartner Group. We expect to receive
13 that in November and then we will file both the 2015
14 assessments of the IT benchmarks as well as the Ward
15 Group benchmarks together in the -- the 2017 GRA so
16 that they'll be in sync. They'll always be based on
17 the same year.
18 MS. CANDACE GRAMMOND: And I assume
19 them that the Corporation intends to continue with the
20 Gartner Group benchmarking for the foreseeable future?
21 MS. HEATHER REICHERT: Yes, we do.
22 MS. CANDACE GRAMMOND: Now, we know
23 that the Corporation utilizes contractors in a variety
24 of different disciplines, but IT is one (1) of those,
25 right?

1 MS. HEATHER REICHERT: Yes, we use
2 consultants. That's correct.
3 MS. CANDACE GRAMMOND: Can you comment
4 on how the Corporation controls the efficiency of its
5 contractors? And you can answer that with respect to
6 IT specifically or across the board.
7 MS. HEATHER REICHERT: So with respect
8 to any improvement initiative that we are undertaking
9 where we -- we need outside expertise we have an
10 agreement with HP. They provide us with -- we -- we
11 let them know the skill set that we require in the
12 respective consultant in order to -- to perform or --
13 or to -- to achieve a certain improvement initiative
14 and they provide us with those consultants.
15 So then they become part of the team
16 that works on that project. So they are managed by
17 the project manager for that particular initiative and
18 their work output and what we are requiring from them
19 is -- is managed as part of that particular
20 initiative, just as those that are MPI employees are
21 managed as part of that particular initiative.
22 MS. CANDACE GRAMMOND: So if I
23 understand you correctly, it's -- HP is contracted to
24 supervise the individual contractors?
25 MS. HEATHER REICHERT: It depends on

1 the actual specific improvement initiative. So the
2 project manager would typically be from MPI and they
3 would be managing both our staff and consultant staff
4 based on what the -- the requirements of that specific
5 improvement initiative is. There have been times
6 where the project manager for a particular project or
7 initiative may also be an HP employee, in which case
8 they are managing overall both the contracted staff as
9 well as the MPI staff.
10 MS. CANDACE GRAMMOND: And then who's
11 monitoring the HP person in that example?
12 MS. HEATHER REICHERT: That would be
13 the -- the business sponsor for that particular
14 initiative. And we also have within the
15 organization...
16
17 (BRIEF PAUSE)
18
19 MS. HEATHER REICHERT: So -- so we
20 also have within -- within the organization a bri --
21 business transformation office. And what was...
22
23 (BRIEF PAUSE)
24
25 MS. HEATHER REICHERT: -- which in --

1 which includes the enterprise project management
2 office. And so that's where, on a totality basis, all
3 of the projects are monitored and -- well, monitored
4 and -- and ensure that they are achieving the
5 objectives that they need to achieve.
6 MS. CANDACE GRAMMOND: So I assume --
7 you -- you mentioned output as being monitored. I
8 assume that in addition to that the hours spent by
9 individuals are also being monitored?
10 MS. HEATHER REICHERT: Absolutely.
11 Because ultimately we are charged in -- by the hours
12 that -- that a consultant would be putting into a
13 particular project.
14
15 (BRIEF PAUSE)
16
17 MR. REGIS GOSSELIN: I guess my -- my
18 question has to do with a -- a meeting I had with
19 someone that I knew -- I've known for a long time, who
20 I met on the street who is a contractor at MPI. As I
21 understand it, he's a subcontractor of somebody else,
22 who is probably the main contractor. I don't know the
23 exact details, but basically he was telling me that he
24 doesn't much -- got much to do, but he's getting bill
25 -- he's billing eight (8) hours a day.

1 I guess the question I have is: how do
2 you -- the question I had was how -- how do we address
3 that as a Board to make sure that -- that those issues
4 are being addressed by MPI? Because it sounds to me
5 like they're billing by the hour. You probably have a
6 budget that encompasses the project. So they're
7 billing by the hour.
8 So what incentive have they got to
9 minimize the amount of hours that they are billing you
10 on projects?
11
12 (BRIEF PAUSE)
13
14 MR. DAN GUIMOND: So to answer your
15 question, this has to do with the discipline of the
16 project management office or enterprise project
17 management office. So every project manager, for
18 example, has to have a -- a project charter, a program
19 plan. He has to have a work break down structure, and
20 then we invoke the cost accounting. So for every
21 project or every initiative, there's -- you invoke the
22 project management discipline where you know which
23 tasks need to be delivered, which milestone do you
24 have, you have a critical path.
25 And for each deliverable, from an

1 accounting perspective, people charge against that
2 deliverable. So then you know how much that
3 particular deliverable is costing you. And then you
4 also measure to be able to know that you're getting
5 the productivity of -- of what you should pay for that
6 deliverable, so that -- so that you know you're not
7 getting overcharged.
8 There's also the discipline of -- for a
9 particular initiative, like, how much am I spending in
10 management compared to how much am I spending in
11 software development compared to facilities. Like,
12 there's ratios that you have to be able to keep track
13 of to know that it makes sense, like -- like, the
14 estimates that you're being provided.
15 Once all these estimates are done, once
16 everything is cleared in terms of getting your -- your
17 money's worth to what you're getting at, in terms of
18 not being overcharged, then after that you monitor.
19 You -- you create a baseline, and then as you execute
20 on your actuals you compare it to your baseline. And
21 then you're able to -- to know that you're doing okay
22 or not okay, and if you need to take action. So it's
23 very detailed right down to the -- at the task level.
24 Does that answer your question?
25 MR. REGIS GOSSELIN: Well --

1 MR. DAN GUIMOND: Because it's at --
2 at the deliverable level, right? So if I've got a
3 consultant on a deliverable, I'm monitoring how much
4 that consultant is charging me. And I'm monitoring if
5 I'm getting the right productivity, am I getting my
6 money's worth. And if not then we take action.
7 MR. REGIS GOSSELIN: Okay. So -- so
8 assuming that those deliverables are being met, I
9 mean, if they have -- if you -- if you have got too
10 much fat in your budget deliv -- deliverables are
11 being met, people are not working. It doesn't matter
12 because deliverables are being met. The budget's
13 under control, and so on. I -- I guess --
14 MR. DAN GUIMOND: Yeah.
15 MR. REGIS GOSSELIN: -- is there any
16 way that you can protect yourself against somebody
17 saying, You know what? I -- I go show up at MPI for
18 an hour, I get paid for eight (8) hours, I go home.
19 MR. DAN GUIMOND: The -- the only --
20 MR. REGIS GOSSELIN: How can you --
21 how can you protect yourself against that?
22 MR. DAN GUIMOND: Well, it's because
23 when you do the original estimate, if -- if you're --
24 if -- whatever that deliverable. Let's say,
25 hypothetically, it's -- it's a -- it's a procedure

1 manual on how to use a particular software package or
2 to do a transaction. You know that when you do that
3 policy procedure manual it's so many pages. You know
4 that for that procedure manual I'm going to need so
5 many for technical writer, I'm going to need so much
6 for artwork, I'm going to need so much for this and
7 that. And then you have -- you have your -- your
8 estimates that you know that you shouldn't be paying
9 so -- more than per -- per page for that manual for
10 that breakdown of the labour that you need.
11 If you start to see a variance where
12 that -- that you're starting to exceed those -- those
13 estimates and those numbers, then -- then management
14 takes action.
15 So, now, to your question, I mean, is
16 there -- is there people that like to cruise and try
17 to -- to do stuff. Absolutely. Do we get them? Yes,
18 we do. So -- so that person, it's just a question of
19 time before we throw them out the door if he's really
20 doing it intentionally.
21 MR. REGIS GOSSELIN: Well, then this
22 would -- the problem that this individual had that he
23 told me, was that he actually went to his superiors,
24 whoever that was, and said, You know, I'd like -- why
25 am I getting -- we're only working an hour, I'd like

1 to work more. And I believe him because I've known
2 him for years, so I know what he's like. I play
3 hockey with him, so I know.
4 The point I'm making is that what would
5 be your response to this individual if he was -- if
6 you met him and he said, you know, I'm not working
7 enough, I'm -- you know, I'm getting payday hours, but
8 I only work an hour? What would you -- I mean, he
9 probably wouldn't go to you, but, I mean...
10 MR. DAN GUIMOND: Yeah. Okay, there's
11 some people -- you know, we only -- we only have so
12 much work, right, for them, like -- like, so -- so
13 sometimes we have a job for them that'll last three
14 (3) months and they go somewhere else or whatever. If
15 they want to work more, we'll -- we'll look at the
16 individual.
17 If -- so -- so but if I understand your
18 question, is that he's not working hard or he's --
19 he's sort of slacking? Is that what it is or...?
20 MR. REGIS GOSSELIN: He's not working
21 as much as he'd like to work. I mean, he's getting
22 paid --
23 MR. DAN GUIMOND: Yeah.
24 MR. REGIS GOSSELIN: -- but he's not
25 working what he's getting paid for.

1 MR. DAN GUIMOND: Okay.
2 MR. REGIS GOSSELIN: In other words,
3 he's -- he's saying, I haven't got enough work.
4 MR. DAN GUIMOND: Okay. And -- and we
5 would take -- if he came to us, we would make sure he
6 would have enough work. I mean, I -- I'm not too sure
7 how that condition manifested itself, but we don't
8 have too many of those, I'm sure. So we would take
9 action if -- if -- and it's just a question of time
10 before we find him.
11 MR. REGIS GOSSELIN: But it does
12 highlight the problem that I'm -- I'm pointing at,
13 which is that you're entrusting a business outcome to
14 a set of contractors who are paid by the hour. And --
15 and I guess the question is: What incentive have they
16 got to make sure that they're not billing to the
17 budgeted amount which may be too high relative to what
18 it actually would normally entail?
19 MR. DAN GUIMOND: Yeah. Okay, so now
20 the estimates that we have for our -- our initiatives
21 and so on, that -- that's why we have Gartner to
22 review also what people are doing. So -- so we have a
23 second independent opinion to make sure that -- that
24 we're not getting the wool over our eyes, so to speak.
25 So -- so there is a process to make

1 sure that -- that how much money we're spending, how
2 we're spending it and so on makes sense, right, and
3 through an independent assessor. And -- and they
4 review our -- our initiatives every month. And I get
5 a -- and the CIO and myself get a report directly from
6 Gartner to -- to make sure that -- that what HP's
7 doing, what IBM is doing all makes sense to them and
8 that the money's not getting wasted. So we do have
9 that protocol in place.
10 What you're describing there, there's -
11 - there's -- to me there's always going to be some
12 slackers or people that maybe try to get away with
13 things, but we always -- we always find them and
14 always deal with them. But overall, every -- every --
15 the audits that we do, an internal audit, the audit we
16 do with Gartner, the disciplines of the enterprise
17 project management office and so on showed that the --
18 the value of money is -- is okay, you know what I
19 mean?
20 Like, we're not just -- we're not just
21 sort of handing it over to the -- to the consultants.
22 We're -- we monitor what we do and we get our money's
23 worth.
24
25 CONTINUED BY MS. CANDACE GRAMMOND:

1 MS. CANDACE GRAMMOND: Thank you,
2 Madam Chair. I just have one (1) more question about
3 the IT piece. And then we'll move on. At the book of
4 documents, Tab 13, Diana, we've got PUB/MPI-1-21. And
5 if we go to page numbered 11. There are fourteen (14)
6 pages at that tab. So if we go to 11 near the back.
7 Yeah, thank you.
8 This is one (1) of the Gartner
9 recommendations. What we had asked in this IR was
10 that MPI provide a status of the previous
11 recommendations of Gartner, and what the progress was
12 with respect to each one. So recommendation 3.04 is
13 shown here. It's under the heading, just for context,
14 of:
15 "In order for MPI to better support
16 transforming the business, MPI
17 should consider..."
18 One (1), two (2), three (3), and four
19 (4):
20 "...ensuring that a culturally
21 appropriate future state
22 architecture exists, that a baseline
23 of current state exists, and a GAP
24 analysis is performed."
25 I don't know who wants to take this

1 one, whether it's Ms. Reichert or Mr. Guimond.
2 MR. DAN GUIMOND: So when we -- we
3 look at the ITO initiative we can see now that -- that
4 the Corporation has become much more robust in terms
5 of its data centres. And also how we're dealing
6 through the PDR, how we're doing -- rechanging the
7 service dis -- the -- the service model for our
8 customers, and we're putting all the technology and so
9 on in place.
10 So now we currently have an
11 architecture, and a business road map that is aligned
12 with the ITO. In terms of the -- the future for let -
13 - let's say the next five (5) or ten (10) years in
14 terms of the roadmap, our -- our critical challenge
15 is, What do we do with our legacy systems?
16 Like for example cars in AOL, Autopac
17 online, which is our distribution system. So the five
18 (5) year product and service plan that we're starting
19 next year, that's where this work is going to get
20 done. With the new portfolio that's going to get
21 created, you'll have a business roadmap and an IT
22 roadmap, and then a value management equation
23 underneath as you execute over the years.
24 So that's when we're really going to be
25 able to -- to see an answer to three point zero-four

1 (3.04).

2 MS. CANDACE GRAMMOND: Okay.

3 MR. DAN GUIMOND: It's through that

4 deliverable.

5 MS. CANDACE GRAMMOND: Okay. That --

6 that's helpful because when we read this, and the

7 Corporation's advise that it hadn't yet evaluated this

8 and didn't have information on financial impact we

9 thought, Well, how do we -- how do we not assess where

10 we're going in three-o-four (304), so I think that

11 that information is helpful.

12 Okay. So the -- the two (2) other

13 benchmarks that the Corporation addresses on -- again

14 on that graphic with the four (4) squares, one relates

15 to serving Manitobans. The other relates to community

16 impact. As I understand it, both of those relate to

17 activities of surveys, public polling, and -- and so

18 forth. Is that a fair generalization with respect to

19 those two (2)?

20 MS. HEATHER REICHERT: Yes, it is.

21 MS. CANDACE GRAMMOND: I'm not going

22 to get into further detail other than just to confirm

23 that that's what -- what those items relate to. The -

24 - the next benchmarking related question that I would

25 ask that we look at is PUB/MPI-1-19. Diana, if you

1 can pull that up?
2 That was a question that we had posed
3 about other benchmarking being done by the
4 Corporation, so leaving aside these four (4) items and
5 in particular regarding the contact centre and the --
6 contact centre and physical damage metrics.
7
8 (BRIEF PAUSE)
9
10 MS. CANDACE GRAMMOND: Perfect, thank
11 you. So we had asked for an update, and the
12 Corporation advised in the response that it had
13 developed measures to assess ongoing productivity.
14 You're with me? I -- I don't know who this is going
15 to be for. Ms. Reichert...?
16 We then asked a follow up question in
17 the Second Round, 2-15. Diana, if we could go to that
18 one?
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: Thank you. So
23 we asked in the Second Round, Okay, you've got met --
24 metrics developed. Can you provide those metrics?
25 And we see in the response at (a) the Corporation

1 referenced -- if we go down a little bit farther we
2 can see -- see what those are. So the -- the first
3 block under the heading of "SCO" those are service
4 centre.
5 Is that right?
6 MS. HEATHER REICHERT: Correct,
7 service centre operation metrics.
8 MS. CANDACE GRAMMOND: Yeah. And then
9 the second section is contact centre metrics?
10 MS. HEATHER REICHERT: Correct.
11 MS. CANDACE GRAMMOND: Now, I
12 understand these metrics are internal to the
13 Corporation and would be fair to say it would -- we
14 would expect those to result in -- in some cost
15 savings.
16 Would that be fair?
17 MS. HEATHER REICHERT: The metrics
18 themselves to -- to result in cost savings?
19 MS. CANDACE GRAMMOND: Compliance with
20 the metrics to result in cost savings.
21 MS. HEATHER REICHERT: So those
22 metrics are -- are established based on what the
23 expected measures are. So the number of estimates
24 written per estimated per day, per week, per month,
25 that is, again, something that is measured and

1 monitored. So if that were to -- let me make sure I
2 get it the right way.
3 If -- so if that number were to -- to
4 decrease, indicating that maybe the productivity of --
5 of a particular service centre was decreasing, then
6 that would be investigated to determine why that would
7 be and -- and how it relates to other service centres.
8 So -- so the -- the measure itself isn't resulting in
9 -- in cost savings, per se, but monitoring that and
10 determining why it might fluctuate over a period of
11 time could result and then looking at how -- how some
12 processes being performed at one (1) service centre
13 compared to another service centre and therefore by --
14 by modifying that -- that process then result in
15 needed less staff in a particular area than what was
16 actually being used based on what the metrics were
17 indicating.
18 MS. CANDACE GRAMMOND: Okay. Thank
19 you. And, Diana, if we can stroll -- scroll a little
20 bit farther. We see at the top there of the screen
21 that as a result of closer attention to individual
22 metrics overtime has been reduced, the number of
23 vehicles in the compound reduced, quicker estimates,
24 quicker turnarounds, reduction in loss of use, and
25 salvage sales have improved.

1 So it would seem -- and I -- I believe
2 -- it may not be on the screen at the moment, but I
3 believe it was reflected in this IR that the
4 Corporation attributes these gains, if we can call
5 them those, or these efficiencies and improvements to
6 utilizing those metrics?
7 MS. HEATHER REICHERT: Correct. So
8 it's the use of the metrics, not the metrics
9 themselves and the monitoring of the metrics that
10 resulted in improvements in these levels. And as said
11 in the last paragraph there, by improving those things
12 then we're allowed to absorb increases in -- in other
13 -- in other areas without having to increase staff or
14 increase costs.
15 MS. CANDACE GRAMMOND: And has the
16 Corporation been able to quantify in dollars the gains
17 that have been seen by these improvements listed on
18 the screen?
19 MS. HEATHER REICHERT: I'm not sure to
20 what level of detail we would have that
21 quantification. It -- it's -- we -- we manage on the
22 overall budget for the service centres. So the -- the
23 fact that we are able to do more with the same amount
24 of people is, in fact, considered to be a -- a
25 savings. As I'd mentioned and discussed yesterday

1 when I was making the presentation, we had reduced in
2 '15/'16 our budget in many different areas.
3 So some of -- of the area -- or one (1)
4 of the areas where we reduced our budget was overtime,
5 for instance. So while we haven't calculated, per se,
6 and exact -- what overtime was saved by monitoring
7 these specific metrics, on the basis of the fact that
8 we're able to perform better on these metrics we
9 actually did reduce our overtime budget. And so far
10 we are able to work within that budget for this fiscal
11 year.
12 So we're six (6) months through and we
13 anticipate that we will be able to manage within a --
14 a reduced overtime budget, as an example.
15 MS. CANDACE GRAMMOND: Thank you.
16 Madam Chair, I just have a few more questions on
17 benchmarking. With the Board's indulgence I'll
18 probably just be five (5) minutes if that's okay.
19 Thank you.
20 Diana, I'll ask you to go to PUB/MPI-1-
21 17, this IR deals with BI3. And in this question, we
22 had asked the Corporation about whether pre-BI3
23 benchmarks were being achieved since the
24 implementation; BI3, and if we just scroll a bit to
25 the answer. MPI advised that it's developed two (2)

1 benchmarks relative to claims duration. And if we
2 scroll further, we see the first of those benchmarks
3 relates to claim retention.
4 You're with me, Ms. Reichert?
5 MS. HEATHER REICHERT: Yes, I am.
6 MS. CANDACE GRAMMOND: And so the
7 Corporation provided a table with respect to the
8 benchmark and the actual. And this is, I gather,
9 active claims in a given -- these -- these were
10 specific claims that I think were identified to --
11 MR. LUKE JOHNSTON: I can jump in, if
12 you want.
13 MS. CANDACE GRAMMOND: Yeah. For
14 sure.
15 MR. LUKE JOHNSTON: Yeah. Yeah. You
16 helped me earlier on it, so -- yeah.
17 MS. CANDACE GRAMMOND: Thanks.
18 MR. LUKE JOHNSTON: Yeah, it's -- this
19 is a very actuarial type benchmark. So I think what's
20 being said earlier is that there's more than just
21 actuary stuff going on here. But it's just saying how
22 many claims did we make -- did we pay a dollar on at -
23 - at -- like, in total? So how many claims were there
24 in total, non -- non-zero? How many are still open,
25 getting payments?

1 So the actual says, well, there's two
2 hundred and ninety-three (293) open from that loss
3 year, and if we look at past, at the exact same point
4 in time when the claim was open, there -- there was
5 only 17 percent open pre -- pre-BI3. And then if you
6 go down -- obviously as time passes, the years get
7 older, and there's -- it seems like 2 to 3 percent of
8 claims are probably lifetime claims.
9 Initially when we started BI3 -- this
10 is -- this is concerning to me, right? Like -- like,
11 is it -- because why aren't we meeting the same
12 percentages, et cetera? So we thought implementation.
13 There must be implementation issues, right? But we're
14 well past implementation now. And the BI group is
15 saying, Well, we're doing what we're supposed to be
16 doing. You know, we're managing the files to the
17 dates and the durations that we're supposed to -- of
18 the targets. And we're still not hitting your
19 benchmarks.
20 So we met and there -- I think at the
21 beginning of this question, they talk about a lot of
22 changes that were made to enhancements, different
23 claims that maybe we're paying for now that we didn't
24 pay for before. MDGuidelines is a new duration
25 benchmarking tool that we didn't have before. So

1 we're very much trying to figure out and understand
2 how the new reality is -- you know, compares to the
3 old world.
4 But what I'm hearing from the -- the
5 bodily injury department is that they believe they're
6 managing to where they should be. They're paying
7 claims right. Like, if -- if that's a good term. So
8 this is -- these are the updated numbers, but we're
9 working on understanding whether -- what the best and
10 most fair comparison is going forward. That -- is
11 that all -- so --
12 MS. CANDACE GRAMMOND: It -- it does.
13 Thank you. Because, I mean, on the face of this
14 table, the benchmarks aren't being met.
15 Would that be fair to say?
16 MR. LUKE JOHNSTON: Yeah, and for --
17 for sure when I'm looking at this from -- again, from
18 a pure actuarial perspective, I'm saying, Why are
19 there thirty (30) more claims open all the time,
20 right? So what is it? Is it that certain claim types
21 we just said, You know what? We are going to pay
22 those now, and we changed a policy. Or -- or we are
23 going to, you know -- maybe we were doing something
24 before and we were denying and we shouldn't be doing
25 that today. Because it's very consistent.

1 MS. CANDACE GRAMMOND: M-hm.
2 MR. LUKE JOHNSTON: Right? Even post
3 -- you know, in the year of implementation and after.
4 So maybe, at least from my end, I was a little over-
5 critical at first on them for not meeting these. And
6 they're saying, Well, I'm just -- I'm just doing what
7 we're supposed to be doing, right? So we're looking
8 at that kind of thirty (30), forty (40) claim issue,
9 and trying to understand what that is.
10 MS. CANDACE GRAMMOND: And is that
11 something that, as you work through, you'll provide an
12 update to the Board?
13 MR. LUKE JOHNSTON: Yes.
14
15 (BRIEF PAUSE)
16
17 MS. CANDACE GRAMMOND: Diana, if you
18 can just scroll down a little bit? I just want to go
19 to the second benchmark before we wrap up. So the
20 first one was simply claims retention. The second one
21 is claim retention reduced by residual capacity
22 determination or CPP disability benefits.
23 And if we scroll down we'll see, I
24 believe, a chart on this one, as well. So the
25 benchmark for this was set at 58 percent for rehab, I

1 believe, and 43 percent for serious and long-term
2 care?
3 MR. LUKE JOHNSTON: That's right. And
4 again, that's -- we use pre -- not really pre-BI3,
5 just, like, older years experience, like, Where have -
6 - where have we got with claims five (5) to ten (10)
7 years or older in terms of reduced entitlement? And
8 that -- that was the basis of the benchmark. So it's
9 a historical-based benchmark.
10 MS. CANDACE GRAMMOND: And it doesn't
11 appear that this benchmark is being met on the face of
12 this table either?
13 MR. LUKE JOHNSTON: That's true. And
14 again, this one -- we know that in the older years,
15 that we've hit this benchmark of 58 percent on
16 average. So it might be sixty-two (62) in one (1)
17 year and forty-nine (49) another year. But we're
18 trying to figure out that we -- we didn't have before
19 is at what stage is it?
20 You know, like, obviously, you're not
21 going to get everybody on reduced entitlement, like,
22 three (3) or four (4) years after the claim's open.
23 Maybe it starts at 35 percent and gradually grows to -
24 - to 60, so we need to work on -- on that a little
25 bit, making the benchmark appropriate at the -- you

1 know, at different stages of the claim's lifetime.
2 So the current active information,
3 again, might not be fair. They might not quite be at
4 that -- at that stage yet. So we're working on
5 benchmarks that can -- can phase in that 58 percent
6 over time, if that makes sense.
7 MS. CANDACE GRAMMOND: My next
8 question was going to be whether the Corporation has
9 any other benchmarks under development pursuant to
10 BI3?
11 MR. LUKE JOHNSTON: I'm definitely
12 biassed to the actuarial type benchmarks, though. I
13 know they've -- they've had benchmarks with a lot of
14 other things, whether it be customer service or, like
15 -- so I -- I don't know all the different benchmarks
16 that -- that they have. So I -- I don't know if
17 anyone in the panel can assist, but we could look into
18 that if necessary.
19
20 (BRIEF PAUSE)
21
22 MR. DAN GUIMOND: Yes, there is other
23 benchmarks that -- that we're working on. And -- and
24 we're going to be implementing those.
25 MS. CANDACE GRAMMOND: And --

1 MR. DAN GUIMOND: And I'm not sure
2 when yet, but we're still tightening and tightening
3 things up, yeah.
4 MS. CANDACE GRAMMOND: Okay. And so
5 at least the Board will get an update next year?
6 MR. DAN GUIMOND: Yes. Yeah.
7 MS. CANDACE GRAMMOND: Okay. Madam
8 Chair, those are my questions with respect to
9 benchmarking, so I'm happy to adjourn for the day if
10 that pleases the panel. And we can reconvene tomorrow
11 morning.
12 THE CHAIRPERSON: Just one (1) more
13 question, and then we'll -- we'll adjourn for today.
14 MR. REGIS GOSSELIN: I'm looking at
15 page 2 of that section of the -- of the application --
16 of -- I'm sorry, of the IR, the 1-17. Page 2 at the
17 bottom, you're talking about work -- continue -- the
18 Corporation continues to work towards pre-BI3 trends
19 in recent loss years while reviewing a change that
20 will require a benchmark adjustment.
21 The changes you're referring to would
22 be what changes?
23 MR. DAN GUIMOND: One (1) of the
24 things that is becoming apparent in the data is that
25 pre-BI3, we're -- we did not code the loss that we

1 actually had in the accident. We did not have ICD-10
2 coding.
3 So now we actually code the injury that
4 we actually are facing when the accident takes place.
5 And that's reviewed by nurses based on medical
6 reports, and we codify the loss. We also have Presley
7 Reed information that says that for that particular
8 injury, then there's the -- the best outcome in terms
9 of recovery. There's the med -- average outcome. And
10 then you've got some, you know, that are going to go
11 off that are going to take much longer.
12 And so now what we're staring to see
13 since we've been codifying the losses and -- and since
14 we've been managing according to the medical
15 guidelines, we're starting to see that -- that people
16 -- that it's costing us a little bit more money than
17 before. And so we have to really get a -- an
18 understanding of what's going on there.
19 And that's what we mean by maybe having
20 to change the benchmark, because it's possible --
21 because we -- we pay what people are entitled. So now
22 by understanding the injury more, it -- it's possible
23 that we'll end up paying a little bit more on -- on
24 our bodily injuries than we used to before. Okay. So
25 that -- that's what we mean by that.

1 MR. REGIS GOSSELIN: Thank you.

2 THE CHAIRPERSON: Okay. That will end

3 our session. Tomorrow, we'll begin -- I mean today,

4 and we'll begin tomorrow at 9:00 a.m. Thank you.

5

6 --- Upon adjourning at 4:12 p.m.

7

8

9 Certified correct,

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12 _____

13 Robert Keelaghan, Mr.

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