MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION FOR

2017-2018 INSURANCE YEAR

HEARING

Before Board Panel:

Robert Gabor, Q.C. - Board Chairperson

Karen Botting - Board Member

Anita Neville - Board Member

Alan Morin - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 19, 2016

Pages 770 to 918

1 APPEARANCES

2 Candace Grammond (np))Board Counsel

3 Kathleen McCandless

4

5 Matt Ghikas)Manitoba Public

6 Michael Triggs)Insurance

7

8 Byron Williams)CAC (Manitoba)

9 Jared Wheeler (student-at-law))

10

11 Raymond Oakes)CMMG

12

13 Erika Miller)CAA

14

15 Christian Monnin (np))Bike Winnipeg

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LIST OF EXHIBITS

LIST OF UNDERTAKINGS

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

2

3 THE CHAIRPERSON: Okay. Maybe we'll

4 begin. I'd indicate Mr. Grammond spoke to me

5 yesterday, and a matter has come up that she has to

6 deal with today, so she won't be with us today. Ms.

7 McCandless will deal with any clean-up issues, and

8 she's going to dealing with the road safety later. So

9 we'll -- we'll proceed with -- on -- on that basis.

10 Ms. McCandless...?

11 MS. KATHLEEN MCCANDLESS: Thank you,

12 Mr. Chair. And before we continue with Mr. Williams's

13 cross-examination, I just wish to correct the record

14 from yesterday with respect to some of the PUB

15 exhibits that were entered.

16 It appears that PUB Exhibit number 17

17 was entered as two (2) different documents. So the

18 correct exhibit numbers should be PUB-17 is PUB-MPI-I-

19 32 from the 2016 GRA. And this is reflected on the

20 transcript that's been circulated this morning.

21 The next exhibit, PUB-18, is the

22 excerpt from the Canadian Vision for Property and

23 Casualty Insurer Solvency Assessment that was

24 circulated by Ms. Grammond yesterday.

25 And PUB Exhibit 19, then, is the

1 excerpt from the OSFI Guidelines, also circulated by
2 Ms. Grammond yesterday.
3 And those are my matters for now.
4 THE CHAIRPERSON: Thank you.
5 Mr. Williams, I -- I believe you're up.
6 MR. BYRON WILLIAMS: Yes, and thank
7 you and good morning. I believe the -- in front of
8 the panel may be four (4) exhibits from CAC
9 (Manitoba), or they might have been placed there
10 yesterday.
11 We wish to mark as CAC Exhibit 13 a
12 report dated June 2011, or an excerpt from a report
13 relating to the post-implementation review. That
14 should have a green cover on it.
15
16 --- EXHIBIT NO. CAC-13: Excerpt from reported
17 dated June 2011 relating
18 to post-implementation
19 review
20
21 MR. BYRON WILLIAMS: As CAC-14, an
22 excerpt from the November 4th, 2014, transcript. In
23 the top right-hand corner, there should be the page
24 number 1208.
25

1 --- EXHIBIT NO. CAC-14: Excerpt from November 4,
2 2014, transcript numbered
3 page 1208
4
5 MR. BYRON WILLIAMS: As CAC-15, an
6 excerpt from the October 2015 transcript. In the top
7 right corner should be page 222.
8
9 --- EXHIBIT NO. CAC-15: Excerpt from October 2015
10 transcript numbered page
11 222
12
13 MR. BYRON WILLIAMS: And as CAC-16, an
14 excerpt from the 2013 transcript, in the top right
15 corner, 844.
16
17 --- EXHIBIT NO. CAC-16: Excerpt from 2013
18 transcript, page numbered
19 844
20
21 THE CHAIRPERSON: We have all of them.
22 Thank you.
23 MR. BYRON WILLIAMS: Thank you.
24
25 MPI PANEL 1, RESUMED:

1 DAN GUIMOND, Previously Sworn
2 HEATHER REICHERT, Previously Sworn
3 LUKE JOHNSTON, Previous Sworn
4
5 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:
6 MR. BYRON WILLIAMS: And good morning,
7 MPI panel. Diana, I wonder if you could pull up from
8 the Manitoba Public Insurance Application page AI.12-
9 1, page 6, towards the top of that page.
10 And probably this question is to you --
11 welcome back, by the way, Mr. Guimond. It's nice to
12 see you. I have a bit of work for you later this
13 morning.
14 MR. DAN GUIMOND: Good morning.
15 MR. BYRON WILLIAMS: Ms. Reichert,
16 you'll just see the obs -- under the "observation" at
17 the top of this page a reference to the Corporation's
18 lower based salaries, and the fact that it does not
19 pay employee bonus.
20 Do you see that reference? Second
21 paragraph, Ms. Reichert.
22 MS. HEATHER REICHERT: Yes, I do.
23 MR. BYRON WILLIAMS: Okay. And just
24 so I'm clear, were any bonuses issued during the last
25 fiscal year to any MPI employees or management?

1 MS. HEATHER REICHERT: No.
2 MR. BYRON WILLIAMS: Okay. Okay,
3 we'll -- Mr. Johnston, yesterday just in terms of our
4 discussion on BI3 -- you'll recall that discussion,
5 sir?
6 MR. LUKE JOHNSTON: Yes, I do.
7 MR. BYRON WILLIAMS: And not -- just
8 by way of over -- overview, you agreed yesterday that
9 the increase in IBNR for Accident Benefit-Other
10 (Indexed) and WI was due in part because you weren't
11 confident that the claims reserved reflected the risk
12 exposure for those lines of business?
13 MR. LUKE JOHNSTON: The case reserves
14 have been lower in recent years, so if -- yes, if you
15 believe the exposure is the same that would require
16 you to add IBNR by basically the equivalent amount
17 that case reserves are low.
18 MR. BYRON WILLIAMS: Okay. And in
19 your conversation with Ms. Grammond you noted that the
20 duration of BI3 claims persists in being longer than
21 the pre-BI3 index. You recall that, sir?
22 MR. LUKE JOHNSTON: The -- the
23 analysis that you're referencing is that there are
24 more claims being paid relative to the total amount of
25 claims that were open post-2010 than -- than pre-2010.

1 MR. BYRON WILLIAMS: And using my
2 words, not yours, but in terms of what was driving
3 that longer duration, Mr. Johnston, you suggested that
4 the Corporation is still trying to disentangle what's
5 driven from the BI3 processes versus what's driven by
6 other program changes. Fair enough?
7 MR. LUKE JOHNSTON: Fair enough.
8 MR. BYRON WILLIAMS: And just turning
9 to CAC Exhibit 16 from the 2013 transcript, and
10 specifically the bottom of page 989 and the top of
11 page 990, and -- that's perfect here. And this could
12 go to either Ms. Reichert or Mr. Johnston but you see
13 here a conversation starting at line 25 on 989 and
14 then onto 990 from Ms. McLaren indicating that:
15 "We did not implement this new
16 system with clear benchmarks as to
17 how we were going to reduce
18 disability durations from what they
19 had been previously."
20 Do you see that reference?
21 MR. LUKE JOHNSTON: Yes, and not
22 looking at all the context around it but ICD-10 codes
23 or the MD Guidelines, we had not -- or are not able to
24 look at these numbers pre-BI3 and determine, you know,
25 exactly -- you know, the equivalent durations pre-BI3

1 relative to post.

2 One of the benefits of the system is

3 the fact that we'll be better able to, I guess, label

4 these types of injuries and track them going forward.

5 MR. BYRON WILLIAMS: And, Mr.

6 Johnston, just directing your attention to CAC Exhibit

7 14 from November 4th, 2014, and again, at the bottom

8 of page 1362, the very last line and then onto the

9 next page.

10 We see a discussion with you and I a

11 couple years ago in -- in terms of trying to -- if we

12 can scroll down one (1) more paragraph, Diana. Trying

13 to implement some bench -- benchmarks and to assist

14 the actuarial analysis.

15 And what you did in -- in 2014 was to

16 begin to compare the performance relative to pre-BI3

17 experience, agreed?

18 MR. LUKE JOHNSTON: Agreed, and that

19 was the benchmarking IR that we discussed yesterday,

20 yeah.

21 MR. BYRON WILLIAMS: And we probably

22 don't need to go to the 2105 one, because we -- we

23 just had that conversation in current times.

24 Mr. Guimond, just if I could direct

25 your attention to CAC Exhibit 13, and page 18 of 21.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Yes, at the
4 bottom, please, Diana, under "claims leakage." And if
5 -- yeah, if you could keep the -- the scroll down --
6 yeah, perfect, right like that.
7 Mr. Guimond, I'll just give you a
8 chance to look at this. You -- you've had a chance?
9 And you'll see here the suggestion by Manitoba Public
10 Insurance that the expectation of future cost savings
11 through BI3 would be through the avoidance of -- of
12 claims leakage, agreed.
13 MR. DAN GUIMOND: Agreed and that's
14 part of the -- the business case or the -- all of the
15 objectives are -- are stated a couple pages before.
16 MR. BYRON WILLIAMS: Fair enough. And
17 -- but in terms of cost savings a -- a primary source
18 was expected to be claims -- savings from the
19 avoidance of claims leakage expected to save in the
20 range of $33 million over seven (7) years?
21 MR. DAN GUIMOND: That's correct.
22 MR. BYRON WILLIAMS: And in terms of
23 achieving that, the expectation would be that those
24 savings would be achieved through decision and
25 rehabilitation duration management, agreed?

1 MR. DAN GUIMOND: Yes, that would be a
2 -- a big component.
3 MR. BYRON WILLIAMS: And some of the
4 elements that you expected to achieve those savings
5 through was through the ability to measure case
6 management performance against duration guidelines.
7 That -- that would be one (1) of the elements.
8 Agreed, sir?
9 MR. DAN GUIMOND: Agreed.
10 MR. BYRON WILLIAMS: We may come back
11 to that, but thank you for -- for that. I probably
12 overuse the term of short-snappers yesterday, but I do
13 just have a couple of housekeeping questions that I --
14 that I wish to address.
15 And perhaps if Diana can pull up PUB 1-
16 9 and I think PDF page 12.
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: And -- yes,
21 scroll right here to rate changes. And I'll ask the
22 Corporation to accept, subject to check, that among
23 the requests in this Information Response was to file
24 the new Board of Directors, or the -- excuse me, the
25 Corporation's Board of Directors meeting minutes

1 related to the approval of the General Rate
2 Application.
3 You'll -- you'll accept that subject to
4 check?
5 MR. DAN GUIMOND: Yes.
6 MR. BYRON WILLIAMS: And here you see
7 on the new board in terms of approving the rate
8 changes, approving a 2 percent overall average rate
9 increase as well as rates for individual risk
10 classifications and -- and classification changes to
11 be implemented on a neutral -- revenue-neutral basis,
12 agreed?
13 MR. DAN GUIMOND: Agree.
14 MR. BYRON WILLIAMS: And I take it
15 that approval for the IRFRF and the 2 perc -- .3
16 percent additional rate increase was approved at a
17 subsequent board -- board meeting?
18 MR. DAN GUIMOND: Correct.
19 MR. BYRON WILLIAMS: And just for the
20 completeness of the records, I wonder if the
21 Corporation would mind just providing that excerpt?
22 MS. HEATHER REICHERT: So we'll take
23 that as an undertaking, to -- to file the minutes
24 relating to the subsequent approval of the interest
25 rate forecasting risk factor.

1 MR. BYRON WILLIAMS: Yes. And just
2 restricted to that specific element.
3 MS. HEATHER REICHERT: Yes.
4 MR. BYRON WILLIAMS: And you're
5 nodding your head.
6 MS. HEATHER REICHERT: Yes.
7
8 --- UNDERTAKING NO. 18: MPI to file the minutes
9 relating to the subsequent
10 approval of the interest
11 rate forecasting risk
12 factor
13
14 CONTINUED BY MR. BYRON WILLIAMS:
15 MR. BYRON WILLIAMS: Ms. Reichert, I'm
16 going to try not to invite a speech here. I don't
17 know how successful I'll be.
18 It is the Corporation's strongly held
19 view that the rate increase related to the IRFRF and
20 the revised interest rate forecast would significantly
21 reduce the risk of adverse financial outcomes for
22 Basic over the for -- forecast period, agreed?
23 MS. HEATHER REICHERT: Agreed.
24 MR. BYRON WILLIAMS: And indeed, Mr.
25 Johnston, when the DCAT model was rerun the

1 Corporation's recommendation regarding the bottom end
2 of the RSR target was lowered, agreed?
3 MS. HEATHER REICHERT: Agreed.
4 MR. BYRON WILLIAMS: Okay. And it
5 would be fair to say that the hundred percent MCT
6 target was also changed, correct?
7 MS. HEATHER REICHERT: Agreed.
8 MR. BYRON WILLIAMS: But, in that
9 case, the 100 percent MCT target, when it was
10 recalculated, actually increased from 404 million to
11 411 million, agreed?
12 MR. LUKE JOHNSTON: Agreed.
13 MR. BYRON WILLIAMS: Thank you. Mr.
14 Guimond, just for the purposes of -- we're going to
15 move to information technology, and just to clarify
16 some terms.
17 I wonder if you can explain the
18 distinction, if any, between a business charter and a
19 business case as those terms are used by Manitoba
20 Public Insurance?
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: And if there are
25 no differences, that's fine. I just want to...

1 (BRIEF PAUSE)

2

3 MR. DAN GUIMOND: We're just looking

4 in the record if we -- if we defined that in the

5 record anywhere.

6 MR. BYRON WILLIAMS: I've not seen

7 that, but it may be there, sir.

8

9 (BRIEF PAUSE)

10

11 MR. DAN GUIMOND: The -- the charter

12 would describe at a high level what would be the

13 outcomes, the desired outcomes of the initiative. The

14 business case is what allows us to make the decision

15 as to whether we will proceed with the initiative or

16 not.

17 MR. BYRON WILLIAMS: And once the

18 projects are approved the business case will enable

19 you to assess whether the -- to measure the benefits

20 realized against the original project objectives?

21 MR. DAN GUIMOND: Yes. This is what

22 we call the value management proposition, and we

23 report that on our post-implementation reports after

24 the initiative is complete.

25 MR. BYRON WILLIAMS: And we'll come to

1 that process in a moment.

2 Would we expect the business charter to

3 reflect the core aspects of a business case such as

4 how benefits could be measured against the original

5 project objectives?

6 MR. DAN GUIMOND: Not necessarily.

7 You'd have to keep track of the two (2) documents

8 because then there's also like the project plan. So

9 you -- you go -- you cascade into levels of details,

10 so you have to keep track of all the deliverables of

11 the initiative.

12 MR. BYRON WILLIAMS: Now, in terms of

13 the value management process, you'll agree that that

14 was recently launched by Manitoba Public Insurance?

15 MR. DAN GUIMOND: No, I wouldn't agree

16 it was recently launched. I would agree, though, that

17 we've been reporting on it and -- and being --

18 providing more information in our rate application

19 about it. But we've always done value management.

20 MR. BYRON WILLIAMS: Perhaps we can

21 pull up CAC-MPI-2-22 and go to page 4. You'll see in

22 the first paragraph, sir, in describing the value

23 management process, first of all, that it's described

24 as operating within the finance divi -- division and

25 separate from the BTO, or business transformation

1 office, agreed?

2 MR. DAN GUIMOND: Agree.

3 MR. BYRON WILLIAMS: And it's

4 described by the Corporation as a new process, and the

5 process measures are being applied to new projects

6 this fiscal year, agreed?

7 MR. DAN GUIMOND: Agree in terms of --

8 of how -- how we do value management at this point in

9 time, but we've always done value management. Whether

10 it was done before by internal audit, or whether it

11 was done by other areas of the Corporation, we've

12 always done it, but this is how we do it now.

13 MR. BYRON WILLIAMS: And if I

14 suggested to you that in -- in different parts of the

15 Corporation's information responses such as CAC-1-44

16 or CAC-2-20, it was described as a new value manage --

17 management process, you'd accept that subject to

18 check, sir?

19 MR. DAN GUIMOND: A new value

20 management process. A revised value management

21 process, updated value management process.

22 MR. BYRON WILLIAMS: Fair enough.

23 MR. DAN GUIMOND: But I guess the

24 point I want to make here is that we've always done

25 it.

1 MR. BYRON WILLIAMS: Okay.

2 MR. DAN GUIMOND: It keeps improving,

3 but we've always done it.

4 MR. BYRON WILLIAMS: One (1) of the

5 differences suggested in this response is that, moving

6 forward, new projects will have a number of the

7 following quantitative financial metrics relating to

8 issues such as internal or objective measures such as

9 internal rate of return, pay -- pay-back period,

10 return on investment, and discounted pay -- pay --

11 pay-back period, agreed?

12 MR. DAN GUIMOND: Agree.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: I wonder if we

17 can turn to CAC First Round 63, and we'll just be

18 there for a second, 1-63, Diana.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Oh, just go to

23 the question, please.

24 You see here, Mr. Guimond, our -- our

25 client is asking for a copy of the business charter

1 and/or business case for the financial re-engineering
2 initiative project.
3 Do you see that, sir?
4 MR. DAN GUIMOND: Yes.
5 MR. BYRON WILLIAMS: And just so I
6 understand, is there both a business plan for
7 financial re-engineering and a -- a -- sorry, is there
8 both a business case and a charter for financial re-
9 engineering?
10 MS. HEATHER REICHERT: So there --
11 there is a financial re-engineering charter that
12 describes overall the objectives of the financial re-
13 engineering project. And then we -- we have taken
14 that information, and more precisely including that
15 into a business case that will articulate the -- the
16 cost broken down by -- by year and benefits that are
17 hoped to be achieved.
18 MR. BYRON WILLIAMS: So Ms. -- Ms.
19 Reichert, let's start with the charter, which is an
20 attachment to CAC-2-33.
21 And, Ms. Reichert, by way of
22 undertaking are you able to file the business plan for
23 the finance re-engineering project?
24 MS. HEATHER REICHERT: So, no, and
25 that's because this particular project is done a

1 little bit differently. We did engage an external
2 consultant to assist with looking at the whole finance
3 systems divi -- like finance division systems being
4 they -- the general ledger, any other modules that we
5 use in our financial management system.
6 So in essence that was the -- the whole
7 business objectives and the business approach was
8 articulated a little bit differently for this project.
9 We then took information from that consulting
10 engagement, and created the finance re-engineering
11 project, that pro -- program charter that you see in
12 front of you.
13 MR. BYRON WILLIAMS: Are the core
14 elements from that business plan found in the charter?
15 MS. HEATHER REICHERT: Yes, I believe
16 they are.
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: And, Ms.
21 Reichert, I'm not asking for an undertaking at this
22 point in time but if on reflection you conclude that
23 not all elements of the business plan are reflected in
24 the charter, I'll ask you just to -- to let me know so
25 I -- I'm just -- I'm not asking for an undertaking.

1 You understand that?
2 MS. HEATHER REICHERT: Yes, I do.
3 MR. BYRON WILLIAMS: And on page --
4 PDF page 14 of this charter which is numbered page 12
5 -- that -- that's perfect -- you see a three (3) year
6 project budget for finance re-engineering at the
7 corporate level totalling some $13.96 million, agreed?
8 MS. HEATHER REICHERT: Agreed.
9 MR. BYRON WILLIAMS: Ms. Reichert, I
10 can provide you with my copy of the charter in a
11 manual form or -- I'm going to suggest to you, subject
12 to check, that if one went through this project char -
13 - charter that you would find no quantitative
14 financial metrics related to internal rate of return,
15 payback period, return on investment, or discounted
16 paydack -- payback period.
17 Would you dispute that suggestion?
18 MS. HEATHER REICHERT: No, I -- I
19 agree.
20 MR. BYRON WILLIAMS: And this charter
21 version 1 was completed in June of 2016?
22 MS. HEATHER REICHERT: It was
23 finalized in June of 2016, yes.
24 MR. BYRON WILLIAMS: So are those
25 quantitative financial metrics, including internal

1 rate of return, payback period, return on investment,
2 and discounted pay -- payback period, captured
3 somewhere?
4 MS. HEATHER REICHERT: Yes. As I
5 indicated, that -- that was captured as part of the
6 consulting engagement that we had to do the review of
7 the finance area.
8 MR. BYRON WILLIAMS: And are you able
9 to excerpt those elements out of the finance plan by
10 way of undertaking?
11
12 (BRIEF PAUSE)
13
14 MR. DAN GUIMOND: This is a new
15 initiative that -- the business case still needs to be
16 approved by our new board of directors before we
17 actually start the initiative. So because of -- of
18 the changes that we have undergone as a corporation,
19 until our board of director has approved the business
20 case and it's -- it's confirmed as a -- as a goal I'm
21 reluctant to put anything in the public record right
22 now.
23 MR. BYRON WILLIAMS: So there's no
24 spending or operations currently ongoing with regard
25 to this project, sir?

1 MR. DAN GUIMOND: That's correct.
2 MR. BYRON WILLIAMS: When do you
3 expect the project to -- do you expect this project to
4 commence in fiscal year?
5 MR. DAN GUIMOND: I see it more as the
6 next fiscal year.
7 MR. BYRON WILLIAMS: And would it be -
8 - the Corporation would agree to file the business
9 case or the -- the financial metrics associated with
10 this project for the -- alo -- in support of the next
11 General Rate Application?
12 MR. DAN GUIMOND: Yes, absolutely.
13 MR. BYRON WILLIAMS: And is there any
14 logistical reason or practical reason why the project
15 charter would not reflect those quantitative metrics?
16 MR. DAN GUIMOND: The project charter
17 expresses a high level direction of desired outcomes
18 and has a -- a preliminary budget that you see there,
19 a -- a rough order of magnitude. The business case
20 has to do its due diligence. It has to do all the --
21 cross the I's, dot the T's (sic), make sure nothing
22 got missed and -- and make sure that we meet our
23 hurdle rates. So that would be the distinction.
24 MR. BYRON WILLIAMS: And the -- okay.
25 Thank you. I wonder if we can turn to CAC-II-26,

1 Appendix C. And scroll down to the bottom of the
2 page, Diana.
3 Now, let's just be clear to the -- the
4 Corporation. Appendix C is something that CAC
5 (Manitoba) provided to you in the Information Request.
6 You'll accept that?
7 MS. HEATHER REICHERT: Yes.
8 MR. BYRON WILLIAMS: And you don't
9 need to turn there, Ms. Reichert, but you'll accept,
10 subject to the check, that it was referenced in the
11 Corporation's response to this Information Request?
12 MS. HEATHER REICHERT: I'll take your
13 word for that, yes.
14 MR. BYRON WILLIAMS: And just
15 focussing your attention on the bottom of that page,
16 you'll agree, Ms. Reichert, that set out here in this
17 attachment are questions related to -- to implementing
18 a portfolio management system and the suggestion being
19 that these are the -- some of the key questions that
20 should be addressed?
21 MS. HEATHER REICHERT: Yes, I see
22 that.
23 MR. BYRON WILLIAMS: And without going
24 through exhaustive detail through these questions, Ms.
25 Reichert, are these -- would the Corporation agree

1 that in overseeing its IT portfolio, it -- these are
2 some of the key questions that must be addressed?
3 MS. HEATHER REICHERT: Absolutely.
4 MR. BYRON WILLIAMS: And at a high
5 level, Ms. Reichert, when we're looking at an
6 information technology portfolio, ultimately you are
7 dealing with a -- a fixed budget in any particular
8 year?
9 Let me try it again, you're dealing
10 with a finite budget in any particular year?
11 MS. HEATHER REICHERT: Correct.
12 MR. BYRON WILLIAMS: And tradeoffs
13 have to be made in terms of -- in terms of different
14 priorities?
15 MS. HEATHER REICHERT: That's correct.
16 MR. BYRON WILLIAMS: And sometimes
17 programs that the Corporation may desire may have to
18 be cut because there's just not enough money?
19 MS. HEATHER REICHERT: They may have
20 to be deferred, not -- not necessarily cut. It -- it
21 may be that they're just prioritized to occur later in
22 -- in the -- in the schedule, so later on in the five
23 (5) year plan.
24 MR. BYRON WILLIAMS: And you'll recall
25 -- okay. Thank you. I wonder if we can turn to PUB-

1 II-16. And you'll see here a -- a business charter
2 for the Technology Modernization Program, agreed?
3 MS. HEATHER REICHERT: Agreed.
4 MR. BYRON WILLIAMS: Now, Ms.
5 Reichert, we can go to the budget which I believe
6 appears on page 5 PDF. And this sets out roughly $40
7 million of expenditures between '16/'17 and 2019/'20?
8 MS. HEATHER REICHERT: That's correct.
9 MR. BYRON WILLIAMS: And would you
10 agree, subject to check, that within this charter,
11 there are no quantitative financial metrics such as
12 internal rate of return and the ones we discussed
13 previously?
14 MR. DAN GUIMOND: In terms of
15 modernization, the board of directors for IT has made
16 a -- a policy decision that no software can run on --
17 on obsolete software, like, in terms of it's not
18 supported, so all of our software needs to be
19 supported. All of our hardware needs to be
20 modernized. And nothing is to be left to -- to the
21 point where it's -- it's unsupported.
22 So it's very important to -- to know
23 that this is a -- a business decision made by -- by
24 the Corporation that this work is to -- is to be done.
25 MR. BYRON WILLIAMS: So, Mr. Guimond,

1 are -- you're telling me that -- or are you telling me
2 that there are no quantitative financial metrics for
3 this program?
4 MR. DAN GUIMOND: What I'm saying is
5 that, in order for -- in terms of your analogy of the
6 house, if I remember, that -- that you're not allowed
7 to wait for the -- for the water tank to break before
8 you fix it. You got to make sure it -- it's working
9 all the time.
10 MR. BYRON WILLIAMS: So just so I'm
11 clear, Mr. Guimond, just for my question, which I'm --
12 I'm not sure you responded to, I'm asking are there
13 quantitative financial metrics in which the
14 expenditures under technology modernization will be
15 evaluated?
16 MR. DAN GUIMOND: Yes, we -- we know -
17 - to use your analogy, you know, for the water tank,
18 we need -- we know that to make sure the water tank
19 keeps going, it's going to cost so much money and so
20 on, so, yes, we do have the details in terms of what
21 it costs to -- to keep them up-to-date, yes.
22 MR. BYRON WILLIAMS: And those
23 quantitative metrics presumably are captured in a
24 business case?
25 MR. DAN GUIMOND: It's not a business

1 case because it's -- it's a decision that the
2 Corporation has made that this just needs to happen.
3 The -- the cost is -- you know, we -- we're trying to
4 prevent what happened with the ITO in 2010 where there
5 was so much obsolescence that we had to do the ITO
6 initiative.
7 So now we're saying, Okay, everything
8 needs to be kept up to -- to date.
9 MR. BYRON WILLIAMS: So, Mr. Guimond,
10 are there financial metrics for the oversight of this
11 program and the oversight of the -- in comparison to
12 the rest of the budget that you're able to share? And
13 could you file those by way of undertaking?
14 MR. DAN GUIMOND: Yeah, we'll -- we'll
15 get back to you. And also it goes back to the
16 benchmarking that we do with Gartner in terms of -- of
17 the operating costs of IT to make sure it's -- it's
18 kept on -- on -- consistent with the peer group.
19 MR. BYRON WILLIAMS: Just to be clear
20 of my -- the undertaking, I'm asking for the
21 quantitative financial metrics in support of the
22 Technology Modernization Program charter.
23 MR. DAN GUIMOND: Yeah, we -- we can
24 provide that.
25

1 --- UNDERTAKING NO. 19: To provide the
2 quantitative financial
3 metrics in support of the
4 Technology Modernization
5 Program charter
6
7 CONTINUED BY MR. BYRON WILLIAMS:
8 MR. BYRON WILLIAMS: Now, just so I
9 understand, Mr. Guimond, and I don't want to get --
10 dig deep into program details, but expenditures like a
11 -- a desktop refresh, those wouldn't be colour --
12 covered under the Technology Modernization Program?
13 MS. HEATHER REICHERT: I can respond
14 to that. So we were talking about desktop refresh
15 before when we were looking at the normal operating
16 budget. And it explained part of why there was
17 significant increases in the percentage basis between
18 years.
19 So desktop refresh, given the nature of
20 it and the -- and the noncapitalizable nature of a
21 desktop, it's shown as an operating expense every
22 three (3) to four (4) years when we do the refresh.
23 So to be specific, it's not part of the technology
24 modernization program as defined in this charter.
25 MR. BYRON WILLIAMS: I wonder if we

1 can turn to the -- the scorecard produced by the
2 Gartner group found at AI.12-5, and specifically page
3 55.
4
5 (BRIEF PAUSE)
6
7 MR. BYRON WILLIAMS: Mr. Guimond, the
8 Gartner group is retained by Manitoba Public Insurance
9 to undertake a peer review of the Corporation and to
10 make presentation to its board of directors, agreed?
11 MR. DAN GUIMOND: Agree.
12 MR. BYRON WILLIAMS: And that document
13 is sometimes knowed as -- known as a CIO Scorecard and
14 IT Infrastructure Benchmark, correct?
15 MR. DAN GUIMOND: Correct.
16 MR. BYRON WILLIAMS: And the most
17 current one in the Corporation's possession, and which
18 was filed as part of this Application, is for the
19 2014/'15 year. Is that correct, sir?
20 MR. DAN GUIMOND: Correct.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: And directing
25 your attention to one of the key observations that the

1 Gartner group makes is that personal spending and
2 staffing levels remain higher than their peers.
3 Do you see that, sir?
4 MR. DAN GUIMOND: Yes.
5 MR. BYRON WILLIAMS: And secondly,
6 that MPI spends 63 percent of its IT budget on
7 personnel versus 44 percent of its peers, agreed?
8 MR. DAN GUIMOND: Agree.
9 MR. BYRON WILLIAMS: And again that 34
10 percent of its IT staff is made up of contractors, at
11 least in 2014, versus 17 percent for its peers,
12 agreed?
13 MR. DAN GUIMOND: Agree.
14 MR. BYRON WILLIAMS: And Gartner,
15 towards the bottom of the page, while noting that
16 MPI's overall maturity rating has improved observes
17 that the business process management maturity remains
18 generally low at 1.6, agreed?
19
20 (BRIEF PAUSE)
21
22 MR. BYRON WILLIAMS: Do you see that,
23 sir?
24 MR. DAN GUIMOND: Yes.
25 MR. BYRON WILLIAMS: And as part of

1 its advice in terms of business process management,
2 the Gartner group has -- has suggested to MPI that:
3 "The increased use of business cases
4 will help hold business stakeholders
5 and IT accountable for achieving
6 protected -- projected benefits and
7 values."
8 That's correct?
9 MR. DAN GUIMOND: Agree.
10
11 (BRIEF PAUSE)
12
13 MR. BYRON WILLIAMS: Sorry about that.
14 I wonder if we could just turn to PUB-1-27 for a
15 moment. And go to page 2, please, Diana.
16 Now, Mr. Guimond, this is a -- an
17 analysis of the -- both the internal FTEs and -- and
18 the consultants retained by MPI with regard to
19 information technology, you'll agree?
20 MR. DAN GUIMOND: Agree.
21 MR. BYRON WILLIAMS: And in -- in
22 2014/'15, the year of the Gartner group scorecard, the
23 total of internal FTEs and consultants was 320,
24 correct?
25 MR. DAN GUIMOND: Correct.

1 MR. BYRON WILLIAMS: Moving out, and
2 we can just work our way along the line for '15/'16
3 through '18/'19, the total number of internal FTE and
4 consultants for MPI related to IT is higher than that
5 2014/'15 base in all four (4) years.
6 Would that be correct?
7 MR. DAN GUIMOND: That's correct.
8
9 (BRIEF PAUSE)
10
11 MR. BYRON WILLIAMS: Ms. Reichert, I
12 can give you the reference if you need it, else you
13 can trust my -- my honest farm-boy face.
14 In terms of corporate expenses -- and
15 maybe I'd better give you the reference -- expenses at
16 page 42 -- the forecast period from 2016 through
17 2018/'19 reflects an overall average increase of 3.9
18 percent, agreed?
19 MS. HEATHER REICHERT: Can we pull up
20 specifically where that is on the -- on your
21 reference?
22 MR. BYRON WILLIAMS: Oh, sorry, lines
23 7 and 8.
24
25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: Okay. Yes, I
2 see that.
3 MR. BYRON WILLIAMS: And these are
4 normal operational expenses, correct?
5 MS. HEATHER REICHERT: Yes.
6 MR. BYRON WILLIAMS: And in -- in
7 looking at that increase, the Corporation observes
8 that, apart from the CPI increases, the increase is
9 primarily driven by the expected laptop refresh in
10 2017/'18, as well as the computer and monitor refresh
11 in the subsequent year, agreed?
12 MS. HEATHER REICHERT: Yes.
13 MR. BYRON WILLIAMS: And would it be
14 fair to suggest that, given the other cost pressures
15 and revenue pressures the Corporation is under, that
16 it's considering deferring the laptop refresh?
17 MS. HEATHER REICHERT: Not at -- not
18 at this juncture, no.
19 MR. BYRON WILLIAMS: Mr. Guimond, back
20 to you. At the direction of the Public Utilities
21 Board, you'll recall an external consultant was re --
22 retained to review the PDR Program, sir, agreed?
23 MR. DAN GUIMOND: Agree.
24 MR. BYRON WILLIAMS: And that
25 consultant was the Gartner Group? And if Diana --

1 MR. DAN GUIMOND: Agreed, sorry.
2 MR. BYRON WILLIAMS: Yes. And if
3 Diana can pull up PDF page 28 from their PDR report,
4 Attachment A. Okay, that's fine. Great. Thank you.
5 Right there, thank you.
6 And, Mr. Guimond, focussing on the
7 round bullets and going down four (4) bullets to the
8 sentence starting "Mitchell's ability," it would be
9 fair to say that one (1) of the issues that Gartner
10 paid significant attention to was the FNOL product,
11 agreed?
12 MR. DAN GUIMOND: Agreed.
13 MR. BYRON WILLIAMS: And does the
14 acronym FNOL stand for first notification of loss,
15 sir?
16 MR. DAN GUIMOND: Yes.
17 MR. BYRON WILLIAMS: And the Mitchell
18 firm is tasked with develop -- developing and
19 deploying this FNOL product, agreed?
20 MR. DAN GUIMOND: They're doing a
21 component of it, yes.
22 MR. BYRON WILLIAMS: And is that
23 product now ready for deployment by MPI?
24 MR. DAN GUIMOND: No.
25 MR. BYRON WILLIAMS: When does it

1 expect it will be ready for deployment?
2 MR. DAN GUIMOND: Version 1 should be
3 approximately September 2017.
4 MR. BYRON WILLIAMS: And you'll see,
5 sir, that Mitchell on that fourth -- I'm going to say
6 it's a round bullet; maybe it's a teardrop bullet --
7 suggests that deploying this FNOL product with
8 implementing accident profiling is a concept that is
9 new to the industry.
10 You -- you see that reference, sir?
11 MR. DAN GUIMOND: Yes.
12 MR. BYRON WILLIAMS: What do you
13 understand Gartner to mean by the term "accident
14 profiling"?
15 MR. DAN GUIMOND: When we deploy this
16 application next year, it will be the first time that
17 MPI has a mobile app for -- for phones. And what's
18 important is that, when the customer reports the
19 claim, that you're able to confirm coverage. And so
20 that's what it means in terms of how we're using those
21 accident profiles.
22 It's a little bit different than --
23 than using your call centre to confirm coverage.
24 MR. BYRON WILLIAMS: And when Mitchell
25 suggests it's new to the industry, do understand them

1 to be suggesting it's new to Manitoba or new to the
2 broader industry, sir?
3 MR. DAN GUIMOND: The -- the concept
4 of being able to automate part of the adjusting
5 process is -- is something that's sort of new in the
6 industry in terms of doing it through technology.
7 MR. BYRON WILLIAMS: And as part of
8 PDR, Manitoba Public Insurance in -- intends to be a
9 industry leading in -- in this rollout, sir?
10 MR. DAN GUIMOND: No, I wouldn't say
11 we're an industry leader in the sense that we see
12 other insurance companies attempting to do the same
13 thing. There's -- there's a few applications out
14 there. It's -- it's sort of working itself
15 progressively, so we can see that starting to -- to
16 happen in -- in the industry, but it's fairly new.
17 MR. BYRON WILLIAMS: So -- so it's
18 fairly new and there's a couple of other firms
19 attempting it, sir?
20 MR. DAN GUIMOND: I'm not sure if they
21 -- they decided to actually do it or not. We -- we'd
22 have to -- I'd have to go and double check on that.
23 But I know there's other companies that are seriously
24 looking at -- at doing the same thing, yes. And we're
25 also working with -- sharing the information with SGI

1 and ICBC. And they're also thinking of using our app,
2 well, our app or the app as being developed by -- by
3 Mitchell.
4 So it's -- it's starting to -- to have
5 some serious consideration out there.
6 MR. BYRON WILLIAMS: And so just so I
7 understand, you know that other -- there are others in
8 the industry that are looking at it. You cannot say
9 with confidence that others in the industry have
10 implemented it. Is that correct, sir?
11 MR. DAN GUIMOND: That's correct. I -
12 - I don't know of anybody who's actually implemented
13 it right now.
14 MR. BYRON WILLIAMS: And, sir, again
15 focussing your attention on the very last full square
16 bullet on that page, implementing. Mitchell suggests
17 that implementing the innovative concept of profiles
18 that MPI has put forward as a design framework is
19 complex and may be challenging to implement.
20 Do you see that observation by Mitchell
21 -- or by Gartner?
22 MR. DAN GUIMOND: Yes.
23 MR. BYRON WILLIAMS: And does MPI
24 agree with that observation?
25 MR. DAN GUIMOND: Yes, they do, yes.

1 MR. BYRON WILLIAMS: Now, we will get
2 into the PDR more with the Gartner group next week.
3 So, Mr. Guimond, I do have a few more
4 questions for you. And I just want to assure you when
5 I'm asking these questions I'm not seeking to solicit
6 any confidential information. I -- I think there's
7 still one (1) blue sheet of confidential information.
8 So I'll -- I'll ask the questions. And
9 if you have some discomfort you'll -- you or your
10 counsel will advise me. When we spoke last year about
11 the PDR project the Corporation was in the midst of
12 negotiations with the industry.
13 Would that be fair, sir?
14 MR. DAN GUIMOND: Last year I said we
15 -- we'd be in the midst of negotiations at this point
16 in time, yes.
17 MR. BYRON WILLIAMS: Okay. And, sir,
18 was your prediction correct and are you still in the
19 midst of negotiations with the industry?
20 MR. DAN GUIMOND: Yes, we are.
21 MR. BYRON WILLIAMS: They have not
22 been finalized?
23 MR. DAN GUIMOND: No, they have not.
24 MR. BYRON WILLIAMS: And does the
25 Corporation -- given that you're such an excellent

1 prognosticator, sir, does the Corporation have an
2 expectation of when those discussions will be
3 finalized?
4 MR. DAN GUIMOND: We're hoping to be
5 done by -- by the end of November, middle December.
6 MR. BYRON WILLIAMS: Without seeking
7 confidential details, I assume a core issue for
8 negotiation will be how to incent efficient and cost
9 effective behaviour by repair shops?
10 MR. DAN GUIMOND: Yes, this is the
11 major challenge that we're facing.
12 MR. BYRON WILLIAMS: And negotiations
13 in terms of that, I'm going to put in quotation marks,
14 "incentive mechanism" are still under way?
15 MR. DAN GUIMOND: That's correct.
16 MR. BYRON WILLIAMS: And that's the
17 major challenge, I think, in -- in your words, sir?
18 MR. DAN GUIMOND: Yes, if -- if you're
19 willing to go to the presentation that Ms. Reichert
20 and I put in -- in the record, if you're willing to go
21 to...
22
23 (BRIEF PAUSE)
24
25 MR. BYRON WILLIAMS: Sir, if it's

1 already --

2 MR. DAN GUIMOND: ...page 27 of the

3 presentation, I think that's very important for -- for

4 the Board to be aware of. So you see the accredited

5 collision repair shops. There's two hundred and

6 sixty-six (266) I put in the record, and -- and this

7 is -- the major challenge is that we have out of these

8 two hundred and sixty-six (266) accredited collision,

9 based on the changes that the auto manufacturers are

10 doing, the rate of investment that's required by the

11 repair industry, you need to be able to process --

12 repair at least five (5) vehicles per week to keep up

13 with the investments as required by the manufacturers.

14 Out of that two hundred and sixty-six

15 (266) there's only one hundred and ten (110) of the

16 repair shops that repair five (5) vehicles per week.

17 And we need to have an orderly transition amongst the

18 one ten (110).

19 There are some that are making

20 significant investment to -- to be able to achieve

21 what we call the -- the distribute estimating, where

22 the customer would go at the shop for the estimating.

23 So how do you -- how do you pay the

24 shops, you know, who are making the investments, which

25 is what you want, because now you know that you have a

1 -- a proper repair with the new cars coming forward.
2 How do you do the orderly transition? How do you
3 incent or reward the people that are making the right
4 decisions? And how do you have an orderly transition
5 to allow business people to make very, very important
6 business decisions?
7 We've been talking about this for a
8 while. I -- I've been going to the annual meetings of
9 the Auto Trade Association, the Manitoba Dealer's
10 Association. We've been communicating this. But it's
11 the first time in our history as a Corporation that we
12 can't just bring everybody along with us. It's just
13 too much money. So we need to allow business people
14 to make decisions as to what they're going to do.
15 It's -- it's really an incredible
16 challenge in the repair industry to -- to keep up with
17 the changes that are happening in the repair -- in --
18 in the automotive industry. It's huge. It's
19 absolutely huge. And a lot of these folks, you know,
20 that's their nest egg for retirement, right.
21 So you -- you've got to be -- you've
22 got to work with the repair industry and make sure we
23 do this right. And that's why it's taking a little
24 bit longer than we though.
25 MR. BYRON WILLIAMS: Sir, and I thank

1 you for that thoughtful answer. Just so I -- to make
2 sure I followed you, you're suggesting that of the two
3 hundred and sixty-six (266) accredited rep -- repair
4 shops there is rou -- less than half, being one
5 hundred and ten (110) that currently do enough volume,
6 being five (5) repairs a week, to -- to continue in
7 the -- the new world order of PDR?
8 MR. DAN GUIMOND: Yes, to keep up with
9 the investments that the manufacturing are -- are
10 requesting in terms of tools, training, facilities.
11 Maybe for an example for the Board, the Ford 150
12 Aluminum, for example, requires an investment of
13 approximately eighty (80) to a hundred fifty thousand
14 dollars ($150,000) per business just to do -- to
15 handle that, because you have to have training. You
16 have to have new tools. And you need to have an
17 aluminum room to ensure no contamination.
18 So it's -- it's just really incredible
19 the changes that are ongoing right now.
20 MR. BYRON WILLIAMS: Sir, you and I
21 have talked about that Ford 150 more than once, so
22 I'll -- I'll move on from that. Of the one hundred
23 and ten (110), how many are outside the City of
24 Winnipeg?
25 And I'm not -- you know, sir, if you

1 want to take that sub -- as an undertaking?
2 MR. DAN GUIMOND: Yes, we -- we have a
3 chart on -- on that actually. I don't have it with me
4 but, yeah, we can take that as an undertaking, yes.
5 MR. BYRON WILLIAMS: And just for the
6 purposes of the reporter, an indication of -- of the
7 one hundred and ten (110) shops, how many are outside
8 the -- the City of Winnipeg.
9
10 --- UNDERTAKING NO. 20: MPI to provide a chart
11 indicating how many of the
12 one hundred and ten (110)
13 shops are outside the City
14 of Winnipeg, and indicate
15 of the seventeen (17)
16 participants in the
17 distributed estimating
18 projecting, how many are
19 outside the City of
20 Winnipeg.
21
22 CONTINUED BY MR. BYRON WILLIAMS:
23 MR. BYRON WILLIAMS: And, Mr. Guimond,
24 you -- you also indicated, sir, that even amongst that
25 one hundred and ten (110) there are -- there are a

1 smaller number that are really gearing up in -- in
2 terms of doing distributed estimating.
3 Is that correct, sir?
4 MR. DAN GUIMOND: Correct.
5 MR. BYRON WILLIAMS: And do you have
6 any sort of estimate of what -- what that number is?
7 MR. DAN GUIMOND: In the pilot --
8 right now we have about seventeen (17) shops that are
9 in the pilot.
10 MR. BYRON WILLIAMS: And in terms of
11 those seventeen (17) shops that are in the pilot, how
12 many of those, sir, are outside the City of Winnipeg?
13 MR. DAN GUIMOND: I -- I don't have
14 the answer to that, I'm sorry.
15 MR. BYRON WILLIAMS: So, sir, would --
16 would you be able in the same undertaking to -- let's
17 just add to it, and indicate of the seventeen (17)
18 participants in the distributed estimating projecting,
19 how many are outside the City of Winnipeg?
20 MR. DAN GUIMOND: Yes.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: Sir, for those
25 who -- for those firms that are -- are not amongst the

1 seventeen (17) currently in distributed estimating, in
2 -- in the future how will estimates be performed for
3 those -- those firm -- firms?
4 Will those -- will they continue to be
5 performed by Manitoba Public Insurance estimators?
6 MR. DAN GUIMOND: Yes, for -- for any
7 estimates not done at the DE shop, they will continue
8 to go to our service centres.
9
10 (BRIEF PAUSE)
11
12 MR. BYRON WILLIAMS: Now, last...
13
14 (BRIEF PAUSE)
15
16 MR. BYRON WILLIAMS: Now, it might
17 have been last year or it might have been the year
18 before, sir, we've -- we've had these conversations
19 over a couple of years, there was some talk about
20 locating MPI estimators at -- at the body shops who
21 were actually performing distributed estimating.
22 Do you recall those conversations?
23 MR. DAN GUIMOND: Yes. It's
24 definitely something that -- that we were considering
25 looking at whether they would be -- that -- that we --

1 we want to have estimators at body shops doing audits.
2 Like whether they're there 100 percent or 50 percent
3 or -- but we -- we will have some of these people on
4 site at those distributed estimating, but the -- the
5 finan -- you know, we're still negotiating in terms of
6 how that's going to happen with the industry, but we
7 will have some form of presence.
8 It -- you know, so it's possible, for
9 example, that -- may have -- be responsible for three
10 (3) shops, for example, or -- we're not too sure we're
11 doing the math on that at this point in time but we
12 will have a form of presence for the DE Shops.
13 MR. BYRON WILLIAMS: And the concern
14 from the Corporation's perspective there, sir, being
15 that while there are opportunities with distributed
16 estimating there are also risks in the sense that the
17 corpor -- the firms undertaking the distributed
18 estimating might have some incentive to puff up their
19 estimates.
20 MR. DAN GUIMOND: Yes, the -- the
21 distributed estimating program -- we've looked closely
22 at what ICBC has been doing for many years but you're
23 quite right that you need to put processes in place
24 through key performance index, earn authority in terms
25 of how much they can approve on their own, having

1 people on site, quality control programs, quality
2 assurance programs have to be in place, and you have
3 to have really -- you have to -- you have to really
4 assure yourself that -- that the processes that you
5 have in place, and you have to have really -- you have
6 to -- you have to really assure yourself that -- that
7 the processes that you have in place can mitigate
8 potential leakage, yes.
9 MR. BYRON WILLIAMS: And, sir, are
10 those KPIs, or key performance indicators, currently
11 on the record?
12 MR. DAN GUIMOND: I'm not aware that
13 they're on the record. We're still negotiating those
14 -- those KPIs with the industry right now.
15 MR. BYRON WILLIAMS: You're not in a
16 position where you can share those with our clients,
17 sir?
18 MR. DAN GUIMOND: Not at this point in
19 time. We're still negotiating them, but I wouldn't
20 have any issues to put that on the record next year.
21 MR. BYRON WILLIAMS: Okay. And I
22 think the -- just a couple more questions on -- on
23 this area, sir. In terms of the -- the seventeen (17)
24 shops that are currently involved in distributed
25 estimating, does the Corporation have any estimates or

1 forecasts of how much of the estimating business those
2 shops will assume?
3 MR. DAN GUIMOND: I'm -- I'm going off
4 memory here, but we -- this will be like a slow --
5 slow conversation. That's why I mentioned, you know,
6 it takes a -- once you implement the program, it takes
7 over a year to mature.
8 But eventually, out of the ninety-three
9 thousand (93,000) vehicles that we have repaired per
10 year, it should be around 70 to 75 percent.
11 MR. BYRON WILLIAMS: So the
12 expectation is that 70 to 75 percent of the vehicles
13 for which estimates are performed will be done by
14 distributed estimating?
15 MR. DAN GUIMOND: When the program is
16 in the mature state, yes.
17 MR. BYRON WILLIAMS: And, sir, in
18 developing that estimate of 70 to 75 percent, was
19 Manitoba Public Insurance drawing upon some source for
20 that estimate such as ICBC, or what's the basis for
21 that estimate, sir?
22 MR. DAN GUIMOND: It's based on the
23 eligible claims, the types of claims that they can
24 process. And then, as time goes by, as -- as more and
25 more of our key business partners become DE, then when

1 you do the math and look at the volume that they
2 process based on -- on the eligibility of the claim,
3 then you -- you get to about 70, 75 percent.
4 MR. BYRON WILLIAMS: Okay. And by DE,
5 sir, you mean distributed estimating?
6 MR. DAN GUIMOND: Correct.
7 MR. BYRON WILLIAMS: Okay. And just
8 if you're able to share, in terms of what is done via
9 that process in BC, is -- is it a similar percentage?
10 And if you're not, sir, I'm --
11 MR. DAN GUIMOND: I'd have to check.
12 I don't know the answer.
13 MR. BYRON WILLIAMS: It's not
14 necessary. Thank you.
15 Mr. Chair and members of the panel, I'm
16 moving to a new subject. I'm happy to keep -- keep
17 going. This will probably take forty (40) minutes or
18 so.
19 THE CHAIRPERSON: Why don't we take a
20 break for fifteen (15) minutes now, and then -- how
21 long -- and after that, how long do you think you'll
22 have, Mr. Williams?
23 MR. BYRON WILLIAMS: Well, I mean to
24 compliment Board counsel because -- both Board
25 counsel. I probably knocked off a couple of hours

1 based on yesterday's cross.

2 THE CHAIRPERSON: Okay.

3 MR. BYRON WILLIAMS: So if I'm not

4 done by noon --

5 THE CHAIRPERSON: Okay.

6 MR. BYRON WILLIAMS: -- I would expect

7 to be done by 2:00. But I'm -- I'm thinking that it

8 may be noon. We -- we have five (5) -- four (4) or

9 five (5) witnesses next week. I don't want you to get

10 sick of me, so --

11 THE CHAIRPERSON: Sure. Okay. Thank

12 you.

13 MR. BYRON WILLIAMS: -- more than you

14 already are.

15 THE CHAIRPERSON: Okay. We'll --

16 we'll break for -- sorry, Mr. Guimond?

17 MR. DAN GUIMOND: Thank you, Mr. --

18 Byron. During the technical conference and the in-

19 camera, the KPIs were shared. Ms. Reichert just

20 reminded me of that.

21 MR. BYRON WILLIAMS: Yes, and my

22 interest was on the -- the public record, but we're --

23 we're not there yet. Okay. Thank you.

24 THE CHAIRPERSON: Okay. We'll --

25 we'll come back at 10:20. Thank you.

1 (DAN GUIMOND RETIRES)

2

3 --- Upon recessing at 10:07 a.m.

4 --- Upon resuming at 10:25 a.m.

5

6 THE CHAIRPERSON: Mr. Williams...?

7 MR. BYRON WILLIAMS: Yes, thank you.

8 I'd just like to introduce two (2) additional

9 exhibits. One is the -- from Ontario, the

10 Superintendent's Minimum Capital Test Guideline, which

11 we'd ask be marked as CAC Exhibit 17.

12

13 --- EXHIBIT NO. CAC-17: Superintendent's Minimum

14 Capital Test Guideline

15

16 MR. BYRON WILLIAMS: And the other is

17 an excerpt from the Saskatchewan Auto Fund Annual

18 Report which we would ask be marked as CAC-18.

19

20 --- EXHIBIT NO. CAC-18: Excerpt from Saskatchewan

21 Auto Fund Annual Report

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: And we'll come to

25 those and Mr. Johnston in just a second.

1 But, Ms. Reichert, if I could get you
2 to turn to PUB-MPI-1-33 at the attachment page 1 for a
3 second. I think Diana will pull it up for us. I
4 didn't give her warning on it. 1 -- PUB First Round
5 33.
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: And if we could
10 go to the fifth last line being financial re-
11 engineering initiative. Diana, if you could scroll
12 down to there, and to the 2016/'17 year.
13 Ms. Reichert, in -- in reviewing this
14 document I see that there -- the forecast is for $2
15 million to be spent on this project in the '16/'17
16 year. Is that correct?
17 MS. HEATHER REICHERT: Yes, that's
18 what's on that schedule.
19 MR. BYRON WILLIAMS: Okay. And -- and
20 just mi -- Mr. Guimond's evidence was that it -- it
21 won't be approved until -- or won't be commenced until
22 the next year?
23 MS. HEATHER REICHERT: The -- the main
24 elements of the FRE project, there is planning
25 activity that is -- has been undertaken. And as I was

1 referencing yesterday when Ms. Grammond asked me if
2 there was any significant changes in the capital plan
3 for the next five (5) years I had indicated that,
4 because our board is still very, very new and, as Mr.
5 Guimond indicated, we haven't yet done a detailed
6 review of the capital plan with them, and it is
7 anticipated that -- that once we receive their
8 strategic direction, they -- they may have different
9 priorities or different emphasis on the -- in the
10 capital plan than what -- than what we have.
11
12 (BRIEF PAUSE)
13
14 MR. BYRON WILLIAMS: So in terms of
15 the schedule before us, your expectation is that the
16 financial re-engineering initiative may be pushed back
17 to the next fiscal year?
18 MS. HEATHER REICHERT: I don't know at
19 this point what decisions may or may not be taken by -
20 - by the new board at MPI.
21 MR. BYRON WILLIAMS: Okay. Mr.
22 Johnston, if I could refer you to your October DCAT
23 report, and specifically page 60 at the top.
24
25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: And, Mr.
2 Johnston, the table that we see at the -- at the top
3 of this page I'll suggest to you is a comparison of
4 the Canadian all items consumer price index, or
5 Canadian CPI, for two (2) different historical
6 periods, the first being from around nint -- circa
7 1915 to 1991 and the other being from 1992 to 2015,
8 agreed?
9 MR. LUKE JOHNSTON: Agreed.
10 MR. BYRON WILLIAMS: And would I --
11 would it be correct to suggest, sir, that the
12 significance of the 1992 date is that is on or about
13 the beginning of the Bank of Canada inflation
14 targeting era?
15 MR. LUKE JOHNSTON: That's correct.
16 MR. BYRON WILLIAMS: And what the
17 Corporation has done here is looked at these two (2)
18 periods in terms of the average rate of inflation for
19 each of these periods as well as the volatility as
20 measured by standard deviation.
21 Would that be fair, sir?
22 MR. LUKE JOHNSTON: That's fair.
23 MR. BYRON WILLIAMS: And what you
24 conclude based on the data analysis, sir, is that the
25 -- in terms of the rate of inflation, it was

1 statistically significantly higher in the era up to
2 1991 as compared to the inflation targeting era
3 beginning in '92, correct?
4 MR. LUKE JOHNSTON: Correct.
5 MR. BYRON WILLIAMS: And in addition,
6 you also point out that there is a statistically
7 significant difference in terms of the volatility or
8 standard deviation between the two (2) eras; agreed?
9 MR. LUKE JOHNSTON: Agreed.
10 MR. BYRON WILLIAMS: And indeed, the
11 1915 to '91 -- 1991 era has far more volatility than
12 the Bank of Canada inflation targeting era.
13 Would that be fair, sir?
14 MR. LUKE JOHNSTON: That's fair.
15 MR. BYRON WILLIAMS: And, sir, this
16 was one (1) of the improvements suggested to the
17 Corporation as part of the dynamic capital adequacy
18 testing collaborative process.
19 Would that be fair?
20 MR. LUKE JOHNSTON: That's fair. And
21 the con -- the resulting conclusion from that, or
22 these discussions, were if we believe that the new --
23 this new era, post-1992 is the right measure of
24 inflation risk then, as you can see, the risk of -- of
25 inflation is much lower than -- than if you had looked

1 at historical periods prior to 1992.
2 MR. BYRON WILLIAMS: Okay. Thank you
3 for that, sir. Mr. Johnston, and again, Ms. Reichert,
4 feel free to pop in at any point in time.
5 But by way of introduction to the MCT,
6 Mr. Johnston, you'll agree that in a competitive
7 marketplace insurers face an ongoing risk that if
8 customers are not happy they can go to another
9 supplier of insurance, agreed?
10 MR. LUKE JOHNSTON: Agreed.
11 MR. BYRON WILLIAMS: Those customers
12 may be unhappy with their service. They may be
13 unhappy with their price. But in a competitive
14 marketplace if unhappy they can go elsewhere, correct?
15 MR. LUKE JOHNSTON: Correct.
16 MR. BYRON WILLIAMS: And in a
17 competitive marketplace if a firm has enough unhappy
18 customers who go elsewhere and its pockets are not
19 deep enough to endure the revenue loss, there is a
20 risk it could go broke. Agreed?
21 MR. LUKE JOHNSTON: Sure, if a -- if a
22 company loses enough business they could go broke. I
23 agree.
24 MR. BYRON WILLIAMS: If it loses
25 enough business and its pockets are not deep enough in

1 terms of its own capital it could go broke?
2 MR. LUKE JOHNSTON: Yeah, it's -- I
3 guess my point -- additional point there would be if
4 your product is priced correctly and you're making 10
5 percent profit, for example, it's okay if your
6 business shrinks a little bit or grows a little bit,
7 as long as your -- your product is profitable.
8 It's likely more in regards to the
9 fixed expenses that they might have that they can't --
10 you know, that don't vary with the premium that they
11 write. But -- but if your point is -- yes, they -- a
12 private company does have to keep its customers. And
13 if doesn't have customers it's not going to be around
14 anymore.
15 MR. BYRON WILLIAMS: And in that event
16 that may put at risk not only the company, but also
17 the -- potentially the persons that it insures,
18 agreed?
19 MR. LUKE JOHNSTON: So if the company
20 has funded liabilities and has excess capital in
21 place, I would assume that that company is able to pay
22 any existing claim and obligations that they have. It
23 would have to be -- an insurance company in Canada
24 would have to be in a very detrimental position to not
25 be able to pay existing liabilities or -- or policies

1 that it issued.

2 MR. BYRON WILLIAMS: Thank you for

3 that. I wonder if we can pull up PUB Order 162/11,

4 page 6 of 88. Scroll -- that's perfect there, Diana.

5 Whoa. That's perfect. At the risk of being too

6 obvious, Mr. Palmer -- Mr. Johnston, I apologize for

7 that. In terms of its Basic program, Manitoba Public

8 Insurance enjoys a -- a legislative monopoly.

9 That's your understanding?

10 MR. LUKE JOHNSTON: On Basic, yes.

11 MR. BYRON WILLIAMS: And you'll note

12 in this par -- paragraph -- in this order an

13 observation on -- in the second paragraph that with

14 MPI having in excess of 90 percent of the extension

15 market, the Public Utilities has -- Public Utility

16 Board has observed that it has what some might

17 describe as a near monopoly, agreed?

18 MR. LUKE JOHNSTON: Agree with the

19 reference that you've stated, and I can tell you that

20 the -- our -- our makeup of that market continues to

21 be at approximately that 95 percent range.

22 MR. BYRON WILLIAMS: And we can

23 speculate about the -- the cause of that market

24 dominance but certainly the extension program benefits

25 from its relationship with the -- the Basic platform,

1 agreed?

2 MR. LUKE JOHNSTON: I would agree with

3 that, yes.

4 MR. BYRON WILLIAMS: And you'll agree

5 as -- as a company enjoying a monopoly in -- in the

6 provision of Basic insurance, as well as a near

7 monopoly in the provision of extension insurance,

8 Manitoba Public Insurance does not face the same, in

9 quotation marks, "insolvency risk" as insurers in a

10 competitive marketplace, agreed?

11 MR. LUKE JOHNSTON: Okay, so the

12 important point -- I -- I get where -- where we're

13 going with this. So I agree that the risk to MPI from

14 losing business, or having large swings in their

15 premium base, is non-existent for -- for Basic.

16 That's clear.

17 What continues to exist obviously is

18 the fact that we invest money, have claims, are

19 subject to other economic type variables, and those

20 exist regardless of our status of -- as a public

21 insurer or private insurer.

22 MR. BYRON WILLIAMS: And, sir, for the

23 purposes of your DCAT analysis, I'm not going to take

24 you there, but you concluded that:

25 "As a monopoly insurance provider of

1 compulsory auto mobile insurance,
2 premium risk is not a significant
3 risk factor for Manitoba Public
4 Insurance Basic."
5 MR. LUKE JOHNSTON: Agreed. There's -
6 - premium risk is really, in the absence of rate
7 changes, tied to our annual volume growth and upgrade
8 factor, and those are very stable items.
9 MR. BYRON WILLIAMS: And, sir -- and
10 this can go to you or Ms. Reichert if you feel
11 comfortable answering it, but you'll recall some
12 reference by your legal counsel and -- in terms of the
13 -- the Kopstein report on the record of this
14 proceeding last -- just last week.
15 You're nodding your head.
16 MR. LUKE JOHNSTON: Yes.
17 MR. BYRON WILLIAMS: And again, Mr.
18 Johnston, if you're not able to go with me this far
19 you'll let me know, but would you agree that Mr.
20 Justice Kopstein in his report, being a report of the
21 Autopac Review Commission from 1988, concluded that
22 the fact that MPI had both a monopoly and government
23 fact -- backing is two (2) factors in determining that
24 the -- that it did not require the level of capital
25 required by solvency considerations.

1 MR. LUKE JOHNSTON: I'll accept that -
2 - that reference, and MPI agrees -- like the Rate
3 Stabilization Reserve range that we're apply for is
4 really no where close to what a private insurer would
5 hold.
6 MR. BYRON WILLIAMS: And despite that
7 fact, sir, you have been comfortable in opining on the
8 financial health of the Corporation based upon that
9 lower target based upon the -- the DCAT and a one (1)
10 in forty (40) confidence level, agreed?
11 MR. LUKE JOHNSTON: Agreed.
12
13 (BRIEF PAUSE)
14
15 MR. BYRON WILLIAMS: Again I -- I'm
16 not asking for a legal opinion just to be clear, but
17 it's your understanding that for rate setting purposes
18 the Rate Stabilization Reserve is set by the Public
19 Utilities Board, an independent tribunal, agreed?
20 MR. LUKE JOHNSTON: Agreed.
21 MR. BYRON WILLIAMS: The rate
22 stabilization reserve or appropriate methodology for
23 determining the rate stabilization reserve in Manitoba
24 I'll suggest to you is not dictated by legislatures or
25 provincial cabinets, agreed?

1 MR. LUKE JOHNSTON: Agreed.
2 MR. BYRON WILLIAMS: And to your
3 knowledge, the Public Utilities Board has not received
4 any special direction or regulation that it adopt any
5 particular methodology with -- with regard to the rate
6 stabilization reserve.
7 Would that be fair, sir?
8 MR. LUKE JOHNSTON: I'm not aware what
9 direction you might have received, but I'm not aware
10 of any.
11 MR. BYRON WILLIAMS: And I think the
12 number for this exhibit has been changed to PUB-18, a
13 Canadian Vision for Property and Casualty Insurer. I
14 just want to go to the front page, please. The page
15 before that, the cover page, please, Diana. Sorry
16 about that.
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: Mr. Johnston,
21 we're not going to go through this in any detail.
22 We're going to focus on the title.
23 With the confidence that I'm supported
24 by the MCT advisory committee, would it be fair to
25 consider the MCT as a solvency assessment, sir?

1 MR. LUKE JOHNSTON: That's fair.
2 MR. BYRON WILLIAMS: And directing
3 your attention to CAC Exhibit 17 from the Ontario
4 Superintendent, the first page, please, Diana, at the
5 top.
6 And, Mr. Johnston, you've received this
7 document prior from -- from CAC (Manitoba).
8 Is that right?
9 MR. LUKE JOHNSTON: Yes, I did.
10 MR. BYRON WILLIAMS: So while you've
11 not memorized it, you've had a chance to familiarize
12 yourself with your -- with the document?
13 MR. LUKE JOHNSTON: Yes.
14 MR. BYRON WILLIAMS: And you'll see
15 that the superintendent again describes the MCT as a
16 harmonized capital adequacy solvency test?
17 MR. LUKE JOHNSTON: I see that.
18 MR. BYRON WILLIAMS: And you -- you
19 agree with that observation, sir?
20 MR. LUKE JOHNSTON: I do.
21 MR. BYRON WILLIAMS: Now, I just want
22 to go down four (4) paragraphs to the paragraph
23 beginning, "Reciprocal." Mr. Johnston, based upon
24 your probably less than exhaustive review of the
25 document, I'll wonder if you'll accept that certain

1 insurers in Ontario are exempt from complying with the
2 MCT.
3 Will you accept that -- that, sir?
4 MR. LUKE JOHNSTON: Yes, I will.
5 MR. BYRON WILLIAMS: And the reason
6 for that by virtue of the Ontario guidelines is
7 because they have other venues in terms of capital
8 support, whether that is membership in -- in farm
9 mutuals or participation in reciprocal agreements.
10 Would that be fair, sir?
11 MR. LUKE JOHNSTON: That's fair, and
12 although I don't understanding of how those
13 necessarily operate, but I accept that.
14 MR. BYRON WILLIAMS: And, sir, in your
15 evidence last week, you made reference to the -- the
16 MCT target employed in British Columbia.
17 You remember that, sir?
18 MR. LUKE JOHNSTON: I do.
19 MR. BYRON WILLIAMS: And you'll agree
20 that, in British Columbia, there has been special
21 direction, being Special Direction IC2 (phonetic) to
22 the British Columbia Utilities Commission directing
23 that it adopt the MCT, sir?
24 MR. LUKE JOHNSTON: Yes, that's my
25 understanding.

1 MR. BYRON WILLIAMS: And in terms of
2 Saskatchewan, the Auto Fund, sir, I wonder if we can
3 just turn to page 12 of CAC Exhibit 18, which is the
4 second page of the -- the -- at the top, and focussing
5 your attention, sir, on the -- the last couple of
6 sentences of the first paragraph under, "Capital
7 adequacy," as you indicated in your evidence, sir, the
8 auto fund has a long-term goal of a hundred percent
9 MCT. Is that fair?
10 MR. LUKE JOHNSTON: That's fair.
11 MR. BYRON WILLIAMS: Its target,
12 you'll agree, sir, for 2015 was 69 percent, agreed?
13 MR. LUKE JOHNSTON: So I won't -- I'm
14 not going to pretend to know every -- every detail of
15 this. But if there's a long-term goal of a hundred
16 percent and you're not at that level right now, you
17 will have short-term targets.
18 So, for example, if MPI had a target of
19 a certain MCT percentage, we might want to plan to get
20 to that target over a certain number of years. And
21 that -- that would be my interpretation of -- of what
22 you see here.
23 MR. BYRON WILLIAMS: Thank you. And,
24 sir -- and -- and if you're not familiar enough with
25 the -- the auto fund, that's fine.

1 Is it your understanding that in
2 Saskatchewan, they don't use a surcharge or dividend
3 process?
4 MR. LUKE JOHNSTON: No, my -- my
5 understanding is that they actually have a -- a rate
6 surcharge in effect right now. Like, I would have to
7 verify that with them. But my -- my understanding is
8 that they have, as noted here, a capital target, and
9 decisions have to be made on how to rebuild, if
10 necessary, that target in -- in each of their rate
11 submissions.
12 MR. BYRON WILLIAMS: Okay. Well,
13 we'll -- thanks, Mr. Johnston. Probably both doing
14 this on the -- on the fly on that point. Thank you.
15 I'm moving to investment income. And,
16 again, Ms. Reichert or Mr. Johnston, whoever wants,
17 I'm happy with both, or equally unhappy, it depends
18 what kind of answers we get, we can agree that
19 investment income is a vital source of revenue to
20 Manitoba Public Insurance for rate -- rate making,
21 agreed?
22 MS. HEATHER REICHERT: Agreed.
23 MR. BYRON WILLIAMS: And a shortfall
24 in investment income to budget can have an adverse
25 effect on rates charged to Manitoba motorists,

1 correct?

2 MS. HEATHER REICHERT: Yes, it can.

3 MR. BYRON WILLIAMS: And we've

4 discussed previously that for the Corporate and Basic

5 portfolio, 2015/'16 was a -- a tougher year in terms

6 of investments, agreed?

7 MS. HEATHER REICHERT: Yes, we have

8 discussed that.

9 MR. BYRON WILLIAMS: The standard and

10 the S&P TS index fell by 12.9 percent, subject to

11 check?

12 MS. HEATHER REICHERT: Subject to

13 check, I'll take your word for it.

14 MR. BYRON WILLIAMS: And we've already

15 discussed the $28.5 million write-down of Basic

16 equities?

17 MS. HEATHER REICHERT: Yes, we have.

18 MR. BYRON WILLIAMS: And the events of

19 2015/'16 have also rolled into your forecast for the

20 rating period in ter -- in -- in the -- to the degree

21 that forecast realized gains are lower than they --

22 they were a year ago?

23 MS. HEATHER REICHERT: To the extent

24 that we are starting with a lower base amount in our

25 equities. We are continuing to forecast returns on

1 equities at the 7.2, 7.3 percent based on the twenty
2 (20) year whatever, the -- the formula methodology
3 that's been agreed with the Public Utility Board.
4 So we are forecasting revenue and gains
5 at the same rate. It's just that with the -- with the
6 impairments that occurred in '15/'16, that's applied
7 to a -- a lower investment base.
8 MR. BYRON WILLIAMS: And all other
9 things being equal, the lower the base, the -- the
10 forecast is accordingly lowered, as well, agreed?
11 MS. HEATHER REICHERT: That's correct.
12 MR. BYRON WILLIAMS: And from time to
13 time, Manitoba Public Insurance conducts asset
14 liability management studies, or ALM studies, which
15 seek to establish appropriate asset allocation
16 targets, agreed?
17 MS. HEATHER REICHERT: Agreed,
18 approximately every four (4) to five (5) years. We
19 did one (1) in 2004, 2008, and then the most recent
20 one (1) was conducted in the 2014/'15 period.
21 MR. BYRON WILLIAMS: And the one (1)
22 in 2003 or '04 was by Mercers. Is that -- you'll --
23 you'll accept subject to check?
24 MS. HEATHER REICHERT: Yeah. No, that
25 -- it was done by Mercers.

1 MR. BYRON WILLIAMS: And that is filed
2 as part of the record of this proceeding?
3 MS. HEATHER REICHERT: Yes, it is.
4 MR. BYRON WILLIAMS: And the one (1)
5 in 2008 was performed by Aon, A-O-N, agreed?
6 MS. HEATHER REICHERT: Yes, it was.
7 MR. BYRON WILLIAMS: As was the one
8 (1) in 2014?
9 MS. HEATHER REICHERT: Yes, it was.
10 MR. BYRON WILLIAMS: And you're aware
11 as well, Ms. Reichert, that on the record of this
12 proceeding is evidence filed on behalf of CAC
13 (Manitoba), but doctors Hum and Simpson on investment
14 portfolio allocation in 2010, agreed?
15 MS. HEATHER REICHERT: Yes.
16 MR. BYRON WILLIAMS: And when one
17 looks at asset liability matching, or ALM, we're
18 obviously looking to optimize the return relative to
19 an acceptable level of risk, agreed?
20 MS. HEATHER REICHERT: That's correct.
21 MR. BYRON WILLIAMS: And you're
22 familiar with modern portfolio theory which suggests
23 that adding assets to a diversified portfolio that
24 have correlations of less than one (1) with each other
25 can actually decrease portfolio risk without

1 sacrificing return.
2 At a high level you're familiar with
3 that one?
4 MS. HEATHER REICHERT: At a very high
5 level, yes.
6 MR. BYRON WILLIAMS: Well, certainly -
7 - and if -- if this is more appropriate to Mr.
8 Johnston, but as senior executives heavily involved in
9 the investment portfolio business, you'll have some
10 familiarity with the principles and objectives of
11 modern portfolio theory?
12 MS. HEATHER REICHERT: Yes.
13 MR. BYRON WILLIAMS: And a -- again,
14 at a high level, investments that yield a higher
15 return over a given period of time are typically
16 associated with greater risk, agreed?
17 MS. HEATHER REICHERT: Yes, that's
18 correct.
19 MR. BYRON WILLIAMS: And one (1)
20 measure of risk is the variability of return often
21 represented by a statistical measure such as variance,
22 agreed?
23 MS. HEATHER REICHERT: Agreed.
24 MR. BYRON WILLIAMS: Standard
25 deviation might be a -- a well-accepted measure of

1 that?

2 MS. HEATHER REICHERT: Sure.

3 MR. BYRON WILLIAMS: Since investment

4 vehicles give different expected returns, a portfolio

5 consisting of many investment vehicles, I'll suggest

6 to you, will give an expected return that is a

7 weighted average of the returns of the various

8 investment vehicles comprising that portfolio?

9 MS. HEATHER REICHERT: Yes, that's --

10 that's correct.

11 MR. BYRON WILLIAMS: But it would be

12 fair to say that the risk or variance of the entire

13 portfolio is not a simple sum of the variances of the

14 individual investment vehicles, agreed?

15 MS. HEATHER REICHERT: Agreed.

16 MR. BYRON WILLIAMS: Assuming that

17 they have correlations of less than one (1) of course?

18 MS. HEATHER REICHERT: Of course.

19 MR. BYRON WILLIAMS: And it would be

20 fair to say that some investments are correlated

21 negatively with others in the sense that they tend to

22 move in opposite directions?

23 MS. HEATHER REICHERT: Yes, that's --

24 that's correct.

25 MR. BYRON WILLIAMS: I.e., when

1 investment A goes up in value, investment B goes down?
2 MS. HEATHER REICHERT: Right, if
3 they're negatively correlated, that would be the --
4 that would be the situation.
5 MR. BYRON WILLIAMS: And negative
6 correlation is modern portfolio theory takes advantage
7 of this fact in -- in constructing portfolios, agreed?
8 MS. HEATHER REICHERT: Agreed.
9 MR. BYRON WILLIAMS: By including
10 investment vehicles that are negatively correlated,
11 the actual variance of the portfolio can be reduced,
12 since price movements in the separate investment
13 vehicles tend to offset each other.
14 Would that be fair?
15 MS. HEATHER REICHERT: Yeah, that
16 would be fair.
17 MR. BYRON WILLIAMS: And if I used...
18
19 (BRIEF PAUSE)
20
21 MR. BYRON WILLIAMS: And if I use the
22 term 'efficient portfolio' would you understand that
23 to mean a portfolio with a given expected return that
24 cannot further reduce risk through diversifications?
25 That's a common definition of an efficient portfolio?

1 MS. HEATHER REICHERT: Yeah, efficient
2 -- efficient frontier, efficient port -- portfolio,
3 yes.
4 MR. BYRON WILLIAMS: Okay. And let's
5 not assume I'm a rational investor, but if -- to the
6 extent that there is a rational investor, portfolio
7 theory suggests that a rational investor would only
8 choose a portfolio from among those that are
9 efficient, agreed?
10 MS. HEATHER REICHERT: It -- yes --
11 yeah, like it depends on the risk tolerance, I think,
12 of the particular investor. So as an example at MPI
13 we don't have -- I'll -- I'll use the analogy.
14 If you have a lot of money in the bank
15 in your savings account, and it's invested in an
16 efficient portfolio, and you have -- you have a
17 windfall of -- of -- maybe you get a bonus unlike
18 employees at MPI, and based on the fact that you have
19 sufficient money in savings that you're comfortable
20 with that is -- is being invested prudently, that
21 bonus you may, therefore, be able to take on more risk
22 and invest it in something that is going to
23 potentially give you a much higher return but
24 potentially also not generate that high return and --
25 and you could lose that investment. But you're

1 willing to take on that risk because you have the
2 capital reserve in the bank at the time.
3 So at -- at MPI because currently, and
4 at the time that we did the ALM study our RSR reserve
5 was in the 10 to 20 percent of written premium range,
6 not based on risk factors specific to the Corporation.
7 That resulted in us not having enough money in the
8 bank to be able to take more risk with the investments
9 that -- that we were making.
10 So that very much impacted the Aon
11 asset/liability management study that was done where
12 we absolutely could not afford to take on significant
13 risk and potentially lose more of what was already a
14 very small capital amount that we had.
15 MR. BYRON WILLIAMS: Ms. Reichert,
16 thank you for that answer.
17 Just to go back to the question, I -- I
18 think what you were saying is that among that frontier
19 or family of efficient portfolios, the optimal
20 portfolio chosen by any particular investor or
21 corporation is determined by that individual's
22 preference for trading off greater return against more
23 risk, assuming a rational investor.
24 MS. HEATHER REICHERT: Correct. So a
25 rational investor will make their determinations based

on the risk that they are comfortable in taking. And my example was to show that often the amount of risk that you're able to take is directly related to the amount of savings or capital that you have in the bank at the time that you're making this decision.

MR. BYRON WILLIAMS: And we're going to go into the Aon report filed as PUB-MPI-1-20. And, Mr. Chair, usually I give Diana notice of where I'm going. I wonder if I could just stand down for like two (2) minutes, just -- I'll take two (2) minutes but it'll probably save us five (5) or ten (10).

THE CHAIRPERSON: Certainly.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I apologize for that. I -- I usually give that over the break.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: If we could go to page -- PDF page 41 of PUD -- MPI-1-20.

(BRIEF PAUSE)

1 MR. BYRON WILLIAMS: Ms. Reichert,
2 you're at a high level familiar with the Aon report,
3 agreed?
4 MS. HEATHER REICHERT: Agreed.
5 MR. BYRON WILLIAMS: And what Aon does
6 in -- in -- on this particular page of its report is
7 outline its -- its constraint that -- that it operated
8 under in performing its asset liability assessment,
9 agreed?
10 MS. HEATHER REICHERT: Yes.
11 MR. BYRON WILLIAMS: And focusing on
12 the minimum, you'll see that in terms of the liability
13 matching portfolio, a minimum of that -- of the asset,
14 55 perc -- had to be 55 percent related to liability
15 matching, agreed?
16 MS. HEATHER REICHERT: Yes, that's
17 correct.
18 MR. BYRON WILLIAMS: And in terms of
19 total equities, there had to be a minimum of 10
20 percent going down about seven (7) lines, Ms.
21 Reichert?
22 MS. HEATHER REICHERT: Yes, that's
23 correct.
24 MR. BYRON WILLIAMS: And in terms of
25 total alternatives, there had to be a minimum of 15

1 percent, agreed --

2 MS. HEATHER REICHERT: Be --

3 MR. BYRON WILLIAMS: -- the second

4 last line?

5 MS. HEATHER REICHERT: Correct, being

6 real estate and infrastructure.

7 MR. BYRON WILLIAMS: We'll come to

8 that in a second. In terms of the portfolio, 80

9 percent was constrained in terms of these minimums, 55

10 -- being 55 plus 10 plus 15, agreed?

11 MS. HEATHER REICHERT: Yes, that's

12 correct.

13 MR. BYRON WILLIAMS: And digging in a

14 little deeper, amongst total equities, in essence,

15 what the Corporation said, that of the total

16 portfolio, 10 percent had to be devoted to Canadian

17 equities, agreed?

18 MS. HEATHER REICHERT: Yes, that's

19 correct.

20 MR. BYRON WILLIAMS: And with another

21 10 percent directed to Canadian direct real estate,

22 correct --

23 MS. HEATHER REICHERT: Yes.

24 MR. BYRON WILLIAMS: -- under,

25 "Alternatives?"

1 MS. HEATHER REICHERT: Yes, that's
2 correct. And specifically as it relates to the
3 Canadian direct real estate, you need to appreciate
4 that our current portfolio already has, or has had at
5 that time of this particular study, had investments in
6 Canadian real estate. And as it's noted there, real
7 estate isn't a liquid asset. It is not easily
8 divested.
9 And so in order not to have to trigger
10 sales of -- of real estate, we set that as a
11 constraint, that -- that we wanted to maintain the --
12 the amount that we had.
13 MR. BYRON WILLIAMS: We'll come to
14 this. But just while -- while you bring it up, of
15 that direct real estate portfolio, you'll agree,
16 subject to check, that over 50 percent is allocated to
17 Ontario, British Columbia, and Alberta?
18 MS. HEATHER REICHERT: Subject to
19 check. I don't have those numbers in my head.
20 MR. BYRON WILLIAMS: We'll come back
21 to that. In terms of these constraints, both in terms
22 of the -- the universe, but in terms of the -- more
23 particular, the minimum/maximum constraints, they were
24 directed by the Investment Committee Working Group,
25 agreed, Ms. Reichert?

1 MS. HEATHER REICHERT: Yes. That's
2 the committee that's joint with the Department of
3 Finance.
4 MR. BYRON WILLIAMS: And I can give
5 you references if you require, Mr. Reichert, but would
6 you agree that may -- Aon observed that the minimum
7 constraints imposed to allocations to Canadian
8 equities, real estate, and infrastructure leave
9 limited room for other asset class -- classes,
10 especially at large levels of fixed income allocation?
11 MS. HEATHER REICHERT: Yes, that --
12 that is true.
13 MR. BYRON WILLIAMS: And even focusing
14 on this page, you'll see Aon noting that it should
15 target about 15 to 30 percent inflation-sensitive
16 assets, but that that might not be feasible while
17 respecting the other constraints, agreed?
18 MS. HEATHER REICHERT: Yes, agreed.
19 MR. BYRON WILLIAMS: I wonder -- I --
20 I would like to direct your attention to the response
21 to CAC (Manitoba)/MPI-I-69(b), Attachment C. That's a
22 mouthful. That's the evidence of Dr. Hum and -- and
23 Dr. Simpson that's filed on the record of this
24 proceeding, and page 9 and -- 9 and 10, Diana, if you
25 could. Oh, stop -- go to the top of that page.

1 Ms. Reichert, I offer this simply to --
2 to refresh your memory, and if you want a second to
3 look over it, please, do and then we can scroll down
4 to the -- just let us know when we can scroll onto the
5 next page.
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: Keep -- move on,
10 Diana, please. Thank you. Just a bit higher.
11
12 (BRIEF PAUSE)
13
14 MR. BYRON WILLIAMS: Ms. Reichert,
15 I'll -- I'll suggest to you what Dr. Hum in particular
16 is observing is that both Mercer in its 2003 report,
17 Aon in its 2008 report, and Hum and Simpson in their
18 2010 report were recommending that less weight
19 relatively be given to Canadian equities and more to
20 non-Canadian equities.
21 Is that your understanding as well?
22 MS. HEATHER REICHERT: Yes. Based on
23 this, yes.
24 MR. BYRON WILLIAMS: So there
25 certainly was some advice provided to the Corporation

1 by Hum and Simpson, Aon, and Mercer in terms of
2 wondering whether the -- there was an overweight to
3 Canadian equities. Would that be fair?
4 MS. HEATHER REICHERT: Not remembering
5 exactly the proportion of the portfolio at that time
6 that was in Canadian equities, I would say that these
7 -- these comments or these -- these suggestions were
8 that there should be possibly less in -- in Canadian
9 equities and more in non-Canadian equities.
10 I just do want to remind the Public
11 Utility Board that ultimately the investment manger
12 for our investment portfolio is the Minister of
13 Finance in the Province of Manitoba. And while
14 studies are done and recommendations are given,
15 ultimately it is the decision of -- of the Province of
16 Manitoba and the Minister of Finance on exactly how
17 those recommendations are taken, and how they may or
18 may not be implemented.
19 MR. BYRON WILLIAMS: In undertaking
20 the 2014, two zero one four (2014), asset -- asset
21 liability management -- ALM study, excuse me, did
22 Manitoba Public Insurance ask Aon to opine to offer an
23 opinion on the relative weight given to Canadian
24 equities versus other equities?
25 MS. HEATHER REICHERT: I'm not sure if

1 we asked them to opine. I believe that we did
2 indicate that we had a desire -- a home bias, if you
3 will, to invest in Canadian equities, and -- and then
4 that is one of the constraints that they -- they were
5 given as part of the study analysis that they did.
6 MR. BYRON WILLIAMS: Okay. Just so
7 I'm clear, you didn't ask them to offer an opinion on
8 the implications, if any, for the optimization of the
9 portfolio of that 10 percent constraint to Canadian
10 equities.
11 MS. HEATHER REICHERT: I -- I don't
12 believe that -- that we asked them to opine on that.
13 Having said that, we did ask -- or as part of their
14 study they did look at international equities, they
15 did look at US equities, in determining the amount
16 left to be allocated of the portfolio whether or not
17 investments in those -- those particular areas was a
18 risk benefit to the Corporation.
19 MR. BYRON WILLIAMS: Fair enough, but
20 always subject to that 10 percent constraint.
21 MS. HEATHER REICHERT: Yes, subject to
22 the 10 percent home bias.
23 MR. BYRON WILLIAMS: If we could turn
24 to CAC-MPI First Round Information Request 1-83 and
25 focus just on the preamble.

1 Ms. Reichert, I can give you a paper
2 copy of this IR if it -- if it helps you. But I'll
3 suggest to you that the composition of certain
4 portfolios were presented to MPI, and it was asked
5 whether it took issue with the institutional investor
6 data presented. And it indicated it did not in answer
7 -- answer A to this response.
8 Would you accept that?
9 MS. HEATHER REICHERT: I'll accept
10 that.
11 MR. BYRON WILLIAMS: And if we could
12 just for a moment, Ms. Reichert, what the first chart
13 -- let's call it a chart, I'm not sure if that's the
14 right word -- what the first chart does is compare the
15 public equity mix of MPI and -- and SGI at a certain
16 period of time, agreed?
17 MS. HEATHER REICHERT: Agreed.
18 MR. BYRON WILLIAMS: And what we see
19 with SGI is a presence in international equity, US
20 equity, and Canadian equity, correct?
21 MS. HEATHER REICHERT: That is
22 correct.
23 MR. BYRON WILLIAMS: For MPI, a
24 presence in Canadian and US equity. Agreed?
25 MS. HEATHER REICHERT: That's correct.

1 MR. BYRON WILLIAMS: And what you
2 would also observe upon reviewing this data, Ms.
3 Reichert, is that, from the perspec -- the SGI
4 portfolio at this point in time, over half was in non-
5 Canadian equity.
6 Would that be fair?
7 MS. HEATHER REICHERT: Yes, that would
8 be fair.
9 MR. BYRON WILLIAMS: Whereas two-
10 thirds of the MPI public equity were concentrating
11 Canadian, correct?
12 MS. HEATHER REICHERT: Correct.
13 MR. BYRON WILLIAMS: Just scroll up to
14 the next diagram, please. Again, this is taken at a
15 point in time, but it purports, Ms. Reichert, to look
16 at the mix from the Pension Investment Association of
17 Canada versus MPI, correct?
18 MS. HEATHER REICHERT: Correct.
19 MR. BYRON WILLIAMS: And again, you
20 see the portfolio presented at this point in time for
21 PIAC, P-I-A-C, being with a presence in international,
22 US, and Canadian. Agreed?
23 MS. HEATHER REICHERT: Agreed.
24 MR. BYRON WILLIAMS: And again, with a
25 -- as compared to MPI, with a relatively smaller

1 presence in Canadian equity, correct?
2 MS. HEATHER REICHERT: That's correct.
3 MR. BYRON WILLIAMS: And finally, if
4 we could just go to page 3, Ms. Reichert, this is a
5 excerpt at a point in time for the Manitoba Teachers
6 Retirement Allowance Fund, you'll agree?
7 MS. HEATHER REICHERT: Yes, I will.
8 MR. BYRON WILLIAMS: And you'll see
9 again a presence in international, US, and Canadian,
10 correct?
11 MS. HEATHER REICHERT: Yes, that's
12 correct.
13 MR. BYRON WILLIAMS: And again, for
14 the TRAF, a foreign exposure roughly -- not -- not --
15 significantly larger than the foreign exposure for
16 MPI, agreed?
17 MS. HEATHER REICHERT: Yes, I agree.
18
19 (BRIEF PAUSE)
20
21 MR. BYRON WILLIAMS: Ms. Reichert, in
22 terms of Manitoba Public Insurance's port -- and
23 perhaps just to assure you, I -- I should turn to CAC-
24 1-88(2). Go to the next page, please, Diana. Oh,
25 keep going. There we go.

1 Ms. Reichert, you'll accept that this
2 represents the diversification of the real estate
3 portfolio by region?
4 MS. HEATHER REICHERT: Yes, I will.
5 MR. BYRON WILLIAMS: And you've
6 observed that this portfolio is not very liquid,
7 agreed?
8 MS. HEATHER REICHERT: Correct.
9 MR. BYRON WILLIAMS: And you're a
10 better mathematician than I, but would it be fair to
11 say that actually over 60 percent of the portfolio is
12 concen -- concentrated in Ontario, Alberta, and BC,
13 being 37 plus 13 plus 12?
14 MS. HEATHER REICHERT: Sure. Yes.
15 MR. BYRON WILLIAMS: And does the
16 Corporation have any concerns in terms of a public
17 discourse about whether the Ontario or British
18 Columbia real estate markets are overheated?
19 MS. HEATHER REICHERT: I don't have
20 any overall comments in that. I -- I look at this and
21 -- and see that we are in fact diversified within the
22 real estate portfolio, not only by covering various
23 provinces, but also diversified in the type of real
24 estate holdings that there are.
25 So while a particular market might be

1 overheated in the -- in the residential real estate,
2 it may be less so in -- in commercial. And we're
3 diversified on -- on both of those fronts.
4 MR. BYRON WILLIAMS: Okay. Thank you
5 for that. Now, we sometimes use in these hearings the
6 term MUSH, M-U-S-H, bonds.
7 That's a term you're familiar with, Ms.
8 Reichert?
9 MS. HEATHER REICHERT: Yes, I am.
10 MR. BYRON WILLIAMS: And that refers
11 to some of the bonds that Manitoba Public Insurance
12 has invested in Manitoba, whether in hospitals,
13 schools, or universities that are generally considered
14 to be non-marketable?
15 MS. HEATHER REICHERT: Actually, MUSH
16 refers to investments in -- in bonds for
17 municipalities, schools, and hospitals. It no longer
18 includes universities.
19 MR. BYRON WILLIAMS: Yes, and you've
20 made that point in other hearings. I apologize for
21 that. In terms of the accounting treatment, these
22 bonds are classified as held to maturity on the basis
23 that there's no secondary market for these bonds.
24 Would that be fair?
25 MS. HEATHER REICHERT: Yes, that's

1 correct.

2 MR. BYRON WILLIAMS: What I'm

3 wondering, Ms. Reichert, you'll agree with me that on

4 the record of this proceeding are comparisons between

5 the performance of the Manitoba Public Insurance

6 portfolio both against certain Manitoba portfolios,

7 such as Workers' Compensation.

8 You're -- you're familiar with that?

9 MS. HEATHER REICHERT: Yes, I am.

10 MR. BYRON WILLIAMS: And there also is

11 a comparison on the record comparing the performance

12 of the Manitoba Public Insurance portfolio prepared by

13 Ellement, E-L-L-E-M-E-N-T, agreed?

14 MS. HEATHER REICHERT: Agreed.

15 MR. BYRON WILLIAMS: And that looks at

16 a -- a different marketplace sometimes described as

17 the custom universe median, or the -- would that be

18 fair?

19 MS. HEATHER REICHERT: Yes, that

20 sounds fair.

21 MR. BYRON WILLIAMS: Yeah. What I'm

22 wondering, Ms. Reichert, is for the purpose of that

23 analysis, let's start with the Ellement and -- and

24 it's on the record, it's CAC 1-96.

25 I don't think you need to turn there,

1 but when Ellement is comparing MPI's portfolio to
2 other portfolios, does it imply a market value on non-
3 market bonds?
4 And if you need a reference, Diana,
5 page 5 of 12 of Board PDF page 8.
6 MS. HEATHER REICHERT: It's my
7 understanding that -- that they do two (2) analysis,
8 both on an implied market value and book value for the
9 MUSH bonds.
10 MR. BYRON WILLIAMS: And who does the
11 calculation of implied market value?
12 MS. HEATHER REICHERT: That would be
13 provided by our investment department at MPI.
14
15 (BRIEF PAUSE)
16
17 MR. BYRON WILLIAMS: And would the
18 Corporation have any obje -- objection to providing
19 insight into how that is calculated and what the most
20 recent year's results were?
21 MS. HEATHER REICHERT: I will take
22 that as an undertaking --
23 MR. BYRON WILLIAMS: Okay.
24 MS. HEATHER REICHERT: -- to provide
25 how the implied market value is determined and what

1 the implied market value return is for the most recent
2 year. Fair enough?
3 MR. BYRON WILLIAMS: Thank you, Ms.
4 Reichert, and let me congratulate you on providing a
5 far better undertaking than I -- than I have done this
6 morning.
7
8 --- UNDERTAKING NO. 21: MPI to provide how the
9 implied market value is
10 determined and what the
11 implied market value
12 return is for the most
13 recent year
14
15 MS. HEATHER REICHERT: So the -- the
16 implied market values are in the report, but how those
17 are calculated is not described in the report, so we
18 will provide that and reference to where the implied
19 market values are found within the report.
20 MR. BYRON WILLIAMS: Thank you. I'm -
21 - I'm very appreciative. And knowing that, I can
22 probably -- you can restrict the undertaking to how
23 they're calculated. I think I can manage the rest by
24 myself.
25

1 CONTINUED BY MR. BYRON WILLIAMS:
2 MR. BYRON WILLIAMS: Ms. Reichert, in
3 terms of the comparison between the Manitoba portfolio
4 and -- and the Manitoba in -- other Manitoba
5 investment portfolios, being the WCB, the TRAF, the
6 Teachers' Retirement Fund, and the CCSB, was that also
7 done with an implied market value for the
8 nonmarketable bonds?
9
10 (BRIEF PAUSE)
11
12 MS. HEATHER REICHERT: I believe it
13 was the book value for the -- for the MUSH bonds.
14
15 (BRIEF PAUSE)
16
17 MR. BYRON WILLIAMS: Ms. Reichert, I
18 can provide you a reference if you require. But in
19 the 2014 Aon report, do you recall an observation that
20 the pension plan is supporting by only growth assets?
21 MS. HEATHER REICHERT: Yes, I recall
22 that.
23 MR. BYRON WILLIAMS: And also a
24 suggestion by Aon that a separate pension plan might
25 present the opportunity to reduce the risk of the

1 pension plan. Do you recall that soles -- suggestion?
2 MS. HEATHER REICHERT: Yes, I -- I do
3 recall that suggestion by Aon.
4 MR. BYRON WILLIAMS: And, again, I
5 could give you a reference if you require.
6 But it would be fair to say that the
7 Corporation has not criti -- critically examined
8 whether the benefits of a separate investment policy
9 for pension assets would outweigh the costs?
10 MS. HEATHER REICHERT: We have not
11 critically examined on the surface. We have -- I have
12 considered whether or not the administration of a
13 separate fund specific for the pension liabilities
14 would be of benefit to MPI. Unlike the claims
15 liabilities where the assets backing claims liability
16 and the return on those assets is used to value the
17 claims liabilities, that's not the case with pension
18 liabilities.
19 Now pension liabilities by the -- the
20 standards that are followed for valuing pension
21 liabilities, it is based on notional bond. Thank you.
22 I was think -- trying to think of the word. It's
23 based on a notional bond, a notional corporate bond of
24 similar duration to the duration of your pension
25 liabilities.

1 So, in other words, it's not linked
2 directly to the assets that you may have in your
3 portfolio that are giving rise to earnings that
4 support the -- the pension liability. So it's a
5 corporate double 'A' bond of similar duration.
6 Last year, as an example, that was a 4
7 percent -- or 4.05 percent was the -- the rate -- or
8 the return of that type of bond that was used by the
9 external actuary for a pension plan in valuing our
10 pension liabilities.
11 So because it is delinked from the
12 actual assets that we have in our investment portfolio
13 that are ostensibly supporting our pension
14 liabilities, the risk is not the same as it is for
15 those assets that are backing our claims liability
16 where they directly impact the value of the claims
17 based on the return of those specific assets.
18 Hence, why we've talked here at length
19 about the fact that we use fixed income bonds to back
20 our claims liabilities so that the movement in the
21 value of those bonds is directly offsetting the
22 movement in the valuation of the claims liability, and
23 in that way we mitigate any -- any risk of not
24 achieving a particular -- particular return for our --
25 our claims liabilities.

1 That's that whole asset liability
2 matching the impact of interest rates on our claims
3 versus the impact of interest rates on -- on our
4 assets that are backing those claims.
5 MR. BYRON WILLIAMS: You really liked
6 that question didn't you, Ms. Reichert?
7 MS. HEATHER REICHERT: I did.
8 MR. BYRON WILLIAMS: I'll have to make
9 sure I don't ask --
10 MS. HEATHER REICHERT: I forget what
11 the question was, but I liked it.
12 MR. BYRON WILLIAMS: I'll have to make
13 sure I don't ask too many more like that. If we could
14 turn to CAC/MPI-I-86, the response sub-B.
15
16 (BRIEF PAUSE)
17
18 MR. BYRON WILLIAMS: And again I fear
19 this might pro -- provoke a longer response, but I'm
20 okay with that. Slide -- slide down...
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: I'll just give
25 you a chance to look at this for a second. Now,

1 focusing on the liabilities, we understand that in
2 terms of return MUSH bonds offer some opportunities
3 there.
4 But I take it that the thrust of this
5 response is in terms of the liabilities, the larger
6 the portion that MUSH represents of the total fixed
7 income portfolio that poses challenges to the duration
8 matching strategy. Would that be correct?
9 MS. HEATHER REICHERT: Yes, it does
10 propose challenges.
11 MR. BYRON WILLIAMS: Could you -- and
12 here's the time I'm looking for more, Ms. Reichert,
13 could you help me to -- to understand a bit more about
14 why that is? And is it liquidity, or the way it's
15 measured? Just help me to understand that a bit more.
16 MS. HEATHER REICHERT: It's probably
17 both of those. Because the -- it's because MUSH bonds
18 are not liquid, or don't have a secondary market, the
19 value of the MUSH bonds -- unlike other fixed income
20 bonds that change with the market, the return on the
21 MUSH bonds does not change when the -- when the market
22 changes. It -- it is at whatever the return is when
23 we purchased those bonds.
24 So to the extent that our fixed income
25 portfolio contains a percentage of MUSH bonds, that

1 means that the entire asset -- assets backing the
2 claims liability do not all move in tandem with --
3 with the market. That portion of MUSH bonds stays at
4 their book value regardless of what happens with the
5 fixed income bond market of -- of marketable bonds.
6 So -- so that does produce a challenge.
7 That does mean that the asset liability management
8 strategy is not perfect. We've discussed that in --
9 in this forum previously. Right now it is felt that
10 the higher return that we receive on the MUSH bonds
11 compared to marketable bonds offsets that mismatch
12 from -- from our perspective.
13 It is something that -- that we are
14 aware of that we do look at, and do try to -- to
15 manage as -- as best we can in the situation.
16 MR. BYRON WILLIAMS: Thank you for
17 that, and I do appreciate that answer. I was inviting
18 a bit more information on that, so I do thank you.
19 Mr. Johnston, at -- Ms. Grammond stole most of my
20 questions about actuarially indicated rates. I don't
21 mean that in a pejorative way. She did a great job
22 yesterday.
23 And I don't want to get into a heated
24 debate about the appropriate way to do fitted
25 distributions, but it would be fair to say that Ms.

1 Sherry, the -- the actuary retained by CAC (Manitoba)
2 both last year in the -- in the hearing as well as
3 through Information Requests, has been probing in
4 terms of whether MPI in forecasting claims is getting
5 the -- the best-fitted fit.
6 Would that be fair?
7 MR. LUKE JOHNSTON: Yeah. We've seen
8 the questions. We're -- the struggle we're having is
9 to understand how that would make a material
10 difference in our results or -- or where our forecasts
11 are lacking. That's really our -- our point of not
12 understanding the question.
13 MR. BYRON WILLIAMS: And again, I
14 don't intend to get into this outside a collaborative
15 process.
16 But, Mr. Johnston, has MPI explored the
17 trend analysis that other public insurers such as ICBC
18 do with regard to their claims forecasts?
19 MR. LUKE JOHNSTON: Not -- not in a
20 formal way. What I mean by that is I don't invite
21 them to MPI and compare trends. But we do talk from
22 time to time.
23 So just to give you an example of that,
24 SGI and -- and MPI, we recently compared our injury
25 trends and -- and noted they were both tracking in a

1 similar direction, that being relatively flat or
2 declining injury -- injury frequencies, whereas ICBC
3 seems to be having the opposite problem. They're
4 having issues with -- with rising injury costs.
5 So I -- I do talk to them, just not --
6 nothing formal.
7 MR. BYRON WILLIAMS: And just to go a
8 bit further, and not to that level of detail as
9 exploring their methodology for fitting distributions
10 for trends.
11 MR. LUKE JOHNSTON: Sorry. Yes, yeah.
12 I -- I don't -- I'm looking at general trends, how --
13 how is collision severity growing, how are injury
14 claims changing. But we don't, you know, ask if they
15 use the gamma distribution or something like that.
16 MR. BYRON WILLIAMS: Okay. We'll --
17 we'll leave that.
18 Mr. -- Mr. Chair and members of the
19 panel, I should note that Ms. Desorcy is here, and her
20 timing is not the best. No, I -- geez, I just --
21 criticizing my client. I didn't mean to do that.
22 I'm -- subject to the undertakings, I
23 believe that we -- we can close our cross-examination.
24 I'll note that, thanks to the excellent work of -- of
25 Board counsel, we cut a lot off.

1 And secondly, that we expect to be up
2 four (4) different times next week, so we've
3 reallocated much of our cross-examination to next week
4 for that -- for that reason. And I thank the MPI
5 panel for their time.
6 THE CHAIRPERSON: Okay. Ms.
7 McCandless, any suggestions? Should we be taking the
8 lunch break now or do you want to have a brief
9 discussion with counsel, or --
10 MS. KATHLEEN MCCANDLESS: Perhaps we
11 could --
12 THE CHAIRPERSON: -- Mr. Oakes...?
13 MS. KATHLEEN MCCANDLESS: Mr. Oakes, I
14 understand has --
15 THE CHAIRPERSON: Would you -- Mr.
16 Oakes, would you be prepared to proceed now?
17 MR. RAYMOND OAKES: Mr. Chairman, I'm
18 always at the direction of the Board, and the Chair,
19 and its counsel. So if you prefer me to -- to start
20 for fifteen (15) or twenty (20) minutes, I can do
21 that. If other counsel have undertakings they want to
22 respond to and use the time in that fashion, I remain
23 at your direction.
24 THE CHAIRPERSON: How long do you
25 think you'll be, Mr. Oakes, in your cross?

1 MR. RAYMOND OAKES: I'm guessing about
2 an hour and a half.
3 THE CHAIRPERSON: Was there any
4 discussion in relation to undertakings, or where are
5 we at with the undertakings?
6 MS. KATHLEEN MCCANDLESS: We have
7 received some, but we haven't had an opportunity to
8 discuss when we may receive the remaining.
9 MR. MATT GHIKAS: If I can be of
10 assistance --
11 THE CHAIRPERSON: Sure.
12 MR. MATT GHIKAS: -- Mr. Chairman.
13 THE CHAIRPERSON: Sure.
14 MR. MATT GHIKAS: So the -- having the
15 extra half hour, I don't think, is going to make -- in
16 terms of the undertakings we've been receiving --
17 THE CHAIRPERSON: Right.
18 MR. MATT GHIKAS: -- we're -- we're on
19 good track for the -- the ones that were previously
20 given. But I don't think that the ones that are this
21 morning are -- the -- the extra half hour's --
22 THE CHAIRPERSON: Okay.
23 MR. MATT GHIKAS: -- going to make or
24 break. I think we're -- we're looking at probably
25 another evening, at least.

1 THE CHAIRPERSON: Right. Okay.
2 MR. MATT GHIKAS: Yeah.
3 THE CHAIRPERSON: So what I would
4 suggest is, I'd rather not break Mr. Oakes's case. So
5 what I would suggest is let's break for lunch now.
6 We'll resume at -- we'll have a -- a lengthier time,
7 one o'clock.
8 And I'm just wondering if counsel can
9 talk about the undertakings and how we're going to
10 deal with that, I guess, next week and -- and
11 reexamination, so we -- we have an idea this week
12 which way we're going next week, okay?
13 Is that okay with everyone? So we'll
14 resume at one o'clock. Thank you.
15 MS. KATHLEEN MCCANDLESS: Thank you.
16
17 --- Upon recessing at 11:36 a.m.
18 --- Upon resuming at 1:00 p.m.
19
20 THE CHAIRPERSON: Okay. If we're
21 ready -- I believe -- sorry, that's right. You were
22 going to --
23 MS. KATHLEEN MCCANDLESS: Just some
24 housekeeping matters to speak --
25 THE CHAIRPERSON: Right. Thank you.

1 MS. KATHLEEN MCCANDLESS: -- to, Mr.
2 Chair.
3 THE CHAIRPERSON: Thank you.
4 MS. KATHLEEN MCCANDLESS: So this
5 afternoon Mr. Oakes will proceed with his cross-
6 examination of the MPI panel. Board counsel and the
7 Intervenors will have questions arising from answers
8 to undertakings, but we'll require some time for those
9 answers to be provided. There are some that we are
10 still waiting for, and then to allow some time to
11 prepare for the questioning.
12 We expect that given the schedule of
13 outside witnesses next week that there will be some
14 time in an afternoon, likely in the latter half of
15 next week for questions arising from answers to
16 undertakings on behalf of Board counsel and -- and
17 Intervenors. Counsel will discuss further and -- and
18 confirm which date that will be after today's
19 proceedings.
20 So with all of that in mind, and
21 assuming Ms. Miller from CAA is here and -- she will
22 be here this afternoon assuming and should she have
23 any questions, we will not be sitting tomorrow. We
24 can drop tomorrow as a hearing date. I would note
25 that in the procedural outline, there was a presenter

1 due to appear tomorrow at 1:00 p.m. He has been
2 rescheduled to Wednesday, October 26th, at 1:00 p.m.
3 Those are my housekeeping matters.
4 Thank you.
5 THE CHAIRPERSON: Thank you, Ms.
6 McCandless. Mr. Oakes...?
7 MR. RAYMOND OAKES: Thank you, Mr.
8 Chairman. As a preliminary matter, I'd like to at
9 this time introduce three (3) exhibits for CMMG. The
10 documents that I intend to refer to today have been
11 provided to My Learned Friends, and also to the Board
12 secretary through Diana.
13 The first exhibit is CMMG number 5, and
14 these are two (2) pages of the Winnipeg Free Press.
15 They'll come up later on your screen boards thanks to
16 the virtual reality of Diana. And not much turns on
17 the course of them. I just wish to refer to some
18 numbers on the TSX. It's not earth shattering, and as
19 I say My Learned Friend has copies of those, and I
20 have the originals if -- if there's any concerns.
21
22 --- EXHIBIT NO. CMMG-5: Two (2) pages of the
23 Winnipeg Free Press
24
25 MR. RAYMOND OAKES: The second exhibit

1 that the Board secretary would be marking would be
2 Standards of Practice. Again the Standards of
3 Practice of actuaries have been reviewed in this forum
4 before. Mr. Johnston has been provided with copies of
5 the bullets that I intend to refer to.
6
7 --- EXHIBIT NO. CMMG-6: Standards of Practice
8
9 MR. RAYMOND OAKES: Exhibit number 7
10 is a lengthy report of which only excerpts will be
11 dealt with, but it's a Wildlife Collision Report.
12 It was CMMG Number 4 last year, and
13 we're asking that it be marked CMMG Exhibit 7 this
14 year, and that was submitted by email yesterday. And
15 it's intended for use not today but with next week
16 with MPI's two (2) road safety experts.
17
18 --- EXHIBIT NO. CMMG-7: Wildlife Collision Report
19
20 CROSS-EXAMINATION BY MR. RAYMOND OAKES:
21 MR. RAYMOND OAKES: So unless there's
22 any questions or objections, I propose to split my
23 cross-examination. The first half will be with Mr.
24 Johnston, and the second half with Ms. Reichert. And
25 I'll just start, if Diana can put on the screen,

1 PUB/MPI-I-1 Attachment A. And I'm just going to lob
2 out a couple of easy softballs to start with. This is
3 by now quite trite, given the second weed of -- week
4 of the Application.
5 But, Mr. Johnston, I'd ask you just to
6 confirm that the increases that MPI is looking for
7 from all of its motorists are driven by higher claims
8 costs and a negative financial climate, according to
9 the Corporation. Is that correct, sir?
10 MR. LUKE JOHNSTON: That's correct.
11 MR. RAYMOND OAKES: And, Diana, if we
12 could move to the next item we see a little more
13 detail around those statements. And I'm looking for
14 the overview, OV.1, the Rate App -- from the Rate
15 Application, and I'm looking at page 3 of that
16 document.
17
18 (BRIEF PAUSE)
19
20 MR. RAYMOND OAKES: And we see in
21 those two Roman numerals, I and II, further
22 explanation of the general statement about the
23 increase driven by higher claim costs and a negative
24 financial climate. And there, Mr. Johnston, you see
25 that they're further described as:

1 "...an increase in comprehensive
2 claims forecast driven by higher
3 than expected hail claims, and
4 overall -- and higher overall
5 comprehensive severity growth in
6 2015/'16."
7 Do you see that as the corp -
8 Corporation's rationale?
9 MR. LUKE JOHNSTON: I do.
10 MR. RAYMOND OAKES: And then secondly
11 the other item, the deterioration in forecasted
12 investment income. Is that correct, sir?
13 MR. LUKE JOHNSTON: That's correct.
14 MR. RAYMOND OAKES: So just staying
15 with that first bullet then, you'll agree with me that
16 this rationale doesn't relate to the need to extract
17 more money from motorcyclists.
18 Is that correct?
19 MR. LUKE JOHNSTON: The first bullet
20 point on comprehensive claims, motor -- motorcycles do
21 not have comprehensive coverage as part of Basic, so,
22 correct, this is unrelated to motorcycles.
23 MR. RAYMOND OAKES: And certainly the
24 motorcycles aren -- aren't out in wintertime. And
25 their experience, their losses, are mostly PIPP and

1 not physical damage.
2 Is that correct, sir?
3 MR. LUKE JOHNSTON: That's correct.
4 Injury claims are about 85 percent of their loss
5 costs.
6 MR. RAYMOND OAKES: Thank you for
7 that. Now, Diana, if we could look at 1-1. Let's
8 look at what the actual experience for motorcyclists
9 are. And just before we jump into CMMG 1-1, can you
10 tell me roughly what would you see as a break-even
11 loss ratio for Manitoba insured?
12 Would it be somewhere around 80
13 percent?
14 MR. LUKE JOHNSTON: So the -- the
15 mandate of the Corporation is to return at least .85
16 cents of every premium dollar in the form of claim
17 benefits. That includes direct claims costs, so costs
18 that directly attribute -- attributable to the
19 individual claim and -- and claims expenses, which are
20 other items that may -- may cost the Corporation when
21 a claim is made.
22 So, sorry, to answer your question, I
23 bel -- one (1) second.
24
25 (BRIEF PAUSE)

1 MR. LUKE JOHNSTON: I would expect a
2 loss ratio in the 70 to 80 percent range, the direct
3 loss ratio, and then claims expenses in the 5 to 10
4 percent range.
5 MR. RAYMOND OAKES: So let me see if I
6 understand what you're saying. The load on the
7 premium for things like administration and overhead
8 and the rest, I've always understood that to be about
9 15 percent.
10 Can you confirm that?
11 MR. LUKE JOHNSTON: That's
12 approximately correct, yeah, not exact, but close
13 enough.
14 MR. RAYMOND OAKES: So I don't ever
15 hope to be the mathematician you are, but to me that
16 suggests that the other 85,000 would be the claims
17 expenses, and so a loss ratio of about 85 percent
18 would be break-even.
19 Is that correct?
20
21 (BRIEF PAUSE)
22
23 MR. LUKE JOHNSTON: Seventy-five to 80
24 percent. We're just looking at our latest pro forma
25 statements. Seventy-five to 80 percent loss ratio and

1 claims expenses, if you were to add to that, would be
2 about 10 percent. And then there's other items, such
3 as commission, premium taxes, operating expenses.
4 MR. RAYMOND OAKES: All right, then.
5 If I could ask Diana to bring up CMMG 2-1 just for a
6 second on that point. Indicates that the average
7 motorcycle loss ratio is 64.1 percent.
8 Do you see that, sir?
9 MR. LUKE JOHNSTON: I do.
10 MR. RAYMOND OAKES: So the motorcycle
11 experience for the last five (5) years is well below
12 what you've just indicated as break-even, isn't that
13 correct?
14 MR. LUKE JOHNSTON: That's true. The
15 only caution I would give here is obviously MPI is
16 happy to see motorcycle experience improving in that
17 way. There have been, I believe, 25 to 30 percent in
18 rate decreases given to motorcycles over this period.
19 So that's what should happen if you
20 have a good loss ratio. And -- and that is what has
21 been occurring up into this rate application.
22 MR. RAYMOND OAKES: Now, I certainly
23 agree with you, sir, that when you have a reduction in
24 the loss ratio, you should be receiving a decrease. I
25 think that's what you just said.

1 Let's look at some specific years, if
2 you can. Diana, if we can go back to that CMMG-1-1,
3 and if I could just refer to some of the years, 2009
4 we saw an actual loss ratio, sixty-eight point six
5 seven (68.67). This is including the pool loss, the
6 number right at the right-hand side.
7 MR. LUKE JOHNSTON: That's right.
8 MR. RAYMOND OAKES: So in 2011, 49.81
9 percent.
10 MR. LUKE JOHNSTON: Correct.
11 MR. RAYMOND OAKES: We saw in the
12 following year, 2012, 44.26 percent, and then the last
13 couple of years at 58.13 percent and 68.5 percent.
14 Do you see those, sir?
15 MR. LUKE JOHNSTON: Yes, I'm -- I'm
16 assuming that you've intentionally selected the
17 favourable loss ratios out of that group as you
18 skipped the lines with the higher ones. But the -- I
19 see your point that the loss ratio is low.
20 And the reason we look over a longer
21 period for motorcycles is because of the -- the
22 volatility in these results, as you can see in this
23 particular example, ranging from a very favourable
24 year, 44.26 percent loss ratio all the way up to 156
25 percent.

1 So we look at longer periods from a
2 rate stability perspective. That's the reason.
3 MR. RAYMOND OAKES: All right. And I
4 can give you the reference, but I think you'll agree
5 with me that:
6 "MPI states that a fundamental
7 principle of public automobile
8 insurance is to operate on a break-
9 even basis."
10 Is that correct, sir?
11 MR. LUKE JOHNSTON: That's correct.
12 MR. RAYMOND OAKES: So in those years
13 like 2012 and 2013 where the Corporation was -- or
14 motorcyclists were having loss ratios under 50
15 percent, you'll agree with me that it certainly wasn't
16 break-even at that time.
17 MR. LUKE JOHNSTON: Unfortunately for
18 the setting of insurance rates, you don't know the --
19 the costs of the product till after you've sold it.
20 So it is the setting of the rates that aren't had, to
21 be on the -- a break-even basis.
22 Like every other class, the actual
23 experience will be quite different. So for the Basic
24 program as a whole, we've discussed significant losses
25 in recent years. But we've also had favourable years,

too. We're never going to get it exactly right just due to the nature of what we're forecasting.

MR. RAYMOND OAKES: Mr. Johnston, in years where the Corporation is only having to pay out half of the premium that they've taken in for motorcyclists, could you understand those motorists saying that they would be entitled to a refund after the Corporation has those kind of results?

MR. LUKE JOHNSTON: Well, I'm a DSR plus fifteen (15) on my car insurance, and I don't remember the last time I had an accident, if ever. So I -- on an individual basis, my loss ratio is extremely favourable, and I don't expect a refund from MPI.

The nature of insurance is risks are grouped together and the pricing is done on an expected cost basis. And again, it's insurance, and there are certain types of insurance where losses are infrequent and it's more difficult to estimate the price. But our intent with motorcycles, as -- as in any other class that we rate, is to set the rate on a break-even basis regardless of how that actually turns out.

MR. RAYMOND OAKES: All right. If we could move to Undertaking number 2 at this juncture,

1 and this of course was the Corporation responding to
2 the inquiry through the Public Utility Board counsel
3 about what the actual experience was for 2016.
4 And would you agree with me, looking at
5 this, that the experience in 2016 has been extremely
6 similar to 2015 and in fact your forecast for 2016?
7 MR. LUKE JOHNSTON: To date, 2016
8 appears to be a good year for motorcycles. And -- and
9 what I mean by "good" is lower than the historical
10 average. Again, with the caution as was noted
11 earlier, that the year is not complete.
12 But based on what we've seen to date we
13 believe it's very likely that it will be a -- a good
14 year for motorcycles in terms of comparison history.
15 MR. RAYMOND OAKES: All right. And on
16 that -- and just following on what the application
17 originally looked like, when MPI filed this
18 application, looking at experience from motorcyclists
19 it was asking for a 1.7 percent decrease for
20 motorcyclists.
21 Isn't that correct?
22 MR. LUKE JOHNSTON: That sounds
23 correct. I -- I'll accept that.
24 MR. RAYMOND OAKES: Well, as opposed
25 to that, if I can ask Diana to put the media package

1 news release, MPI .1 up on the screen. And I think
2 there you can -- and I'm sorry, it's page 2. Thank
3 you.
4 MR. LUKE JOHNSTON: Thank you. Yeah.
5 MR. RAYMOND OAKES: Okay. And in
6 fact, although MPI filed looking for a 1.7 percent
7 decrease for motorcyclists, the indicated chan -- rate
8 change based on their actual experience was negative
9 2.1 percent.
10 Isn't that correct, sir?
11 MR. LUKE JOHNSTON: That's correct.
12 MR. RAYMOND OAKES: Okay. And, Diana,
13 if I can ask you to scroll down to motorcycle rates
14 decreasing, and I'm just going to quote your -- your
15 leader, Mr. Guimond. It says:
16 "Over the last five (5) years
17 motorcycle rates have decreased
18 overall by 19.8 percent, says Mr.
19 Guimond. The Corporation works very
20 closely with the Coalition of
21 Manitoba Motorcycle Groups on topics
22 related to both safety and rates.
23 And this collaboration is making a
24 positive difference for all
25 motorcyclists in our province."

1 Do you see that, sir?
2 MR. LUKE JOHNSTON: Yes, I do.
3 MR. RAYMOND OAKES: However, the
4 Corporation isn't going down the path with this
5 amended application in that it's not providing a
6 decrease overall for motorcycles.
7 Is that correct, sir?
8 MR. LUKE JOHNSTON: That's correct.
9 Based on our revised interest rate forecast, which
10 motorcycles are extremely sensitive -- the rates for
11 motorcycles are extremely sensitive to, our rate
12 indication was revised, as it was for all classes.
13 MR. RAYMOND OAKES: All right. And
14 would you agree with me, sir, that asking motorcycles
15 for an increase is inconsistent with the trend on the
16 losses that we've looked at, and it's inconsistent
17 with the statement that Mr. Guimond has made that I
18 just referred to?
19 MR. LUKE JOHNSTON: So what we're
20 doing when we're setting rates is we're forecasting
21 the loss cost for a particular group of vehicles, the
22 historical experience of motorcycles is obviously a
23 very important part of that forecast.
24 What happened here in -- as it relates
25 to interest rates is the expected cost for motorcycles

1 stayed exactly the same. What changed was the assumed
2 interest rates that we were going to take the present
3 day cost for motorcycles and that assumed interest
4 rate dropped, raising the present day value, and
5 causing the rate increase.
6 So I agree with you that the -- the
7 claims experience in some of the years that you cited
8 is good, and we make our forecast using that
9 experience, but for a long tail line like motorcycles,
10 if we're not getting the assumed investment return
11 that we originally had forecasted then rates have to
12 compensate for that -- that lack of return.
13 MR. RAYMOND OAKES: Diana, if I could
14 ask you to put up CMMG 2-2. And this is my last point
15 on that particular topic, Mr. Johnston. But you would
16 -- can you just confirm that we're moving to the issue
17 about the dropping of the -- what the CMMG calls the
18 outlier of 2006, but you would agree on that actuarial
19 methodology that the inded -- indicated rate decrease
20 for the motorcycle major class would be negative 7.4
21 percent instead of negative 2.1 percent.
22 Is that correct, sir?
23 MR. LUKE JOHNSTON: That's correct.
24 MR. RAYMOND OAKES: Okay. So that
25 segues us into the actuarial methodology that the

1 Corporation has -- is looking to adopt with respect to
2 the calculation of motorcycle losses, and the
3 elimination of 2006. And certainly I'm very pleased
4 that after a number of years of providing evidence and
5 arguing for either a capping or a removal of that
6 outlier, you have conceded that this is equitable,
7 reasonable, and actuarially sound.
8 Is that correct, sir?
9 MR. LUKE JOHNSTON: So just to
10 reiterate my position from the first day, the
11 Corporation is very sensitive to changing the rate-
12 making methodology in any way. We continue to be
13 supportive of how rate making is done for all classes,
14 including motorcycles.
15 However, in light of the very
16 significant change in rates that occurred when we
17 updated our interest rate forecast, which was a 10
18 percent swing, we did look at this class, and in
19 particular, the 2006 year that you noted, recognized
20 that that was going to fall off. Checked the current
21 year to see how experience was looking in -- in the
22 current year, and the proposal we're making to the PUB
23 is to -- for this one (1) year only, use a nine (9)
24 year experience, given the information we have about
25 this year's claims.

1 MR. RAYMOND OAKES: And on this topic,
2 you know, I notice you have a seat empty next to you
3 and I have one (1) next to me. It appears that we're
4 on the same page on this topic. Maybe last year we
5 would have been in a actuarial hot tub together, I'm
6 not sure, but...
7 With respect to the standards of
8 actuarial practice, would you agree with me, and I --
9 I purport to go through them individually, but would
10 you agree with me that there is support in the
11 actuarial Standards of Practice for this nine (9) year
12 approach?
13 MR. LUKE JOHNSTON: The actuary is --
14 I -- I guess if there's a methodology that is -- that
15 -- that we use and we support, and as I've just
16 mentioned, if there's a case where there's some kind
17 of unfairness or inequity created by using that meth -
18 - methodology, I wouldn't expect the actuary to in all
19 cases just demand use of that methodology under all
20 circumstances.
21 This, we believe, is a special case
22 where it does make sense for the Corporation to apply
23 for a -- a different rate. But again, with caution
24 when we do talk about break even, we're talking about
25 break even over the long term. And this is a volatile

1 class, so we make this recommendation -- sorry, we
2 want to note that it's a very unique circumstance, and
3 that's why we're -- we're asking for this.
4 MR. RAYMOND OAKES: All right. So
5 just examining the standards of actuarial practice
6 that I say support this methodology, I'd refer you
7 first to Actuarial Practice Standard 1730.11, and this
8 one relates to past experience data. Point eleven
9 (.11) says:
10 "Other things being the same,
11 pertinent past experience data are
12 data relating to the case itself
13 rather than similar cases, relating
14 to the recent past, rather than to
15 the distant past..."
16 And I'd ask you to agree with me that
17 that provides support for an approach dealing with the
18 recent loss experience rather than summing all the way
19 back to 2006.
20
21 (BRIEF PAUSE)
22
23 MR. LUKE JOHNSTON: There's -- there's
24 no question that I support the actuarial literature in
25 terms of rating. We are cons -- again, looking at the

1 PUB approved methodology and how we're deviating from
2 that, and whether that's appropriate, and that's a --
3 a precedent that we have to be careful in -- that
4 we're making here, asking for a deviation, but in
5 terms of the actuarial literature, I -- I accept that
6 as written.
7 MR. RAYMOND OAKES: All right. Then
8 I'll do some more. This is 15/50, reasonableness of
9 result. And you told us a moment ago in your evidence
10 that -- in this special case, that the nine (9) year
11 approach made sense. And would that be supported by
12 01 that says:
13 "The actuary should examine the
14 reasonableness of a calculations
15 result."
16 MR. LUKE JOHNSTON: I agree, or that
17 would be supported.
18 MR. RAYMOND OAKES: Okay. And how
19 about the later statement, does the result make common
20 sense? Does the nine (9) year methodology make sense
21 in this case?
22 MR. LUKE JOHNSTON: I believe it does.
23 MR. RAYMOND OAKES: Now, I did a pre-
24 ask, Pre-ask 2, and it had asked about other auto
25 actuaries. If we could have Pre-ask number 2 on the

1 screen, please, Diana?

2

3 (BRIEF PAUSE)

4

5 MR. RAYMOND OAKES: I had to promise

6 Diana I wouldn't do any split screening today, give

7 her a little bit of a break this afternoon. So in

8 Pre-ask 2 I asked you, to the knowledge of MPI,

9 whether any other auto insurers use a 10 year equally

10 rated period that the Corporation used to use.

11 Can you give me your response there?

12 MR. LUKE JOHNSTON: I don't know if I

13 need to read it in word-for-word. But the point being

14 that we don't know that -- how other insurers

15 calculate their rates in -- in great detail, that

16 wouldn't be something that Allstate would just tell us

17 or something.

18 SGI is someone I could possibly contact

19 and -- and get that information. But at the time of

20 answering that question we didn't have detailed

21 knowledge of other methodologies.

22 MR. RAYMOND OAKES: Now, I appreciate

23 that might be true for Allstate. But wouldn't ICBC,

24 SGI, SAQ, wouldn't they all be a matter of public

25 record in filings?

1 MR. LUKE JOHNSTON: I -- I don't -- I
2 don't know. But if your point is could I call them
3 and find out, I agree with you I could.
4 MR. RAYMOND OAKES: I'm just -- I'm a
5 little flummoxed by the fact that -- that there
6 wouldn't be knowledge of -- of what -- how many years
7 other insurers use. Certainly in this -- the context
8 of these hearings I've provided actuarial witnesses
9 from IAO, which is now, I guess, Aon, the
10 Corporation's contract group.
11 Certainly they have talked about using
12 capping and using 5 years of data. Would you confirm
13 that 5 years of data is a very consistent amount of
14 data used by auto insurers in Canada?
15 MR. LUKE JOHNSTON: I -- I recognize
16 that other insurers may do different things but
17 continue to support the methodology as -- as filed,
18 again making a special case for this year.
19 If you go into history -- I un -- like,
20 I understand the point that recent history has been
21 favourable. But if we followed a short-term, say
22 three- to five-year-average approach, you could see
23 from the history some of the volatility that would
24 have existed for motorcycles, particularly right after
25 one (1) of those very poor years.

1 So we believe it's prudent to look at a
2 longer period of time for this group in the best
3 interest of motorcycles in terms of keeping rates
4 stable. Motorcycles, in terms of serious loss claims,
5 the other classes also use 10 year average to control
6 that volatility. It just shows up more for
7 motorcycles because serious losses are such a large
8 component of their -- of their claims, whereas for
9 private passenger vehicles we do the same type of
10 averaging, but serious losses are a much smaller
11 percentage of their -- their costs.
12 MR. RAYMOND OAKES: Now, Mr. Johnston,
13 my questions were about your peers and what they use.
14 And the purpose to asking whether other auto insurance
15 generally settle on 5 years also related to the
16 standard of actuarial practice 1130.06.
17 And I don't have that for you, but I'll
18 read it:
19 "If I had to defend my work to my
20 peers, could I persuade them that I
21 had sound reasons underlying my
22 judgment?"
23 And would you say that would be the
24 case of your 9 year methodology?
25 MR. LUKE JOHNSTON: Absolutely I

1 would. If you want a parallel, say look at hail
2 experience. Take a 5 year average of hail. If you're
3 say a reinsurer insuring hail experience with that
4 type of volatility, when there are, as in the case of
5 motorcycles, a very small number of claims with --
6 with potential for huge swings in the cost of those
7 claims, it's appropriate to look over a longer period
8 of time to generate your expectations of the future.
9 While, in comparison, if you look at
10 private passenger vehicles, you may have a 100,000
11 claims in a year, motorcycles you may be talking about
12 2 to 300.
13 MR. RAYMOND OAKES: Thank you for
14 that, Mr. Johnston. We looked at 2012 and 2013, both
15 where there was actual loss ratios under 50 percent.
16 If you had of exceeded to my very reasonable argument
17 four (4) years ago, those motorcyclists would have had
18 a further 7 or 8 percent premium reduction at -- for
19 those years.
20 Is that correct, sir?
21 MR. LUKE JOHNSTON: One moment,
22 please.
23
24 (BRIEF PAUSE)
25

1 MR. LUKE JOHNSTON: I can't confirm
2 the number that -- that you've quoted. Not seen the
3 calculations. But in regard to CMMG-2-2 where we
4 noted the removal of that year and the change in rate
5 by approximately 5.3 percent, the -- the rates
6 obviously would have been lower if you excluded a
7 historical period from their calculations. And -- and
8 that particular question is suggesting 5 percent
9 lower.
10 MR. RAYMOND OAKES: Thank you. And I
11 accept that, and you can stand down and I'll change
12 the focus of the cross-examination to Ms. Reichert and
13 the investment issues that relate to this GRA.
14 And just in general terms then, Ms.
15 Reichert, the blame for the swing that motorcyclists
16 are seeing from an initial application of a decrease
17 of 1.7 percent to now being asked to fork over an
18 additional 2.4 percent, the Corporation is saying that
19 that lays at the feet of this new factor that MPI has
20 developed some time this summer.
21 Is that correct?
22 MS. HEATHER REICHERT: It's correct
23 that the change is as a result of using a best
24 estimate for the interest rate forecast of the 50/50
25 scenario.

1 MR. RAYMOND OAKES: And, Diana, I
2 wonder if you could throw up CMMG Pre-Ask 3.
3 And I'll just ask you, Ms. -- Ms.
4 Reichert, to just confirm that really, since 2009,
5 we've had interest rates 1 percent or under for that
6 whole period of time.
7 MS. HEATHER REICHERT: I agree that
8 this Bank of Canada overnight rate shows that. I'm
9 not sure how much that's correlated to the Government
10 of Canada 10 year rate or to our actual fixed income
11 marketable portfolio.
12 MR. RAYMOND OAKES: Certainly, but you
13 know that -- the -- the bond rates, if you can call
14 them that. You know that intimately as well. And
15 it's similar. They've been stable since about 2009.
16 MS. HEATHER REICHERT: Yeah. I -- I'm
17 just thinking and reflecting back to the -- to the
18 graph that -- that we put forward with all the
19 different lines showing the interest rate forecasts,
20 the standard interest rate forecasts over the last ten
21 (10) or so years that were forecasting an increase,
22 and then showed what actually happened. There has
23 been ups and downs, generally a trending down.
24 MR. RAYMOND OAKES: Are you speaking
25 about the forecasts or the actual, because I'm saying

1 the actual is flat?

2 MS. HEATHER REICHERT: Well, the

3 actual has been -- yeah, if -- if we can -- Diana, can

4 we just pull up overview section -- page 11? This is

5 the -- the graph that I was referring to. So if you

6 look at the -- the actual, which is the black line

7 there, I wouldn't say that since February of '08 that

8 it's been flat. It has been up and down with a

9 general decline over that period.

10 MR. RAYMOND OAKES: And I guess it's

11 how it's represented. It would be a battle of the

12 screens here, because I'm going to ask Diana to go to

13 RSR .2 as was referenced in the DCAT. Mr. Williams

14 cross-examined on this point about 10:30 this morning.

15 And there's a statement of the

16 Corporation indicating -- and it must be in the text

17 of it as opposed to the graph, very stable -- oh, that

18 was an inflationary experience, I guess, since 1991,

19 which would be different than the bond rates.

20 So if we can get back to the pre-ask 3,

21 and during this period of time, can you tell me at

22 what time the Corporation produced the ALM work for

23 the matching?

24 MS. HEATHER REICHERT: The most recent

25 ALM study was conducted 2014/'15.

1 MR. RAYMOND OAKES: Okay. And so for
2 the period that's -- that's in front of us now since
3 2009 with those Bank of Canada overnight rates, the
4 Corporation didn't come in 2009, or 2010, or '11, or
5 '12, or '13, or '14, or '15 asking for this IRFR.
6 Is that correct?
7 MS. HEATHER REICHERT: Not by that
8 name, no, we did not. But when we were -- when we
9 implemented the financial model that we are currently
10 using and began more explicitly forecasting the
11 interest rates and the impact on claims liabilities,
12 which the -- the 2014 General Rate Application was the
13 first time that we brought that forward, at that time
14 we did include in the -- the rates an estimate that --
15 what we call the low growth interest rate forecast,
16 which was, essentially, taking the five (5) year
17 standard interest rate forecast of the banks and
18 global insight and instead of having that increase
19 occur over a five (5) year period, extend it to occur
20 over a ten (10) year period, which equates fairly
21 closely to the 50/50 scenario that we're talking about
22 today.
23 MR. RAYMOND OAKES: And what year was
24 that, Ms. Reichert?
25 MS. HEATHER REICHERT: That was in

1 2013 as it related to the 2014 Rate Application, I
2 believe.
3 MR. RAYMOND OAKES: Okay. Now, the
4 Corporation when it acknowledged this low growth
5 factor that you've referred to, would that not also be
6 a signal to the Corporation to perhaps get away from
7 investments that were interest rate sensitive, that
8 weren't having good returns in low interest
9 environments?
10 MS. HEATHER REICHERT: Actually, what
11 it caused us to do at that time was to look at how in
12 fact we were matching our fixed income with our claims
13 liability. At that time our asset liability
14 management strategy was that we were matching based on
15 duration plus or minus two (2) years.
16 And so it was after that when we --
17 when we saw what was happening with the interest rates
18 that we decided to shorten that -- that band to the
19 plus or minus one (1) year. And that was in order to
20 mitigate the risk of the fluctuations in the interest
21 rates and what they were having with the claims
22 liabilities.
23 MR. RAYMOND OAKES: Now that, of
24 course, is in terms of matching. But how about in
25 terms of actual yields? To me that would -- if we see

1 a concern that interest rates are flat and very low,
2 that would motivate me as a prudent investor to then
3 move into things like blue chip stocks with dividend
4 income, MUSH bonds that don't have an interest risk.
5 Would you agree that that wasn't --
6 that was a call to the Corporation to diversify into
7 things that didn't have an interest risk, or a low
8 yield?
9 MS. HEATHER REICHERT: No, I -- I
10 don't think I agree with that. In -- in fact, what we
11 were -- what we have always said, and what our
12 investment policy clearly states, is first and
13 foremost, our investment policy -- or our investment
14 portfolio is there to pay claims. And we need to
15 mitigate the risk of fluctuations in our claims'
16 liabilities in ensuring that we have the cash on hand
17 to pay those claims in -- in the future.
18 So that's first and foremost the goal
19 of the investment policy. And then secondly is in any
20 way we can after that's achieved, to enhance the yield
21 of the investment portfolio. So at this time, we
22 mitigated and started to shorten that duration
23 matching to mitigate that risk that -- that we saw,
24 and continue to invest in MUSH bonds that provide the
25 higher yield, and continue to invest in equities that

1 were providing dividends.

2 In fact, it was right around that same

3 time that we had invested in equities in the States

4 that stopped paying dividends, and we're reinvesting

5 those dividends within the -- within the portfolio,

6 which was not the objectives that we had of our equity

7 investments, and we moved out of that particular

8 investment in the US into one that would give us, in

9 fact, capital appreciation, but also paid dividends

10 during -- during the year.

11 MR. RAYMOND OAKES: Ms. Reichert, the

12 Corporation is coming to the motorists of Manitoba and

13 saying, We need a significant increase in the amount

14 of money you pay the Corporation for auto insurance.

15 Would you agree with me that when the

16 Corporation says it needs more money, that there's

17 quite a concern from those consumers when they hear

18 that the Corporation is putting the emphasis on

19 matching rather than on growth, yield, and return on

20 investment?

21 Would you agree with me that there

22 would be a concern that the Corporation hasn't

23 maximized its revenue?

24 MS. HEATHER REICHERT: I -- I believe

25 that the Manitoban ratepayers are wanting to know that

1 their insurance company is ensuring that they have the
2 -- the wherewithal to honour any of the claims --
3 claims liabilities that they have incurred, and that -
4 - that they are doing what they can to mitigate any
5 risk of that not transpiring in the future.
6 And that after that's taken care of,
7 that we are prudently investing, diversifying our
8 investments, in various different instruments to -- to
9 try to achieve as much return as we can.
10 MR. RAYMOND OAKES: I'm just going to
11 ask, if we can, this is investment income benchmark
12 returns attachment INV-H. It's contained at number 12
13 of the PUB materials. Diana, of course, has it on the
14 screen before the description is even out of my mouth.
15 But just looking at the years prior to
16 2016, looking at that top line, the returns have
17 ranged between about 5.7 percent and about 12.2
18 percent. Is that what that table shows, Ms. Reichert?
19 MS. HEATHER REICHERT: Yes, that is,
20 on an overall total fund basis.
21 MR. RAYMOND OAKES: So other than this
22 year, the Corporation's done pretty well on its
23 investments. Would you say that?
24 MS. HEATHER REICHERT: Yes, I would
25 say we've done reasonably well.

1 MR. RAYMOND OAKES: Okay. And really,
2 when we look at February 29th, 2016, that was a -- a
3 serious dip in the equity markets in January and
4 February of 2016. Isn't that correct?
5 MS. HEATHER REICHERT: It may have
6 started a little bit sooner than that but, yes,
7 definitely there was a -- a dip in the equity markets
8 in 2015/'16.
9 MR. RAYMOND OAKES: So whether the
10 reporting -- the -- the data used by a reporting
11 period can have a significant effect on the perception
12 of -- of whether the Corporation performed well, or
13 didn't perform well.
14 Isn't that correct?
15 MS. HEATHER REICHERT: If what you're
16 seeing is the -- the markets are volatile, and
17 depending at what point in time you -- you look at the
18 results, they can differ significantly, yes.
19 MR. RAYMOND OAKES: And so if we're
20 looking at February 29th, 2016, there's a real concern
21 that this negative financial climate the Corporation
22 points to is the reason for the increase is overblown
23 since -- if those financial statements were at a
24 different day the returns might be quite different?
25 MS. HEATHER REICHERT: So -- so the

1 issue that's been put in front of the Public Utility
2 Board this -- this year as it relates to investment
3 income is specifically dealing with not having a best
4 estimate for the interest rate forecast for the
5 marketable bond portfolio. It's not with respect to
6 the overall investment portfolio.
7 We have agreed upon forecasts that have
8 been accepted by both the Public Utility Board and
9 MPI's best estimates as it relates to equities, as it
10 relates to infrastructure in real estate.
11 The issue at hand today is that the
12 standard interest forecast that has been ordered by
13 the Public Utility as the forecast for marketable bond
14 returns is not a best estimate. And we've put forward
15 evidence, I think, that clearly demonstrates it's not
16 a best estimate.
17 So that -- that's the issue today, is
18 not having a best estimate forecast -- forecast
19 underlying the -- the premium rate increase that we're
20 asking for and, because of that, needing -- needing
21 that to be addressed in the order, not to -- to put
22 forward a premium that is deficient.
23 MR. RAYMOND OAKES: I understand the
24 distinction that you're pointing to, Mr. Reichert, I
25 truly do. But I think that it -- that that focus ties

1 in with the fact that the Corporation is emphasizing
2 the matching first and foremost and at the expense of
3 real money return on its investments.
4 Would you agree with that?
5 MS. HEATHER REICHERT: We are
6 focussing on the matching as an appropriate risk
7 mitigation strategy that, as an insurance company, we
8 feel it's incredibly important that -- that we
9 mitigate that particular risk, so -- so that's --
10 that's what I'm saying.
11 And that we -- then whatever is not
12 used to match and mitigate that risk, we do what we
13 can to diversify and seek higher returns.
14 MR. RAYMOND OAKES: All right. Now,
15 just following along, if you'll indulge me, that the
16 fact that the year end is at February 29th, 2016,
17 which coincided with a very serious setback on the
18 equities.
19 Diana, if I could ask you to throw up
20 CMMG Exhibit number 5, the two (2) different Free
21 Press articles. And we can take them one (1) at a
22 time. I promised you I wouldn't ask you to split
23 screen. This is -- oh, if we could have the other one
24 first, Diana. Thank you.
25 And I just happen to have this one.

1 And it isn't February 29th, but it's January 26th of
2 this year. And do you see there that it's got a TSX
3 of twelve thousand three hundred and thirty-one
4 (12,331)?
5 MS. HEATHER REICHERT: Yes, I do.
6 MR. RAYMOND OAKES: And then if we
7 scroll back up to something in the last week or so,
8 we've got October 17th. And we're not up to fourteen
9 thousand five hundred and ninety-six (14,596). I
10 think it's a little higher now, but do you see those
11 numbers, as well?
12 MS. HEATHER REICHERT: Yes, I do.
13 MR. RAYMOND OAKES: So I certainly
14 don't have the math skills of your colleagues. But
15 between those two (2) numbers of the TSX it's about an
16 18 percent swing to the good in those.
17 Would you accept that, subject to
18 somebody smart with a calculator looking at?
19 MS. HEATHER REICHERT: I'll accept
20 that, subject to check, yes.
21 MR. RAYMOND OAKES: Okay. So for the
22 Corporation, which works in the billions, it has
23 premium income of about 1.1 billion. It has
24 significant monies to invest. It has the Department
25 of Finance supposedly hiring the best and the

1 brightest to invest. There's certainly opportunities
2 for the Corporation to make some good plays and to get
3 some double digit returns?
4 MS. HEATHER REICHERT: Yes. And --
5 and certain -- certain instances that would be true.
6 Equally -- and I'm sure we could search and find
7 another couple of dates for the TSX and see that it's
8 in fact maybe declined by 10 or 20 percent.
9 MR. RAYMOND OAKES: Right.
10 MS. HEATHER REICHERT: So the
11 volatility is -- is a concern as it relates to
12 equities which again results to why not only do we
13 diversify amongst equities and alternative
14 investments, but within the equity portfolio itself we
15 also have diversification.
16 MR. RAYMOND OAKES: Okay. Diana, if
17 we can move to PUB-1-10, and this table relates to the
18 -- the returns that the WCB, TRAF, and CCSB have
19 recorded. Mr. Williams has cross-examined quite a bit
20 today on some of these issues, and that's why I'm
21 skimming some of the questions.
22 But if I can ask you a hard question
23 relative to the returns, and I think later on this
24 page it shows the returns of WCB and TRAF, but we
25 talked about that in this hearing already.

1 If im -- if -- this -- here's the hard
2 question: If MPI was doing as well on its investment
3 returns as WCB or TRAF, would there still be a request
4 for an increase this year?
5 MS. HEATHER REICHERT: Yes, there
6 could still be a request for an increase this year as
7 it relates to not having a best estimate for the
8 interest rates on marketable bonds.
9 So TRAF, CSSB, WCB, different entities.
10 They have different risk tolerances and risk
11 appetites. TRAF and CSSB do not have rates that they
12 are -- are trying to determine on the basis of
13 forecasting their -- their income and expenditures and
14 their investment portfolio.
15 So what we're doing is asking that we
16 be allowed to use a best estimate based on the
17 evidence for the interest rates on the marketable bond
18 portfolio similar to using best estimates for equities
19 and -- and the alternative investments.
20 So this is about forecasting best
21 estimates. What is actually achieved based on the
22 management of the portfolio may be better or worse
23 than that best estimate, might be similar or not
24 similar to another fund. But that is expected because
25 we all have different objectives and different risk

1 tolerances.

2 MR. RAYMOND OAKES: And I appreciate

3 that lengthy answer, but what I think you said at the

4 outside -- at the outset was that it was possible that

5 the Corporation in that case would be asking for an

6 increase for motorists.

7 And I would suggest to you that it

8 would not be likely that, if MPI was doing as well as

9 WCB or TRAF, that you would be asking for an increase.

10 MS. HEATHER REICHERT: And again I

11 will just say that the rates that we come forward and

12 ask for are based on forecasts and are not directly

13 based on what was earned or achieved in the prior

14 year.

15 They are -- they are based on, as -- as

16 we've said before, the fact that our equity portfolio

17 did not do as well last year from an overall return

18 perspective does not change the fact that we continue

19 to forecast for this rate application a 7.3 percent

20 overall return on our equities.

21 What was impacted, as I explained

22 earlier today, was the base upon which that 7.3

23 percent is applied. However, it did not change the

24 overall estimate which we consider to be a best

25 estimate of the return on our equity portfolio.

1 MR. RAYMOND OAKES: Just a few more
2 quick questions. When the Corporation reports on its
3 Canadian real estate in its portfolio, is that REITs
4 that it's investing in?
5 MS. HEATHER REICHERT: We invest in --
6 it's not a REIT, per se, no. It is a -- it is a fund
7 that invests in various real estate holdings across
8 the country. As – as you saw earlier today, the, you
9 know, across several provinces.
10 MR. RAYMOND OAKES: So would it be an
11 ETF or would it be some other vehicle?
12 MS. HEATHER REICHERT: I'm trying to
13 think of the technical name. I -- I can't think of
14 the technical name of the fund, but it's a -- it's a
15 real estate fund.
16 MR. RAYMOND OAKES: I accept that
17 answer. I have one (1) question left and it's a hard
18 question.
19 What happens if interest rates rise
20 next year, and specifically, would the Corporation
21 commit to a rebate which reflects the benefit to Basic
22 net income if interest rates rise?
23 MS. HEATHER REICHERT: So what we are
24 putting forward in front of the Public Utility Board
25 this year is still even at the best estimate that

1 we're asking for, it is estimating that interest rates
2 will increase.
3 So we are hopeful that interest rates
4 increase on the basis of the best estimate that we've
5 put forward. If they increase, but not to that level,
6 there will be a shortfall in our -- in our overall net
7 income, which -- which will then have to be absorbed
8 through the RSR.
9 If the interest rates somehow magically
10 increase by even more than the best estimate that
11 we're putting forward, then presumably we would have a
12 positive impact on our net income, all other things
13 being equal, which would also flow through our RSR.
14 Currently the RSR is sitting at 231
15 million. In the range that we're asking for is a 159
16 to 411. So it would have to -- the net income of the
17 Corporation, on the basis of interest rates going
18 higher than what we're forecasting, would have to be
19 extreme, extreme amount higher in order to generate
20 positive net income that would put our RSR above the
21 maximum target of 411 million.
22 So I could probably very safely say
23 that even if interest rates increase next year, that
24 they would not increase sufficiently to be able to
25 provide an ability for the Corporation to rebate funds

1 to -- to ratepayers.

2 MR. RAYMOND OAKES: So in other words,

3 if interest rates go up above the best forecast that

4 you can make, the Corporation is going to pocket the

5 money even though it didn't need to ask for an

6 increase from motorists? We didn't need an IFR?

7 MS. HEATHER REICHERT: No, I -- I

8 don't think that that's what I've said. I've said

9 that if interest rates go up higher than what we are

10 forecasting them to go up, all other things being

11 equal, like our -- all of our other forecasts being

12 bang on, that would result in positive net income to

13 the Corporation.

14 However, that positive net income,

15 because we are -- are always forecasting to break-

16 even, sometimes we might make a bit of income,

17 sometimes we might lose a bit of income and that's

18 what the RSR is there for and why we need that range

19 of 159 to 411 to be able to absorb slight positive

20 income or negative incomes in those cases where they

21 happen.

22 So -- so it's not a matter of pocketing

23 the money. It is a matter of having a sufficient and

24 appropriate capital reserve as an insurance company to

25 be able to protect ratepayers from rate increases in -

1 - in the future.

2 MR. RAYMOND OAKES: I thank you for

3 that answer, Ms. Reichert. I also want at this point

4 to thank the Corporation for its very collaborative

5 process this year. You answered all of my IRs, all of

6 the pre-asks in very short order and I -- I truly

7 believe, as I have for twenty-four (24) years, that

8 Manitobans can have pride that MPI has tremendously

9 competent executive and advisors and I thank you for

10 that today.

11 THE CHAIRPERSON: Thank you, Mr.

12 Oakes. Ms. Miller, did you have any questions?

13 MS. ERIKA MILLER: No.

14 THE CHAIRPERSON: No questions. Okay.

15 Any other matters?

16 MS. KATHLEEN MCCANDLESS: Yes, just

17 one (1). Mr. Pelly helpfully pointed out to me that

18 there was a matter that Ms. Grammond raised yesterday,

19 pardon me, towards the end of her cross-examination

20 with you, Mr. Johnston, and I believe we're awaiting a

21 response on it.

22 It was a question as to whether the

23 Corporation would be prepared to undertake to provide

24 an updated response to PUB-MPI-1-25 to be consistent

25 with the amended DCAT and target capital analysis

1 provided on October 7th. And I believe your response
2 was that you were going to look into it to see if that
3 was doable from the Corporation's perspective.
4
5 (BRIEF PAUSE)
6
7 MR. LUKE JOHNSTON: It appears I've
8 done everything except tell you that I'm doing it,
9 yeah. So, we're doing it.
10 MS. KATHLEEN MCCANDLESS: Thank you.
11 So I -- I think for the record then that would be
12 another undertaking.
13
14 (BRIEF PAUSE)
15
16 MR. LUKE JOHNSTON: It sounds like we
17 have it as Undertaking 19.
18 MS. KATHLEEN MCCANDLESS: Thank you.
19 THE CHAIRPERSON: Okay. If there are
20 no other matters, then we'll adjourn the hearing until
21 Monday at 9:00 a.m. Thank you.
22 MS. KATHLEEN MCCANDLESS: Thank you.
23
24 --- Upon adjourning at 2:02 p.m.
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2 Certified by,

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7 Sean Coleman, Mr.

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