MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE (MPI)
GENERAL RATE APPLICATION
FOR 2007/'08 INSURANCE YEAR

Before Board Panel:

Graham Lane - Board Chairman
Eric Jorgensen - Board Member
Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 1038 to 1259

APPEARANCES

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EXHIBITS

UNDERTAKINGS

No.	Description	Page No.
27	Mr. James Christie to check for Board ICBC's status with respect to applications and public hearings.	
28	If Mr. Christie is outside the range of 20 to 30 hours devoted to the August 17th, 2006 report, to so advise.	1150

--- Upon commencing at 9:05 a.m.

THE CHAIRPERSON: Good morning, everyone. It's good to see Mr. Williams back. I hope he's feeling better.

So today we're going to hear, I believe we're starting off with MPI's witness, Mr. Christie, who's well known to the Board.

Mr. McCulloch, you have some exhibits to begin with?

MR. KEVIN MCCULLOCH: Yes, Mr. Chairman, three (3) undertakings that we're filing responses to: Undertaking Number 6, MPI Exhibit Number 15; Undertaking Number 7, which would be MPI Exhibit 16; and Undertaking Number 8 MPI Exhibit 17.

THE CHAIRPERSON: Very good. Thank you.

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

--- EXHIBIT NO. MPI-16: Response to Undertaking 7.

--- EXHIBIT NO. MPI-17: Response to Undertaking 8.

MR. KEVIN MCCULLOCH: And these are being filed without any further comment by anyone on the Panel.

And with that, Mr. Chairman, ready to proceed with the direct evidence of Mr. Christie. I ask that he be sworn.

THE CHAIRPERSON: Mr. Singh...?

JAMES CHRISTIE, Sworn

THE CHAIRPERSON: Mr. Christie is well known to the Board so we're prepared to dispense with the review of credentials, however, we'll provide that opportunity to any of the Intervenors if they wish to examine Mr. Christie.

MR. BYRON WILLIAMS: Certainly there's no question in terms of his qualifications from CAC/MSOS.

(BRIEF PAUSE)

THE CHAIRPERSON: Hearing none, Mr. McCulloch, it's over to you.

MR. KEVIN MCCULLOCH: Yes, Mr. Chairman, and Members of the Board and Intervenors and -- and Board Staff, Mr. Christie's evidence appears at MPI Exhibit Number 7. This was his pre-filed evidence and in the course of my direct examination of Mr. Christie I expect to be referring to that evidence and also to some of the responses that were filed in response to Information Requests arising out of his evidence, in particular CAC/MSOS Number 5. We'll also be referring to AI-17 and also to the Hum/Simpson report which is CAC/MSOS Number 4.

To start, acknowledging that Mr. Christie has been accepted as an expert for the purposes of this Hearing there are one (1) or two (2) questions that I would like to put to him with respect to his actuarial experience.

EXAMINATION-IN-CHIEF BY MR. KEVIN MCCULLOCH:

MR. KEVIN MCCULLOCH: First of all, in your CV, Mr. Christie, you indicate that you are a member of the Fellow of Casualty Actuary -- of the Casualty and Actuarial Society, is that correct?

MR. JAMES CHRISTIE: I am a fellow of the Casualty Actuarial Society.

MR. KEVIN MCCULLOCH: And can you tell me, is that similar to a field of -- of specialization in the actuarial world?

MR. JAMES CHRISTIE: Yes, it is. Broadly speaking the North American actuarial profession has two (2) -- two (2) bodies: one the Casualty Actuarial Society that specializes in property casualty insurance; and a second one, the Society of Actuaries that specializes in life and pension insurance.

MR. KEVIN MCCULLOCH: So your specialty is in the area of property and casualty insurance which of course is the type of insurance that MPI administers for Manitobans, is that correct?

MR. JAMES CHRISTIE: That is correct.

MR. KEVIN MCCULLOCH: I also can't avoid asking you to confirm that you're a member of the CIA.

MR. JAMES CHRISTIE: I am a fellow of the Canadian Institute of Actuaries, that's correct.

MR. KEVIN MCCULLOCH: And can you tell us, have you been involved with the CIA and the governing body for actuaries in Canada?

MR. JAMES CHRISTIE: Yes, I have been actively involved in the leadership of the Canadian Institute of Actuaries for many years. At the present time I'm an elected member of the Board of Directors of the -- of the casualty -- of the Canadian Institute of Actuaries.

MR. KEVIN MCCULLOCH: I also understand that you have experience in the development of international accounting standards. Can you give us a brief description of your experience in that area.

MR. JAMES CHRISTIE: Yes. At the present

time the International Accounting Standards Board is actively developing an initial standard of practice for insurance contracts. As a partner at Ernst & Young, one of my roles is to chair the International Working Group within the Company that deals with developing insurance accounting standards for P&C insurers.

The International Accounting Standards Board, in fact, asked me to speak to them directly on how actuarial practice integrates with accounting practice in Canada because Canada is presumed -- believed to be one of the leaders in the world in -- in this particular area.

MR. KEVIN MCCULLOCH: And your work in that area of international accounting standards, does that have any relevance to the issues that bring you here today which is largely discussion of the DCAT and the MCT studies that you prepared for MPI?

MR. JAMES CHRISTIE: They're related but not completely similar. International accounting standards deal with the financial statements of insurance companies and to that end I -- when I'm working in that area I'm focussed on largely the policy liabilities of insurance companies, the unpaid claims and unearned premiums in Canadian accounting parlance.

One of the issues that the Accounting

Standards Board and the International Association of Insurance Regulators are dealing with is how one integrates financial reporting with regulatory oversight and that's where the linkage occurs.

MR. KEVIN MCCULLOCH: And in the course of your practice, Mr. Christie, I understand that you have prepared DCATs and MCTs for numerous clients?

MR. JAMES CHRISTIE: I have prepared dynamic capital adequacy tests for in excess of fifteen (15) insurance companies. Currently, I am the appointed actuary for a number of companies and each of those companies requires a dynamic capital adequacy test annually.

I have also done dynamic capital adequacy tests for other companies where I'm not the appointed actuary. I -- on the other hand I do not do MCTs, per se; that's an arithmetic calculation that is typically done by the insurance company itself as a result of the financial statements that are prepared.

I do have a hand in the preparation of the financial statements because the single largest liability on most insurance company balance sheets is the unpaid claims.

MR. KEVIN MCCULLOCH: And one of these fifteen (15) companies that you've prepared DCATs for is

MPI, is that correct?

MR. JAMES CHRISTIE: That is correct.

MR. KEVIN MCCULLOCH: Have you also prepared DCATs for other public insurance companies?

MR. JAMES CHRISTIE: No, I have not done that. No.

MR. KEVIN MCCULLOCH: So the remaining fourteen (14) companies then would be private insurers.

MR. JAMES CHRISTIE: Yes, they were. I was hesitating for a moment because I was, at one point, the appointed actuary for Saskatchewan Government Insurance. But that was many years ago, six (6) or seven (7), and at that point in time DCAT was a practise for that in -- organization.

MR. KEVIN MCCULLOCH: To your knowledge would the current appointed actuaries for, say, SGI and ICBC prepare DCATs for those companies?

MR. JAMES CHRISTIE: I do not have direct knowledge of whether they do or not. I would presume they do because both SGI and ICBC are outside the normal purview of the Federal/provincial insurance regulators. The decision on whether or not to do -- have a DCAT done is driven by the organization itself; its management and its board of directors.

It is good practice to have one done so I can't speak with absolutely certainty as to whether one is done for either of those organizations.

MR. KEVIN MCCULLOCH: I'd like to move on to some questions about your relationship with Manitoba Public Insurance. Can you tell us how long you have personally acted as the appointed external actuary for MPI?

MR. JAMES CHRISTIE: Ten (10) years.

MR. KEVIN MCCULLOCH: And in that ten (10) year period can you give us a brief overview of what services you perform for the Corporation?

MR. JAMES CHRISTIE: When I was first engaged the engagement was to annually review the policy liabilities of MPI for each of its operations: Basic, Extension, SRE, and at that point the General Insurance Division which was in run-off; that analysis is done twice a year, at October and at February.

Later on as DCAT became a recognized practice I was also commissioned to do dynamic capital accuracy testing for MPI.

MR. KEVIN MCCULLOCH: And I understand, Mr. Christie, that in the course of your role as external actuary you meet with the audit committee of the MPI Board?

MR. JAMES CHRISTIE: Yes, I meet with the audit committee at least annually.

MR. KEVIN MCCULLOCH: And when you meet with the audit committee of the MPI Board you -- you also participate in in-camera hearings with the audit committee where senior management is not present?

MR. JAMES CHRISTIE: That is correct. My appointment is to -- for the Board, not to the management of MPI.

MR. KEVIN MCCULLOCH: Do you -- or can you tell us, when did you start preparing DCAT analysis for MPI?

MR. JAMES CHRISTIE: Just a minute. I'll look up the exact date.

(BRIEF PAUSE)

MR. JAMES CHRISTIE: I began doing DCATs with the 2002/2003 financial year.

MR. KEVIN MCCULLOCH: And while you indicated that you had a more limited role in -- in the MCT preparation, have you also been involved with MCT preparation for that same time period?

MR. JAMES CHRISTIE: Yes, when I undertake a dynamic capital adequacy testing for any of my clients one (1) of the items that I typically report on is the MCT score that is achieved under, first of all, their business plan and secondly under the adverse scenarios that I test. So I do that calculation.

It, by the way, it's simply an arithmetic calculation. There's no judgment call at that point in the MCT calculation.

MR. KEVIN MCCULLOCH: You mentioned that you've been the appointed external actuary for ten (10) years. For the record, is it correct that in September of this year the Board of MPI reappointed you as the external actuary for a further five (5) year period?

MR. JAMES CHRISTIE: That is correct. There was a public RFP to which I responded and the Board accepted my proposal for it.

MR. KEVIN MCCULLOCH: Now, I understand that within Ernst & Young you are the Canadian Director of Actuarial Services? Put it in the proper terms if you would.

MR. JAMES CHRISTIE: That's a reasonable description.

MR. KEVIN MCCULLOCH: And in the course of the actuarial department or services at Ernst & Young, can you tell us is MPI a significant part of that practice, the -- the work you do for MPI?

MR. JAMES CHRISTIE: MPI is a valued

client but it represents about 2 1/2 percent of our revenue, so it's not a significant component of the overall operations.

MR. KEVIN MCCULLOCH: Can you explain to me, Mr. Christie, the -- what is the purpose of DCAT which I understand stands for the Dynamic Capital Adequacy Test?

MR. JAMES CHRISTIE: Yeah. DCAT is an actuarial took developed by the Canadian Institute of Actuaries to which standards of practice apply.

The objective of a DCAT is to assess the future financial condition of an insurance company. There are two (2) broad components of the DCAT; the first being, to assess the company's business plan over a reasonable future time frame and to report to the Board that under the business plan the company meets or does not meet its targets for retained earnings or in case of MPI, RSR.

The second component is then to assess plausible adverse scenarios which might affect the Corporation and report to the Board on the adverse scenarios which have the most disadvantageous impact on the Corporation.

I am required, by my standards of practice, to report on at least the three (3) most adverse scenarios and, in addition, to report on any further scenarios which would cause the Corporation to be technically insolvent; by that, we mean that assets are less than liabilities, whether or not there is actually a ruling of insolvency or bankruptcy.

MR. KEVIN MCCULLOCH: And in preparing these plausible adverse scenarios, how do -- how do you arrive at those scenarios?

MR. JAMES CHRISTIE: The standards of practice of the Canadian Institute of Actuaries outline a number of areas that should be tested and suggest in many instances the type of testing that should be done.

Beyond the standard testing it is the obligation of the actuary doing the testing to assess whether there are special circumstances related to the particular company being reviewed that would require additional tests or additional adverse scenarios.

MR. KEVIN MCCULLOCH: So, in drawing up adverse scenarios for the purposes of doing the DCAT work you rely on your professional judgment and your knowledge of the company for whom you're preparing the DCAT?

MR. JAMES CHRISTIE: I do rely on my professional judgment but it's guided, as well, by the standards of practice.

MR. KEVIN MCCULLOCH: And can you

confirm, Mr. Christie, that your latest DCAT study for MPI, dated September 23rd, 2005, is included in AI-17 of the -- this General Rate Application?

MR. JAMES CHRISTIE: Yes, I can confirm that.

MR. KEVIN MCCULLOCH: Can you now move on and give us an explanation of the purpose of MCT?

MR. JAMES CHRISTIE: MCT is a measurement tool designed by the insurance regulators in Canada to assess the exposure to which particular insurance company -- or the risk to which an insurance company is exposed. It looks at the current balance sheet of that company and applies standard factor loads to the various components of the assets and liabilities.

The components, themselves, are standardized but because they are applied to the specific circumstances of that company, you produce an individualized requirement of capital for that company. The ratio of capital available to capital required is called the MCT ratio and that's what's commonly referred to as the 100 percent or the 50 percent or the 150 percent number that is -- floats throughout my testimony.

MR. KEVIN MCCULLOCH: Would it be fair or correct to categorize MCT as purely a solvency test?

MR. JAMES CHRISTIE: No. MCT is a

measurement of the risks to which an insurance company is exposed. The Federal insurance regulators and the provincial regulators have chosen to use a particular score on the MCT as one of their measurements of solvency, all right.

I'm sorry, not a measurement of solvency. Solvency is where our assets exceed liabilities. What the MCT score is being used to measure is the strength of the insurance company. And from a regulatory perspective, stronger companies are better than weaker companies.

MR. KEVIN MCCULLOCH: Now, you talked about the Federal regulator OSFI. And there's a discussion on the first page of AI-15, a discussion of the rate stabilization reserve, that talks about the role of OSFI in regulating Federal P&C insurance companies.

Could you go to that reference. I'm looking at the last paragraph on that page. And just basely -- basically explain what is being set out in that paragraph?

MR. JAMES CHRISTIE: Of course. The reference that you're referring to is actually an extract from the publication of the Office of the Superintendent of Financial Institutions. It talks about the Federal regulator requiring companies, as a minimum, to score 100 percent on their MCT.

It then goes on to say that that really isn't sufficient for the kinds of risks that -- that a company might have and therefore the regulators will expect that companies maintain a minimum of 150 percent on their MCT score. And the statement is "no less than" and the expectation is, in fact, that companies will set their own internal targets above 150 so that in modestly adverse years they continue to score at least 150 percent on their MCT.

MR. KEVIN MCCULLOCH: And from that quote or that paragraph that's included on -- in page AI-15 there's a statement that:

> "OSFI believes that each institution should establish a target level that provides a cushion above minimum requirements, both to cope with volatility in markets and economic conditions and to provide for risks not expressly -- or explicitly addressed in the calculation of policy liabilities or the MCT.

Would it be fair, sir, to categorize that as a direction from OSFI that the managers of insurance companies should use managerial judgment in setting the appropriate level of MCT for their company?

MR. JAMES CHRISTIE: Yes, that would be a fair characterization. And beyond that it is, in fact, the practice of the Federal regulator now to ask companies what is their internal target for MCT.

MR. KEVIN MCCULLOCH: Evidence was given at last year's Hearing that many private insurers in Canada hold reserves equal to -- in excess of 200 or 250 percent of MCT; is that correct, within your knowledge?

MR. JAMES CHRISTIE: The categorization of reserves is not the correct terminology but most -- many companies score significantly higher than 150 percent on their MCT. The current average for the Canadian marketplace is roughly 225 percent, maybe slightly higher than that. It was a reasonably good year for insurance companies.

But in my knowledge there are companies that score -- target and score significantly higher than that average.

MR. KEVIN MCCULLOCH: And what action does OSFI take if a company falls below the 150 percent level?

MR. JAMES CHRISTIE: When a company falls below 150 percent it is a flag for the regulator. There would be, in a reasonably short timeframe, a dialogue with the company as to the cause for that drop and the request for an explanation or -- of how the company intends to rectify that problem: that would typically be by asking for a cash infusion from the parent by issuing additional shares; by restricting revenues of the company.

There will be some expectation of -- of a game plan to fairly rapidly get that MCT score above 150 percent. If the regulator is not satisfied with that explanation then it might -- it will impose additional sanctions on the company.

MR. KEVIN MCCULLOCH: Can you indicate what you, in your professional opinion, believe to be the strengths of the MCT calculation?

(BRIEF PAUSE)

MR. JAMES CHRISTIE: I spoke to these in my written testimony. But the first strength of the MCT is that it is a fairly simple test to compute and it requires information that is, broadly speaking, available at any time a balance sheet is prepared. That means that MCT scores can be calculated quarterly and, in fact, are calculated quarterly for companies regulated by the Federal and provincial regulators. But it can be done on a monthly basis or even off cycle if a balance sheet is prepared.

A further strength of the MCT is that it's a standardized test in the sense that risk loads are standard and they reflect the general consensus of the type or the amount of risk that various assets and liabilities of the -- an insurance represent.

The MCT is further enhanced by applying these standard ratios to the current balance sheet of the insurance company. So a company can improve or -- its MCT score by changing its investment mix by change -- that can be done fairly quickly. It can change its MCT score in the long run by changing the kinds of business it chooses to underwrite.

A final benefit of the MCT at the present time is that it reflects the difference between market value and book value of the assets of an insurance company. That difference will disappear next year as the Canadian GAAP is changed to require assets to be shown on the balance sheet at market value.

MR. KEVIN MCCULLOCH: Feel free to correct me if I'm using the wrong terminology, but am I correct in saying that MCT addresses balance sheet risk?

MR. JAMES CHRISTIE: That's correct. It looks at the -- the balance sheet at a point in time and assesses the risk associated with that particular balance sheet.

MR. KEVIN MCCULLOCH: And is assessing risk by looking at balance sheet risk a more important consideration from your point of view than looking at operating statement risk?

MR. JAMES CHRISTIE: Yes, it is, particularly for P&C insurer because the assets and liabilities of the -- of an insurance company typically are orders of magnitude larger than the income statement.

You just need to look at MPI's balance sheet to see the large amount of unpaid claims that are there, not because of anything that MPI does or doesn't do but simply a function of PIPP. And that requires claim payments for, in many cases, the lifetime of an insurer and that means that the unpaid claims continue to grow each year.

That produces significantly more risk from the balance sheet than it does from the income statement. If -- if a -- there's a judicial ruling that changes the amounts to be paid, that would presumably apply to existing claims as well as the current claims that are reflected only in the income statement.

MR. KEVIN MCCULLOCH: Your evidence contain the opinion that it was appropriate for MPI to employ MCT in assessing its risk and its -- its reserve requirements or retained earnings requirement, is that correct?

MR. JAMES CHRISTIE: MCT is a standard and a good test for measuring risk but it -- it's simply a yardstick. The -- the next thing that has to be done is for the Corporation to assess how big a risk it should take or how big a retained earnings RSR it needs. It is the -- within the purview of the Board of MPI to assess the relative scores that should be required using the MCT yardstick.

MR. KEVIN MCCULLOCH: Now, recognizing that MPI is a provincial Crown monopoly insurer, do you still hold the view that use of the MCT is appropriate for such a company?

MR. JAMES CHRISTIE: Absolutely. MCT is a good measurement tool that's relatively easy to use. The difference for -- in MPI's case is that the required score should be lower because in a government Crown corporation there is not the risk that policyholders in the future might go to a competitor; that simply is not there.

On the other hand, there are significant risks that a Crown insurer is exposed to that don't disappear simply because you're a Crown insurer. You have risks that interest rates may change; that the claim liabilities may be incorrectly estimated; that claim liabilities might change because of judicial rulings, because of legislative or regulatory changes.

There are a number of risks that just don't disappear simply because you are a Crown Corporation.

MR. KEVIN MCCULLOCH: And am I correct, Mr. Christie, in assuming that looking at your evidence pre-filed testimony, the last paragraph, at page 2 and onto the top of page 3, expresses specific reasons why you believe that MCT is appropriate for MPI as a monopoly insurer?

MR. JAMES CHRISTIE: That's correct. My testimony there indicates that I believe MCT is a reasonable measure, but that the range for the MCT score should be lower for a Crown corporation.

MR. KEVIN MCCULLOCH: And are you aware, sir, that SGI and ICBC, also Provincial Crown monopoly insurers, have adopted MCT ratios to establish their levels of retained earnings?

MR. JAMES CHRISTIE: Yes, those statements are included in their financial -- in their annual statements indicating that they are using MCT as a measure of their -- what, in this province, we would call a rate stabilization reserve.

MR. KEVIN MCCULLOCH: Going back to discussion of how MCT reflects balance statement risk, can you explain the difference of the leveraged effect of fluctuations on the operating results and the balance sheet?

MR. JAMES CHRISTIE: Yes. The -- I've already alluded to it earlier in my testimony, but the balance sheet numbers are significantly larger than the income statement numbers, so that a change that might increase current year claims by 1 percent would also increase all unpaid -- might also increase all unpaid claims by 1 percent. But, that 1 percent of the unpaid claims is a significantly bigger number than 1 percent of the claims incurred in the current year. That's one of the drivers of the leverage.

The second driver of leverage is that claim liability -- or claim liabilities on the balance sheet are carried at a present value basis, so they are carried reflecting the -- reflecting a discount rate. If interest rates change, the discount rate will change. And that discount rate if it -- when it changes will change the unpaid claim liabilities and that can have a significant leveraged effect.

MR. KEVIN MCCULLOCH: I believe, sir,

that you were also asked to do a comparison of MCT versus the risk analysis and I refer you to CAC/MSOS-6 and your response.

(BRIEF PAUSE)

MR. JAMES CHRISTIE: Yes.

MR. KEVIN MCCULLOCH: And can you just briefly set out what is the opinion that you're expressing in that response?

MR. JAMES CHRISTIE: The first issue with the operational risk analysis that -- is that it relies on the last -- only on the last twelve (12) years of MPI's experience. So it necessarily isn't reflecting all of the risks that MPI could be exposed to.

The second issue is that the operational risk analysis is a measure of how good or bad the Corporation is in estimating its results for the current -- the next year. It measures the difference between forecast and actual results.

And it doesn't really measure the things that could go wrong that have not yet happened. It's like trying to assess how high you should build a -- a dyke or whatever based on the last twelve (12) years of river heights rather than looking at the last hundred

(100) years or some larger period of time. It might not necessarily reflect all of the risks to which the entity is exposed.

The further concern about the operational risk analysis is that it is customized. It's a very unique approach designed specifically for MPI. It requires a significant amount of extra work to do it and at the end of the day it still boils down to how you choose to calibrate the -- the score.

When you look at operational risk analysis it -- it has in it 95 and 97 1/2 percent measures and those produce particular numbers. There is nothing special about those particular levels.

And so what we're really arguing about with operational risk analysis versus MCT is whether you choose to measure, in some sense, in Imperial or Metric, but equally whether you choose to measure with a relatively standard measure, such as a yardstick, or you choose to measure in a customized measure, like cubits, which depend on the particular length of somebody's elbow to wrist rather than a general standard that you can move from one company to another.

Beyond the operational risk analysis there is the VAR approach which uses a two and a half (2 1/2) year time horizon, that may or may not be appropriate. I believe it is not in this particular case simply because the result it produces is that there's no investment risk and that just flies in the face of reason.

The risk that MPI faces with its investments is that it may be required to liquidate some of its investments if there is a particularly adverse scenario in order to pay for claimants' costs. And if it has to liquidate those it can't wait two and a half (2 1/2) years for markets to stabilize. And so it will be exposed to some investment risk on a much shorter timeframe than two and a half (2 1/2) years.

MR. KEVIN MCCULLOCH: If I understand you then, you're suggesting or saying that the operational risk analysis which has been often described as a made in Manitoba solution is employed only in Manitoba whereas the MCT is a standardized test employed across the country, is that correct?

MR. JAMES CHRISTIE: That is correct.

MR. KEVIN MCCULLOCH: And do you believe that there are any benefits for MPI, as a monopoly insurer, to benchmark its MCT ratio against other insurers?

MR. JAMES CHRISTIE: Yes. Particularly benchmarking itself against other Crown Corporations such as SGI and ICBC.

MR. KEVIN MCCULLOCH: There's been significant discussion over the years regarding the purpose of the rate stabilization reserve and it's generally accepted, I would suggest, that the purpose is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

Is that your understanding of the purpose of the RSR?

MR. JAMES CHRISTIE: Yes, it is.

MR. KEVIN MCCULLOCH: And can you tell us how the MCT accounts for losses due to unexpected events or losses due to non-recurring events?

MR. JAMES CHRISTIE: The MCT, in and of itself, doesn't account for losses from any particular source. What it does is assess the potential risks that either assets or liabilities might expose an insurance company to by applying standardized factors. Those factors are developed from a consensus of experts in the insurance business in the early 2000's.

They then produce a required capital and -- and at that point the MCT stops. It simply is a measurement tool and then it's over to the regulator or the insurance company to assess what particular score they should get from an MCT.

MR. KEVIN MCCULLOCH: In the most recent DCAT, the one dated September 23rd, 2005 and contained in AI-17, do you reach a conclusion on the Corporation's status and can you describe what that conclusion is?

MR. JAMES CHRISTIE: Yes, my conclusion was that the future financial condition of MPI basic is unsatisfactory; that is driven because it fails one (1) of the two (2) tests that are required for a satisfactory opinion.

It fails the test that the retained earnings, at the point in time I did the test, were insufficient to cover all of the losses that might occur in at least one (1) of the adverse scenarios I tested.

In the particular case of MPI, it was an inflation scenario. And that is -- was a standard test prescribed by the standards of practice of the Canadian Institute of Actuaries.

MR. KEVIN MCCULLOCH: So applying the standard tests of the Canadian Institute of Actuaries, MPI received an unsatisfactory rating?

MR. JAMES CHRISTIE: Yes, that is correct. Its retained earnings were insufficient to support, at least one (1) adverse scenario.

MR. KEVIN MCCULLOCH: Just out of interest, if you were to write that sort of a conclusion for a private P&C insurer, what would the consequences be?

MR. JAMES CHRISTIE: There would be an immediate visit from the regulator and in all likelihood some rehabilitation ordered of the company and in an extreme case, the regulator might even take over the operations of the company and wind it down.

MR. KEVIN MCCULLOCH: And I believe you're aware as well, Mr. Christie, that in last year's order 150/5 the PUB listed certain considerations that it felt were appropriate in rejecting MPI's argument that the MCT ratio should be adopted. Have you -- are you aware of those?

MR. JAMES CHRISTIE: I am aware of those.

MR. KEVIN MCCULLOCH: And do you have any comment on those considerations?

(BRIEF PAUSE)

MR. JAMES CHRISTIE: It's -- Yes, I do have some comments. They -- the first one is that I believe MCT is a well regarded yard stick for measuring the capital required of an insurance company.

I believe that it is a better measure because it is standardized and easy to use than the operational risk/analysis value at risk approach that's currently employed by MPI.

The requirement as to the level of MCT is something for MPI's Board to assess and for the PUB to review, and depending on the scores that are there, may require either supplements or refunds of premiums.

MR. KEVIN MCCULLOCH: And just to make sure we're dealing with the same information, I'm showing you PUB/MPI-1-22, information request, which sets out the considerations of the Board. And can you confirm that those were the same considerations that you were just commenting on?

MR. JAMES CHRISTIE: I was referring to the Board Order last year my -- and immediately preceding testimony. With respect to item 1-22 there -- first of all, there are a number of risks that MPI is exposed to even though it is not a private property and casualty insurer. It is not immune to changes in interest rates. It is not immune to changes in medical costs. It is not immune to changes in regulatory directives.

While it is unlikely that MPI would become insolvent in the sense that private insurers would become insolvent there is still a -- a need for MPI to have sufficient assets to pay its claims one way or another, and that will either be through -- if these are unexpected claims by either having their RSR or by surcharging future policyholders.

The -- there is an advantage to MPI in that it can surcharge its policyholders with little ability for the policyholders to avoid that by going to a comp -- for instance, a competitor.

There is still some ability for policyholders to avoid surcharges by simply deciding they aren't going to drive their car. And therefore a massive increase in premiums will encourage some people not to drive their cars or to drive one (1) less car or whatever, and therefore it isn't an absolute guarantee that MPI could impose a surcharge and expect to -- to recover all of the surcharge.

And while it is certainly true that MPI can expect reasonable considerations of future rate increases there are -- there are other dynamics involved beyond simply the PUB approving a rate increase. The consumers of this province expect rate increases to be relatively stable and a massive increase in rates will be a -- very unpopular with the public as a whole and may result in other consequences beyond the PUB authorizing a rate increase.

While it is true that a Crown corporation can influence the Province to change its -- the insurance environment MPI is not the only voice with the legislature in terms of changing coverage.

If coverage is significantly reduced there will be policyholders, current policyholders and current drivers who will be adversely affected by that. And you can't assume that it will necessarily be the case that legislation will be changed simply to benefit a Crown corporation. Legislation is often changed because it is -- to benefit the electorate as a whole, not the Crown corporation.

MR. KEVIN MCCULLOCH: Thank you, Mr. Christie. Mr. Chairman, I'm now moving on to an area dealing with comment on the Hum/Simpson report. I don't think I'll be able to complete that by ten o'clock. If you wish me to start it and -- and then go for the break it's up to you.

THE CHAIRPERSON: I think perhaps we'll just take an early break right now and then allow you to go into Hum and Simpson after that.

MR. KEVIN MCCULLOCH: Thank you.

--- Upon recessing at 9:54 a.m.

--- Upon resuming at 10:16 a.m.

THE CHAIRPERSON: Just to let everyone

know that we've made some adjustments. And given that perhaps we're running a little bit behind, but nothing that's problematic, we'll be able to start tomorrow at 9:00 a.m. We will not have to wait until 10:30. Make the best use of the talent we have arrayed.

Okay, Mr. McCulloch.

MR. KEVIN MCCULLOCH: Thank you, Mr. Chairman.

CONTINUED BY MR. KEVIN MCCULLOCH:

MR. KEVIN MCCULLOCH: Mr. Christie, I'm turning now to the report filed by Professors Hum and Simpson which appears as CAC/MSOS Exhibit number 4, and the report is dated September 8th, 2006. I understand that you've had an opportunity to review that report?

MR. JAMES CHRISTIE: Yes, I have.

MR. KEVIN MCCULLOCH: I have some specific questions that I'd like to raise with you. First of all, in comparing the risk analysis and the MCT have Professors Hum and Simpson addressed the issue of variances in investment income?

MR. JAMES CHRISTIE: No, they have not.

MR. KEVIN MCCULLOCH: And, in your opinion, what is the impact of that failure?

MR. JAMES CHRISTIE: It -- the result is

that their analysis misses one of the significant exposures to which MPI -- that MPI has.

MR. KEVIN MCCULLOCH: And, just briefly describe what that exposure is?

MR. JAMES CHRISTIE: MPI's risks are both on the liability side of the balance sheet and on the asset side of the balance sheet. On the asset side of the balance sheet the bonds and equities that they hold may change in value, and may change significantly in value from one year to the next simply given changes in the market interest rates.

This exposure is not reflected in the Hum and Simpson analysis.

MR. KEVIN MCCULLOCH: We heard some evidence earlier in these Hearings that there are factors that have been referred to as a forecasting lag, a regulatory lag and a policy year lag that have an impact on the Corporation's ability to respond to a major unanticipated event.

Are you familiar with those factors?

MR. JAMES CHRISTIE: I'm familiar with the concept, yes, indeed.

MR. KEVIN MCCULLOCH: And do you find those concepts addressed in the Hum/Simpson report?

MR. JAMES CHRISTIE: No, I don't. By and

large, the implicit assumption seems to be that when a problem is identified it can be immediately corrected. That ignores practical realities that when -- first of all, when inflation or something like that hits it's not necessarily agreed by all the participants that inflation is here to stay. It may very well be regarded as a one-time aberration and it may take two (2) years of significant inflation before all the participants can agree.

The next concern is that even if you agree that there is inflation, you then have a regulatory process to go through to get approval for changes to rates. And even in a most expeditious environment that will take some time lag; months would not be an unreasonable assumption for regulatory approval. It could be even more than a few months.

The third issue is that even if a rate change is approved it -- and is put in place, policyholders only pay that as their policies come up for renewal so it takes a full year for a rate change to, broadly speaking, be reflected in the income statement of the insurer.

These three (3) items coupled together mean that changing the revenue stream of an insurance company is a relatively long and involved process and not an instantaneous action.

MR. KEVIN MCCULLOCH: So then you would disagree with the assumption that appears to have been made by Professors Hum and Simpson that there is a more instantaneous response available?

MR. JAMES CHRISTIE: Yes, I would.

MR. KEVIN MCCULLOCH: Can you tell me, in your review of the Hum/Simpson report, have they accounted for changes in policy liabilities?

MR. JAMES CHRISTIE: Not explicitly. I could not see any accounting for that.

MR. KEVIN MCCULLOCH: I want to refer you now to the last page of the Hum/Simpson report, page 35.

MR. JAMES CHRISTIE: Yes, I have it in front of me.

MR. KEVIN MCCULLOCH: And looking above the disclaimer, the Professors make the statement that:

> "MCT is designed to address an entirely different question, namely the issue of insolvency rather than liquidity."

And they go on to state that:

> "MCT simply does not address the primary issue at hand, namely how much liquidity is required to finance an unexpected, non-recurring loss event."

Do you agree with the conclusion that the primary purpose of the RSR is to address liquidity issues?

MR. JAMES CHRISTIE: Sorry, the primary issue of RSR or the primary issue of MCT?

MR. KEVIN MCCULLOCH: Well, the statement that the MCT doesn't address the primary issue at hand; which they say is liquidity.

MR. JAMES CHRISTIE: I don't agree with that statement. MCT is a measurement tool and depending on how much capital you choose to have relative to an MCT measurement, is the real issue.

MR. KEVIN MCCULLOCH: All right. I want to go back in the report and refer you to, starting on page 17 and at paragraph, starting 4.2.1, and going on to page 21, Professors Hum and Simpson provide their comments and the adverse scenarios that you have prepared and included in the DCAT analysis.

And I'd like you to respond to their criticism of these adverse scenarios.

MR. JAMES CHRISTIE: Certainly. I'll begin with the first scenario that they address; the single large scenario. In bold face, they indicate that they have concerns that I'm testing an event that is twice the largest event incurred by MPI.

The very point of an adverse scenario is to test an event that is a one (1) in a hundred (100) year event or a one (1) in forty (40) year event in the case of a 97 1/2 percent standard of confidence in a rule.

We generally test one (1) in a hundred (100) year events. It should be expected that the one (1) in a hundred (100) year event is significantly larger than what's been observed in the last twelve (12) years.

In fact, I was somewhat surprised to -- when they pointed it out that it was only twice as large. I would -- in many cases ex -- with many of my other clients, the one (1) in a hundred (100) year event is significantly larger than twice the largest observed value.

And the reason for that is we tend to take data that the company has, fit it to a -- in some sense, a best fit of size of loss and then pick the ninety-ninth (99th) percentile from that size of loss distribution.

And that almost by definition will produce a number significantly larger than the largest observed value.

With respect to the inflation scenario, they rightly identify that it is the one that produces retained earnings to be negative.

They take issue with my assumption that management action is to only increase rates by 3 percent. I point out that the inflation scenario is that inflation increases by 3 percent and what I have assumed in this scenario is that management action is to increase rates by 3 percent, albeit lagged by two (2) years.

At that point in time, inflation would have run for a further two (2) years creating an additional 6 percent shortfall. And the assumption is, that in the second year, management gets the further 6 percent that they need.

That is not an unrealistic situation or assumption in a scenario where you have to convince, in this case, the regulator and in other cases the consuming public that there is a fact a need for rate increases. And one (1) of the reasons that companies require, in this case an RSR, is to support themselves through a time until such time as they can get the -- their premiums in line with the -- with a new level of claims costs.

I -- I disagree strongly with the comment on page 21 that what I'm really testing is management should not -- what I'm really, really testing is what management should not do. In effect, what I'm testing is what is a likely scenario for management to undertake and the timeframes it will take for management to get premium levels back in line with claim costs.

I should point out that this is a -- the assumption of inflation increase is a -- one of the scenarios that the Standards of Practice indicate that actuaries should use when testing adverse scenarios.

The assumption of the time lag in terms of management's reaction is broadly speaking the same assumption that I've made in testing this scenario for virtually all of my clients. And I say virtually all because in some cases I've assumed an even longer timeframe for management to react.

MR. KEVIN MCCULLOCH: You spoke earlier about your input and your experience with international accounting standards, do you see any issues with the Hum/Simpson report from an accounting standard viewpoint?

MR. JAMES CHRISTIE: The Hum/Simpson report really doesn't address accounting standards at all and I'm not sure that in this context that that is essential that it do so.

What it doesn't measure though is the -- well, it doesn't measure investment risk at all so -- and that is the major impact that changes in accounting standards is going to have is that investments on the balance sheet are going to be shown at different levels than they have been historically.

MR. KEVIN MCCULLOCH: Now, moving to a slightly different tack I understand that prior to joining Ernst & Young as a consulting actuary you were a vice-president of finance with a major Canadian insurer, is that correct?

MR. JAMES CHRISTIE: That is correct.

MR. KEVIN MCCULLOCH: And in that role as an executive of a major Canadian insurer would you have retained an economist to evaluate your company's risks?

MR. JAMES CHRISTIE: No, I would not. Industry practice is to hire actuaries who are trained by their profession to evaluate the risks of an insurance company and that would typically be the first source of experts that I would go to.

MR. KEVIN MCCULLOCH: And one (1) final question, Mr. Christie. Just for the record can you confirm that the analysis including the adverse scenarios that you included in your DCAT and your testimony today conform with the CIA Standards of Practice?

MR. JAMES CHRISTIE: They do conform with the CIA Standards of Practice. As I indicated in my DCAT report my test of -- of whether the company meets its capital requirements is based on the target MCT scores that the Board of Directors of MPI have approved. For other companies that are privately owned and operated the test would be that they scored at least 150 percent on their MCT. In this case I have tested simply that the number exceeds at least 50 percent MCT.

MR. KEVIN MCCULLOCH: Mr. Chairman, that concludes the direct examination of this Witness.

THE CHAIRPERSON: Thank you, Mr. McCulloch. We'll move now to Mr. Saranchuk for the Board.

CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Thank you, sir. I'll be dealing initially with the information that's been filed as part of AI-15, Mr. Christie.

And let me preface my questions by saying that what we're going to be doing is to have everyone informed, if we can, at a high level, about what really goes into the determination of the capital required in the minimum capital test.

On page 1 of AI-15 are listed the components of the minimum capital required, as captured in the MCT. And they are listed as follows: number 1, the capital for on balance sheet assets; number 2, margins for unearned premiums and unpaid claims or policy liabilities; number 3, catastrophe reserves and additional policy provisions; number 4, an amount for reinsurance ceded to unregistered reinsurers; and number 5, capital for off balance sheet exposures.

Have I listed those correctly, sir?

MR. JAMES CHRISTIE: You have.

MR. WALTER SARANCHUK: Now, addressing each of these components, dealing firstly with the capital for on balance sheet assets, can you explain, in effect, what that provision allows for?

MR. JAMES CHRISTIE: In broad terms this is the largest improvement when the MCT was brought out over the previous test and what it does is it looks to the assets that an insurance company has that are there to support, in some sense, the liabilities and it looks at the risk or riskiness -- relative riskiness of each of those assets.

For instance, if you own -- hold government bonds there is no additional capital requirement. If you hold equities there is a significant capital requirement simply because, first of all, the volatility of equities and second of all, relative to government bonds there is the potential for default of the principal.

MR. WALTER SARANCHUK: And, again, at a high level, can you talk in terms of the basic mechanics of how it's calculated?

MR. JAMES CHRISTIE: Yes. The assets of an insurance company are segregated into a number of different categories. Each of those categories then has a factor ranging from zero to 100 percent as a capital charge and then there's a multiplication done of the factor times the amount of half -- the dollar value of the assets in each category producing the capital required.

MR. WALTER SARANCHUK: And can you give us an idea of the particular relevance of this provision to MPI?

MR. JAMES CHRISTIE: Well, in MPI's case, it's -- just because it's a Crown Corporation doesn't diminish the fact it's exposed to the volatility or uncertainty of the assets that it holds.

MR. WALTER SARANCHUK: And moving on to the second component, that's margins for unearned premiums and unpaid claims, what is the essence of that provision?

MR. JAMES CHRISTIE: That provision is intended to reflect the relative uncertainty of the unpaid claims and, to a lesser extent, the unearned premiums. The unpaid claims are categorized into three (3) broad components, the least volatile ones requiring a 5 percent load, the most volatile ones requiring a 15 percent load.

MR. WALTER SARANCHUK: And so in terms of the mechanics in calculating it, is that what you've just gone through?

MR. JAMES CHRISTIE: Yes. It is a -- the -- those particular liabilities are put into four (4) buckets; unearned premiums and three (3) types of unpaid claims. A load is applied to each bucket and that produces additional capital that's required to support the liability side of the balance sheet.

MR. WALTER SARANCHUK: And so this approach would be applicable to MPI?

MR. JAMES CHRISTIE: Absolutely. MPI is exposed to volatility in its unpaid claims just like any other insurance company.

MR. WALTER SARANCHUK: And, in addition, with respect to the margins on unearned premiums and unpaid claims, how is the MCT quote, "capital required" end of quote, affected by the provision for adverse deviations?

MR. JAMES CHRISTIE: Provision for average deviation is included in the unpaid claims and, therefore, the load is applied to the provision.

MR. WALTER SARANCHUK: So does this amount to a margin on a margin?

MR. JAMES CHRISTIE: Yes. If it was applied to the claim liabilities without the PFAD, then the likelihood is that the factors would be increased.

MR. WALTER SARANCHUK: And dealing with the third component of the capital required, namely, the catastrophe reserves and additional policy provisions, what does that provision allow for?

MR. JAMES CHRISTIE: In MPI's case there are none, but in broad terms companies are encouraged to set aside catastrophe reserves for huge exposures, largely, earthquake that they might have.

And to -- if they do sell, they get a credit on their MCT calculation.

MR. WALTER SARANCHUK: And so can you give us, at a high level, an idea of the mechanics of how it's calculated?

MR. JAMES CHRISTIE: At a very high level, is the capital that has been appropriated into the catastrophe reserves. Most companies do not set aside a catastrophe reserve, but if you typically -- reinsurers have set aside catastrophe reserves.

MR. WALTER SARANCHUK: And I think you indicated this isn't really applicable to MPI in any event, is that correct?

MR. JAMES CHRISTIE: It is not, for two

(2) reasons.

1. MPI, broadly speaking, insures risks in Manitoba. Manitoba is really not an earthquake area, so there's not much risk there.

The big risk for MPI is hail and/or flood. And those tend to be of a much less severe catastrophic nature -- weather. If you happen to be in the hail or the flood, you may not think that it's that, but in broad terms the exposure from hail or flood, is much less than from earthquake.

MR. WALTER SARANCHUK: And the fourth component is the provision for reinsurance ceded to unregistered reinsurers. What does that provision allow for?

MR. JAMES CHRISTIE: In broad terms, the Federal regulators will give credit on the MCT for reinsurance that you have purchased from registered reinsurers; that broadly speaking is comp -- reinsurers that the regulators regulate.

If you choose to buy reinsurance from an unregulated market, there is a presumption that this is not as valuable, not as likely to be collected and therefore there is a penalty imposed for the fact that you have purchased your reinsurance from an unregistered reinsurer.

MR. WALTER SARANCHUK: And how is the effect of that component calculated?

MR. JAMES CHRISTIE: To the extent you have unregistered reinsurance, you are required to put up a capital to support that unregistered reinsurance. So from MCT purposes it's as if the registered -- the unregistered reinsurance did not exist.

MR. WALTER SARANCHUK: And is that applicable, do you know, in the case of MPI?

MR. JAMES CHRISTIE: MPI has a very small amount of reinsurance, in general, and a very, very small amount of unregistered reinsurance.

MR. WALTER SARANCHUK: But, it does have that component?

MR. JAMES CHRISTIE: Yes.

MR. WALTER SARANCHUK: Can you give us any idea of the order of magnitude, generally speaking, ballpark? Compared to --

MR. JAMES CHRISTIE: I can, I just have to find my notes. Just give me a minute.

(BRIEF PAUSE)

MR. JAMES CHRISTIE: The amount is in -- accordingly to MPI's calculation I believe the number is

$8 million. Just a second -- I've been handed a second calculation. Yeah, $8.7 million.

MR. WALTER SARANCHUK: So that's the amount with the unregistered reinsurers?

MR. JAMES CHRISTIE: That is the amount of the capital of charge required. That is slightly larger than the actual amount of -- of unregistered reinsurance because if you -- the intent is to put yourself back in the position as if you hadn't bought it.

If you hadn't bought it you would have had a capital of charge for holding the liability. So there is a charge for -- for both the unregistered reinsurance and the factor that would have been applied if you hadn't purchased the unregistered reinsurance.

MR. WALTER SARANCHUK: And dealing with the fifth or final component of the capital required in the MCT, namely the capital for off balance sheet exposures, can you advise as to what that provision allows for?

MR. JAMES CHRISTIE: The major exposure for MPI is for structured settlements. These are arrangements where a claimant goes to court. It was particularly the case in a -- in a Tort environment where they were -- arranged to have a structured settlement, that is an annuity purchased and the value of the annuity would have been within the policy limits whereas the sum total of the payments would have exceeded the policy limits.

There was also an advantage for claimants that this can be very income tax effective.

When a company purchases a structured settlement for the financial -- for the balance sheet that number disappears. It's -- you pay the annuity premium to the insurance -- to a life insurance company and it flows through the income statement that year. There's nothing left on the balance sheet.

However, if the life insurance company were to become insolvent the P&C company, MPI in this case, would have an obligation to continue to make those payments. So that's why it's an off balance sheet item and there is a load put on to reflect those off balance sheet exposures.

MR. WALTER SARANCHUK: Isn't there in cases some structured settlements in companies the liability insurer taking out insurance to cover off a scenario just as that, that you mentioned where the life insurer may not be able to pay out over the years?

MR. JAMES CHRISTIE: I guess it's possible, yes.

MR. WALTER SARANCHUK: You're not

familiar with that practice?

MR. JAMES CHRISTIE: I -- none of my clients to the best of my knowledge have bought reinsurance to protect themselves for that eventuality.

MR. WALTER SARANCHUK: What would that -- what impact would that have?

MR. JAMES CHRISTIE: The impact would be in broad terms that the capital required would go down, but you would have paid a premium to -- to purchase this so your capital available would have gone down as well.

If I could just correct my testimony, the off balance sheet item for reinsurance ceded to unregistered reinsurance that I said was 8.7 million, that was for MPI, the entire corporation. For basic, it's only, well, it's $6.2 million.

MR. WALTER SARANCHUK: Thank you, sir.

MR. JAMES CHRISTIE: And the off balance sheet items are three hundred thousand dollars ($300,000).

MR. WALTER SARANCHUK: Now, in terms of calculating the capital for off balance sheet exposures, what are the mechanics there?

MR. JAMES CHRISTIE: Again the -- the exposures are enumerated, a factor is applied to those and the amount of capital required, in this case three hundred thousand dollars ($300,000) is the result of that calculation.

MR. WALTER SARANCHUK: And the fact that that amount is as low as it is, relatively speaking, does that reflect the fact that the exposures of MPI would be relatively minimal given that Manitoba is a no-fault jurisdiction?

MR. JAMES CHRISTIE: It is -- reflects the exposures that MPI has. Whether that's because it's a no-fault jurisdiction or not it's simply the factor applied to the actual off balance sheet items that MPI has. I would presume most of those come from the pre-PIPP days.

MR. WALTER SARANCHUK: Or in current situation from extra-provincial Tort claims?

MR. JAMES CHRISTIE: That's correct. I stand corrected on that.

MR. WALTER SARANCHUK: Now, I have a few questions on your report, sir. If you'll just bear with me I'll put my finger on it.

In discussing the MCT in your report you make reference, and this is at the end of the third paragraph on page 1, you make reference to, quote:

"Trade-offs that were made in its design." End of quote.

And to the test being a quote:

"Compromise between ease of use and relevance." End of quote.

Which is at the end of the sixth paragraph on page 1.

Can you provide some illustrative examples of these trade offs and compromises? Looking at page 1, sir, of your report and --

MR. JAMES CHRISTIE: Sorry I was on...

(BRIEF PAUSE)

MR. JAMES CHRISTIE: Yes.

MR. WALTER SARANCHUK: Okay. Let me draw your attention to the end of your third paragraph on page 1 where you refer to, quote, "trade offs that were made in its design", end of quote, and to the end of the sixth paragraph on page 1 of your report to your reference to the test being, quote, "a compromise between ease of use and relevance", end of quote.

And I was asking whether you can provide some examples of those trade offs and compromises?

MR. JAMES CHRISTIE: Certainly. For instance, the capital loads that are required for claim liabilities; there are only three (3). You are either low, medium or high.

Conceptually, one could have had a capital load for every category of insurance that is permissible under the current regulatory regime. There are, at this point, eighteen (18) classes. They've just been standardized in the last year. There were roughly twenty-four (24) classes of insurance prior to that and it varied from province to province.

So one could have had a separate load for each category. By and large, that didn't really add much value because it really didn't matter whether it was a home insurance policy or a automobile physical damage policy; they were both relatively low risk in terms of the ability to estimate the claims. For the high end there was -- we have things like general liability, errors and omissions insurance, auto bodily injury claims all lumped together.

One could separate them out but, again, there's not a -- you're still dealing with a judgment call of what the load should be and the decision was made to simply use three categories.

Similarly, on the asset side of the balance sheet, assets are really categorized into government grade, investment grade and non-investment grade. If you look at a standard bond rating agency like

Standard & Poor's or Moody's, you'll see that they categorize bonds into ten (10), twelve (12), fifteen (15) categories.

MR. WALTER SARANCHUK: Thank you, sir. Let me put to you a hypothetical case of two (2) almost identical insurers; the same in every respect except the investment portfolio of one is diversified within a class of investments and the portfolio of the other is held entirely in a single instrument within that same class of investments.

How would the MCT ratios of those two (2) insurers compare?

MR. JAMES CHRISTIE: The MCT would be identical because it does not segregate between the diversified portfolio of similar assets and a single investment in one (1) asset.

At the same time, MCT is not the only requirement that -- that companies have in managing their exposures. Insurance companies are required to have an investment policy. An investment policy would typically constrain the company from not investing more than 1 or 2 percent of its assets in any one (1) particular issuer.

MR. WALTER SARANCHUK: So does that exemplify a trade-off or a compromise in the MCT design?

MR. JAMES CHRISTIE: Yes, it does.

MR. WALTER SARANCHUK: Just referring to the second paragraph on page 2 of your report, sir, you mention that MCT, quote:

"has been adopted by two (2) provincial auto insurance monopolies, Saskatchewan Government Insurance and Insurance Corporation of British Columbia." End of quote.

For each of those, what can you tell us about the considerations that led to the adoption of MCT to set target RSR levels by each of those two (2) Crown corporation insurers?

MR. JAMES CHRISTIE: I have no particular insight into the operations at either of those companies in terms of why they chose to use the MCT.

MR. WALTER SARANCHUK: Can you tell us about the considerations that likely led to the approval of MCT to set those RSR target levels by those respective regulators?

MR. JAMES CHRISTIE: It would be speculation on my part. Am I allowed to speculate?

MR. WALTER SARANCHUK: Well, let's hear what you have to say and we'll see what kind of weight we should give to it.

MR. JAMES CHRISTIE: I suspect that it

was done because it was a measure that was out there already. It's sort of like, why invent a new measurement standard when one already exists? If the world is measuring in metres, why would you invent widgets as a measurement tool? Why not just use the measurement tool that's out there, particularly if it's a relatively easy measurement tool to use?

The real discussion, I think, for these two (2) Corporations would have been not what to measure, but what the score should be once they've measured.

MR. WALTER SARANCHUK: Thank you, sir. In your report you described the MCT capital required as being, quote:

> "Designed to ensure that insurers are likely to be able to honour their commitments to current policyholders." End of quote.

This is in paragraph four (4) on page 2. In what sense, or under what circumstances would MPI not be likely to be able to honour those commitments?

MR. JAMES CHRISTIE: I'm sorry could you please refer to where you're reading again?

MR. WALTER SARANCHUK: Yes sir, paragraph four (4) on page 2. There is --

MR. JAMES CHRISTIE: Okay. I've got it.

If MPI has insufficient cash flow or insufficient assets to pay its obligations it would have to find a way to finance that. There's no guarantee that that would be the case.

I would expect that given that it is a Crown Corporation, the Province might very well back something to allow the Corporation to borrow money, but it would have to be borrowed and then paid back. It's not free.

That contrasts with a privately held company that, at that point in time, it's very unlikely that you could find investors willing to finance what would, essentially, be a bankrupt operation.

What would be more likely the case, the -- somebody would try to acquire the -- some of the assets.

MR. WALTER SARANCHUK: And given the answer, insofar as MPI is concerned, what does that imply for an appropriate level of the capital required for MPI?

MR. JAMES CHRISTIE: My belief is the capital required should be less than for a private insurer. Because even if you -- not so much worry about the ability to pay claimants you still have the issue about how you're going to finance paying those claimants.

If there is no RSR or the RSR is at an insufficient level, then the likelihood is that you're going to have to increase premiums very dramatically and that will create issues for the consuming public.

MR. WALTER SARANCHUK: Still with paragraph 4 on page 2, sir, you raise the issue of inter-generational equity in the context of using MCT ratios as a target RSR range where you state, quote:

"The appropriate ratio for a monopoly insurer should not be zero to ensure inter-generational equity among policyholders." End of quote.

How do you define inter-generational equity or inequity?

MR. JAMES CHRISTIE: Okay. I'm not sure I have a precise definition but broadly speaking it should be that each generation, i.e., the policyholders in a particular year, pay the expenses which they bring to the Corporation.

So it is not fair for next year's policyholders to pay for a claim cost that this year's policyholders have generated and it's particularly the case -- it's not so bad if it's just one (1) year to the next, because by and large the policyholders in -- in MPI's case are going to be the same, but if it has to be funded over six (6), ten (10), fifteen (15) years, then there is a clear benefit to current policyholders that's being borne by future policyholders.

MR. WALTER SARANCHUK: So if you trigger a -- a surcharge to rebuild the RSR or a rebate to reduce the RSR does that cause intergenerational inequity?

MR. JAMES CHRISTIE: Yes, particularly the case with surcharges. In -- in the case of the rebates, the two (2) rebates that have mandated so far, by and large the increase in RSR has occurred over a one (1) year period and the rebate is going to either the generation of policyholders who created it or in the second case to the generation one (1) year removed.

In the case of surcharges the likelihood is that the surcharge would be applied for more than one (1) year and therefore it increases the inter-generational inequities.

MR. WALTER SARANCHUK: Dealing briefly with your responses to the Interrogatories of the Public Utilities Board in the third round, sir, and firstly with your response to Interrogatory Number 7, the question that was posed is, quote:

> "Is it possible to eliminate the risk of inter-generational inequity through setting the RSR target." End of quote.

Could you please read your response into the record?

MR. JAMES CHRISTIE: "There is no specific RSR target that will eliminate inter-generational equity. Reducing inter-generational inequity is a goal that is -- that a reasonable RSR level helps achieve. Setting the RSR target high enough MPI has proposed a 50 percent MCT ratio, helps to insure that the current policyholders contribute to bear in future risks to which they expose MPI. Setting the RSR target low enough, MPI has proposed 100 percent MCT ratio, helps to insure that policyholders are reimbursed in fairly short order if they over-contribute."

MR. WALTER SARANCHUK: And can you expand on that response, sir, to clarify in what sense the setting of the RSR target is sufficiently high and to quote your answer:

"Helps to insure current policyholders contribute to bearing the future risk to which they exposed MPI."

MR. JAMES CHRISTIE: Sure. If the RSR is -- sorry. If the RSR is at a sufficiently high level, then policyholders will contribute to the rate setting process to funding that RSR.

And the RSR, in some sense, is related to the risks that those policyholders bring. Because the RSR is a balance sheet item what the policyholders are typically funding is only the increase in RSR in that particular year which broadly speaking is the additional risks that that particular band of policyholders brings to the -- to the table.

MR. WALTER SARANCHUK: And is -- we're all aware the Corporation has proposed a judgmentally selected target MCT ratios of 50 percent and 100 percent to define the target RSR range.

In your opinion what makes 50 percent optimal for the lower end of the range and what about the 100 percent optimal for the upper end of the -- end of the target -- target --

MR. JAMES CHRISTIE: I'm not sure that I -- they are necessarily optimal. They are the numbers that MCT -- for MCT that the Corporation has chosen. If it were for me to set I would have set them at a minimal of one hundred (100), not at a minimal of fifty (50).

MR. WALTER SARANCHUK: And the reason for that?

MR. JAMES CHRISTIE: Because the other part of my DCAT analysis indicates that there are scenarios where the Corporation will not have sufficient assets to pay its liabilities at the current level of funding which is, at this point, at the time I did it, was over fifty (50) but less than a hundred (100).

MR. WALTER SARANCHUK: And to what extent do you believe MPI has relied on the adverse scenario testing in your DCAT analysis in forming its recommendation of the target range based on the one 100 -- I'm sorry, 50 percent and 100 percent MCT ratio?

MR. JAMES CHRISTIE: I have provided my DCAT reports annually to the Board -- or to the Audit Committee. I have discussed the -- what is in those reports that has helped to -- the Audit Committee to assess the risk. I was not present at the time that the Audit Committee or the Board made its final decision on what the target range should be.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: With reference to your response to Interrogatory Number 1 of the Public Utilities Board on the third -- third round, the question posed was that:

"Mr. Christie has stated that MCT's value includes the measure of relative

financial strength of various insurers.
Please expand on why this is of
significance or import to the
Corporation?"

And in your response you talked about benchmarking compared -- or operations using MCT ratios and cited this as, quote:

"One reason I recommend the adoption of
an RSR target based on MCT ratios."
End of quote.

Without diminishing the value of using the MCT to compare MPI with SGI or ICBC, what relevance is this to the setting of the RSR target range?

MR. JAMES CHRISTIE: In particular, SGI is geographically close. It has a very similar legislative environment. I think it is a good practice to measure yourself against your neighbours and for that reason I recommend using it as a measurement tool, the MCT, because that allows direct comparisons.

You can say MPI's MCT score is 73 percent, 102 percent, whatever it turns out to be, and you can compare that to SGI's straight up, just like that.

If you say MPI has operational risk analysis requires X million dollars of -- of -- of RSR you can't compare that directly because nobody else is doing an operational risk analysis.

So I'm suggesting using a standardized measurement tool.

MR. WALTER SARANCHUK: And given your earlier answer when I asked you about the factors that led to the adoption of the ratio by SGI you indicated that that could, perhaps, be categorized as speculation. Can the same be said about your last answer?

MR. JAMES CHRISTIE: No, I said I speculated as to why SGI adopted. I didn't -- I wasn't privy to their calculation. My recommendation here of using a standard measurement tool is not speculation, it is suggestion that that's a good thing to do.

MR. WALTER SARANCHUK: No, I'm just talking about in comparison to SGI, in particular?

MR. JAMES CHRISTIE: I'm sorry, I'm missing the point of your question.

MR. WALTER SARANCHUK: Okay. You're familiar enough with SGI's having adopted the ratio that it did to use it as a comparison for MPI?

MR. JAMES CHRISTIE: I am -- yeah, in the sense that every year SGI publishes what their RSR is in dollar terms and says this is -- produces an MCT score of whatever it produces. That allows MPI or the public at large to compare the level of RSR in Saskatchewan to that in Ont -- in Manitoba with a -- with some ease of comparison.

The two (2) companies aren't identical but the MCT ratios attempt to produce requirement relative to the risk.

MR. WALTER SARANCHUK: I think you've addressed the value of using the MPI -- MCT to compare MPI with SGI and ICBC. What about the relevance of this to the setting of the RSR target range?

MR. JAMES CHRISTIE: That I think is once -- if you agree on a particular measurement tool, the quite different question is, how much RSR you need.

And that is very much a judgment call. One of the things that I do annually for the Corporation is a dynamic capital adequacy test, which suggests how much capital I think they'll need in order to be able to assure themselves with a reasonable degree of confidence that they will have sufficient assets.

That produces a line in the sand, in terms of dollars, that can be turned into an MCT score. That would be one input into what the target range of MCT scores should be.

I think other inputs are the risk aversion or lack thereof within the Corporation itself. Do they -- are they willing to take more risk or less risk, equally? The Public Utilities Board has some say in -- or has a clear say in how much the RSR they're going to be able to keep on their books at any point in time.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Maybe just for some clarification here, sir. You have addressed the value of using the MCT to compare MPI with SGT and ICBC. But, in terms of the benchmarking or -- for adopting the RSR target, what -- what is the relevance there?

MR. JAMES CHRISTIE: The relevance is that I might suggest a particular number given my DCAT tests. The Board may choose a particular range that may or may not encompass my point estimate, but those ranges can be compared to an organization like SGI. And that's in some sense a litmus test of whether they make -- they make some sense, or at least they're comparable to another organization with the similar operating style as determined to be.

I -- the actual ranges are a matter of a judgment call. I believe in SGI's case they are targeting 100 percent. I don't know how much volatility they're allowed to have on either side of that.

MPI is proposing a target that has at its maximum 100 percent and at its minimum 50. ICBC has set that they have to have 100 percent as their minimum and would look to 125 percent, in some sense setting the maximum. I'm not sure what the plan of attack would be once they exceed 125.

MR. WALTER SARANCHUK: Those are all my questions of this Witness, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Saranchuk. And we have a few of Mr. Christie, to take advantage of his presence. I must say we're very pleased that MPI called you, Mr. Christie. It's a very good development.

If I may, you indicated that you began with MPI's DCAT for 2002/'03. I believe that's what you said, is it not?

MR. JAMES CHRISTIE: Yes, I believe -- I was going through the billing summary and there's one for 2002/2003 so --

THE CHAIRPERSON: Such records are usually accurate. Since then, have you noticed any deterioration or other trends with a respect to MPI's DCAT result?

MR. JAMES CHRISTIE: No, not in terms of it -- when I first started doing DCAT for MPI it was very much a -- a work in process because MPI is the -- a relatively unique beast. Taking the standard DCAT approach, saying you have to score 150 percent MCT just didn't cut the mustard, if you will.

So we spent some time over the years evolving what should be the test and what I would say is that that target level has -- has been refined and clarified over time. The actual capacity of MC -- of MPI to withstand adverse scenarios has fluctuated over time depending on the level of MCT and the rebates that have been ordered from time to time.

Clearly, after a rebate the MCT scores are significantly less than they were before a rebate.

THE CHAIRPERSON: I just want to understand. So with respect to the data that underlies these types of reports during that period of time which, granted is not unduly long, you haven't noticed any startling developments or unusual --

MR. JAMES CHRISTIE: Hmm --

THE CHAIRPERSON: -- developments relative to their --

MR. JAMES CHRISTIE: The --

THE CHAIRPERSON: -- other --

MR. JAMES CHRISTIE: The thing I have noticed for MPI is that the order of magnitude of capital required to pass the DCAT has increased each year.

That's not unexpected given the environment with which MPI exists.

PIPP came into being in 1994. Broadly speaking every year it adds claims that will have a duration of the lifetime of the claimant. That means that it will take, in rough orders of magnitude, four (4) years before the claims on the balance sheet stabilize because every year you're adding more claims that still have an unpaid component to them.

And because unpaid claims are a driver of the amount of -- of RSR that's needed, that level has gone up. It's gone up quicker than simply the increase in -- in revenues of the organization, dramatically higher than the increase in revenues.

THE CHAIRPERSON: Have you provided any suggestions to MPI to slow the -- the trend lines or things of that nature?

MR. JAMES CHRISTIE: To slow the trend lines in terms of --

THE CHAIRPERSON: Operating actions or suggestions that you may offer.

MR. JAMES CHRISTIE: Only some very broad, generic comments that come out of doing adverse scenario testing. You know, this is a scenario that will impact a corporation. These are the kinds of things you should monitor so that at least you get an early warning if they happen or alternately what you might choose to do to mitigate that risk.

Some of the risk cannot be mitigated. You have investment risk. You can't not -- you can't put your money in a -- in a mattress. What you can do is spread risk around.

Some of those -- some of the spreading of risk flys counter to other directives that MPI have. For instance, it might be better in terms of risk mitigation to invest in bonds outside of Manitoba because that would minimize the correlation between the investment exposure in Manitoba and the claims in Manitoba because there would be some correlation there and you might be better to invest in other provinces.

But that's just not a -- something that this -- this Corporation is willing to undertake, or at least not completely divest itself of Manitoba investments.

THE CHAIRPERSON: Maybe the bonds were a bad example, but we get your point.

So you agree that there's a range of actions that are available to an insurer, particularly a public insurer, mandated by legislation to address untoward developments or unstable types of situations?

MR. JAMES CHRISTIE: Yes, there are. Some of them may -- for instance, you could purchase more reinsurance; that would mitigate risk but it comes at a cost. And one should always be doing a risk reward analysis if -- like, am I getting real value for -- for paying for reinsurance protection.

THE CHAIRPERSON: Have you done any reviews of the reinsurance coverage?

MR. JAMES CHRISTIE: No, I have not.

THE CHAIRPERSON: In your review of MPI's business plan did you become or make yourself acquainted with their anti-theft initiative?

MR. JAMES CHRISTIE: Yes, particularly their immobilizer activity.

THE CHAIRPERSON: Are you aware of their forecast of annual savings or reductions from current level of costs of, in excess of $30 million annually from 2013/'14, if I recall?

MR. JAMES CHRISTIE: Yes, I am, broadly speaking, aware of their forecasted claims reductions. I'm not sure whether that's the precise amount for 2013.

THE CHAIRPERSON: I can't tell you off the top of my head whether I remember the date right or not, but I think it was in that area.

Just generally speaking, is the present

value of savings of over $30 million a year at present interest rates have a value of, say, 500 million?

MR. JAMES CHRISTIE: Really depends on how long a timeframe you want. You can make it worth 500 million if you go out enough years.

THE CHAIRPERSON: Say you say it's infinite?

MR. JAMES CHRISTIE: Then it's probably significantly more than five hundred thousand dollars ($500,000).

THE CHAIRPERSON: I thought so. Does a present value of such a nature, if you assume that the Corporation had the whereabouts and ability to bring it off, provide an off balance sheet advantage sort of contrary to off balance sheet disadvantages like unregistered and reinsurance?

MR. JAMES CHRISTIE: Possibly. Although actuaries are trained to be from Missouri. Show me it and then I'll believe it.

THE CHAIRPERSON: Accountants aren't much different. You say "possibly" it'd be something you could take into account from a qualitative perspective?

MR. JAMES CHRISTIE: Yeah. The -- the savings from the immobilizer initiative are speculative. They appear to be borne out. At least the assumptions all hang together.

But whether, in fact, first of all, the initiative is successful, I note in the testimony that's here that MPI is having to be increasingly forceful in order to get take up on the immobilizer actions, then there is, once it's in place, this is something I find with almost every initiative, once it's in place the -- the perpetrators of whatever activity you're trying to stop are not without their ability to change the way they operate and they, in fact, decide that there's another initiative they'd like to undertake.

Just for example, instead of stealing cars for joy rides, you might decide you want to go with a baseball bat and smash windshields. Immobilizers aren't going to stop that.

THE CHAIRPERSON: We certainly wouldn't promote that level of diversification.

Are you aware of, it's a long time ago, but MPI's first balance sheet, sort of, it's initial financial strength at its commencement in 1971?

MR. JAMES CHRISTIE: No, I'm not familiar with that balance sheet.

THE CHAIRPERSON: Would it be fair to say devoid of RSR, devoid of actual operational experience including rate setting?

MR. JAMES CHRISTIE: This would be speculation on my part. But is -- it was set up initially there would have had to have been a whole lot of assumptions and whether there was any RSR in there -- well, I believe it started with an empty balance sheet so there wouldn't have been any RSR on day 1.

THE CHAIRPERSON: Would it be fair to say that MPI's current balance sheet is stronger than its initial one?

MR. JAMES CHRISTIE: Yes.

THE CHAIRPERSON: Turning a bit, I find it funny using the acronym, but the developments within the CIA standards of practice and OSFI regulatory matters and things like that, presumably these various actions, although increasing the strength of insurance companies, presumably it made it more difficult to enter the market; is that a fair statement?

MR. JAMES CHRISTIE: No, I don't believe so. Every year we see new companies being formed. The -- the regulatory hurdles are not to be sneezed at.

But, capitalization in and of itself isn't the major hurdle to setting up a new insurance company. Bigger hurdles are getting approval of a license just to operate, and then setting up an infrastructure to distribute your product and then once you've distributed an infrastructure to adjudicate claims after the fact.

THE CHAIRPERSON: All of which are considerable value, no doubt. But, I think it's fair to say that you need a lot more capital than you needed years ago?

MR. JAMES CHRISTIE: Yes, as an absolute minimum, twenty (20) years ago you could have set up a company with $1 million of capital. Today the Federal regulator, I believe, requires a $10 million initial capitalization.

I may stand to be corrected on that number, but it's significantly higher than it used to be.

THE CHAIRPERSON: And you'd have quite a few constraints on the amount of business you could write and things of that nature?

MR. JAMES CHRISTIE: Constraints on the business you write are largely driven by the amount of capitalization you've got. Either -- if you want to grow rapidly you're going to have to get capital from somewhere; from an IPO, from a parent, those would be the two (2) general sources of capital.

THE CHAIRPERSON: Basically someone already in the business.

MR. JAMES CHRISTIE: Not necessarily in the business. For instance, after the last round of catastrophic hurricanes in the US a year ago, a large amount of new insurance companies -- reinsurance companies were set up in Bermuda, largely with capital that came from outside the insurance sphere.

It was investors who believed that now is the time to set up a new insurance company and get relatively high premiums for what was now perceived to be a real risk that in the past people were not willing to pay high premiums for.

THE CHAIRPERSON: You also suggested that you thought it basically was a good idea for public insurers to utilize the MCT, as well as, private insurers?

MR. JAMES CHRISTIE: Yeah, using the MCT is a -- is a standardized measurement tool. So I think you should be using that as your measurement tool.

THE CHAIRPERSON: So just a general comment. I imagine that would effect, for example, a new public insurer starting up, following that type of advice, unlike MPI say in 1971.

MR. JAMES CHRISTIE: Yes, it would.

THE CHAIRPERSON: Are you familiar with MPI's circa 1987 experience in which you're talking about balance sheet risk before, which they lost, I think it was in excess of $60 million, one could argue largely due to a balance sheet situation in inadequate claims reserves?

MR. JAMES CHRISTIE: I don't have any personal knowledge of that. Again, working with the organization around 1990 -- let me think -- about -- just that had --

THE CHAIRPERSON: That's fine --

MR. JAMES CHRISTIE: But, I am aware of, broadly speaking, what happened and at least the after affects of that. And yes, the major driver of that was a change in the estimates for Tort liability claims.

THE CHAIRPERSON: Yes, I think that's -- probably other have memories of it too. So then you're aware of the range of steps that were taken in response to that situation?

MR. JAMES CHRISTIE: Yes, in the very broad sense. I wasn't intimately involved in them, but I --

THE CHAIRPERSON: Steps that were, some could say -- may have been motivated by a desire to avoid the otherwise rate consequences.

MR. JAMES CHRISTIE: Yes.

THE CHAIRPERSON: Are you aware of the Corporation's financial situation when PIPP was introduced?

MR. JAMES CHRISTIE: Yes, in broad terms, that's just about -- I became the actuary just after PIPP had been introduced.

THE CHAIRPERSON: And then you're aware of the arguments that were advanced at that time for promoting PIPP?

MR. JAMES CHRISTIE: Yes, I am. Not so much from a Manitoba perspective, but I was actively involved in the implementation of similar, but not identical no-fault plans in other jurisdictions.

Because the drivers of what was happening in Manitoba were going -- drivers not in the sense of car drivers, drivers that were impacting Manitoba's exposure were the same things that were effecting automobile insurance exposures in other provinces and the consequent need for significant rate increases which were not palatable to the consumer and therefore became political issue in most provinces.

THE CHAIRPERSON: Led to legislative change?

MR. JAMES CHRISTIE: It did.

THE CHAIRPERSON: Given that you're aware of that, then you're undoubtedly familiar of the period of time that followed that in which the RSR was viewed as being deficient and premium surcharges were added on to address it over time?

MR. JAMES CHRISTIE: Yes, I am.

THE CHAIRPERSON: Are you also aware of SGI's capital inadequacy in late 1970s, 1978 I believe?

MR. JAMES CHRISTIE: Not in the 1970s, no. I am aware that at a later point in time it was -- if it had been a private insurer it would have had less assets than liabilities.

THE CHAIRPERSON: I think testing the record would find that there was a capital insertion put into SGI because the tests in those days were also based on Federal regulators.

What do you consider representative of rate shock in today's environment?

MR. JAMES CHRISTIE: In today's environment I would categorize general inflation running around 2 to 3 percent, and I would think rate shock is anything in excess of twice that -- that 5 to 6 percent is sufficient to get consumers agitated. Even 2 or 3 percent will get some consumers agitated. I'm sure you know that from past experience.

THE CHAIRPERSON: Mind you, 2 to 3 percent, believe me, in water and sewer utilities would go by without a blink, so it also depends on the environment you're in.

MR. JAMES CHRISTIE: I should also point out that broadly speaking the -- when we talk about a rate increase of being 3 percent, it doesn't necessarily translate into a 3 percent increase for everybody.

There will always be some consumers that will pay much more and some will pay less and it's the ones who pay more who are typically most agitated. So if you've got a 6 percent overall increase you have consumers that are seeing 9, 12, 15 percent increase and they will be most agitated.

THE CHAIRPERSON: And just to confirm something there mentioned -- something you'd mentioned before and obviously if the rate increase was significant enough you mentioned the possibility of events such as people curtailing driving or dropping insuring a second car or things of that nature.

MR. JAMES CHRISTIE: Yeah. It's not just insurance. I mean, when the price of oil goes up people stop -- they put more insulation in or they go to a -- a -- solar power or whatever. I mean those are around the fringes, but no monopoly is an absolute monopoly.

THE CHAIRPERSON: So in the circumstances we were just discussing that one (1) of these adverse events that you were talking about --

MR. JAMES CHRISTIE: Yeah.

THE CHAIRPERSON: -- occurred what -- were such to, if you like, consume or decimate the RSR, what actions would be available to MPI other than implementing what could be considered a rate shock?

MR. JAMES CHRISTIE: There are very few that would be immediately available to the regul -- to MPI. In a longer term one might be able to change the legislation governing automobile accidents to reduce the -- the benefits that MPI would pay; that's a double-edge sword because that means consumers are getting less benefits.

THE CHAIRPERSON: It hasn't really turned on pensioners when they talk about that with pension plan.

MR. JAMES CHRISTIE: No, you're right in that sense. There are other options that -- outside of simply a rate increase. For instance, applying a deductible can be in some sense portrayed as, rates are still the same but, in fact, the benefit is reduced so it doesn't require necessarily a legislative change. It can be administrative change.

THE CHAIRPERSON: Well, actually at this hearing, I believe, one (1) member of MPI mentioned that you were comparing with SGI that SGI's deductible was seven fifty (750) for example, versus MPI's at five hundred (500). And that was one (1) of the changes I believe that went back to 1987. I'm saying there's range of actions that --

MR. JAMES CHRISTIE: There are some -- increase in deductibles is certainly one (1) other option. But however you structure that, whether it's a rate increase or a coverage reduction it is changing the income statement flow, and to the extent that you can either increase revenue or decrease expenditures that allows you to build up the RSR or turn it from an negative into a positive just in some cases.

THE CHAIRPERSON: However unpalatable those types of actions may be to the general sensibility in listening to it, would you agree that at least they're within the range of possible for a monopoly?

MR. JAMES CHRISTIE: I would think that any significant rate increase would create other issues beyond simply MPI's ability to implement the rate change. They may be able to do it but there would be other consequences, consumers, I'm thinking quote "revolting", whatever that might be.

THE CHAIRPERSON: We've seen it in the province.

MR. JAMES CHRISTIE: Yes, I am aware. Before my tenure with MPI but certainly there have been political consequences of MPI rate increases.

THE CHAIRPERSON: You'd agree that in difficult circumstances like that OSFI, the federal regulator have no role at all?

MR. JAMES CHRISTIE: Well, OSFI have no role in terms of MPI in any event, not just in this circumstance. The issue would be can you, in some sense, mitigate the rate increase by having an RSR that you can draw down or by looking for alternative funding so that you can spread the increase over a longer period of time.

THE CHAIRPERSON: Would you agree that MPI's rates have been stable for some time, particularly in comparison with private insurers?

MR. JAMES CHRISTIE: Oh absolutely. Manitoba's rate levels have been exceptionally stable over the last five (5) or six (6) years in any event.

THE CHAIRPERSON: From your practice and knowledge, what distinguishing features of the MPI plan that's provided for this situation, where the rest of the country have noticed a lot more fluctuation?

MR. JAMES CHRISTIE: Well, across the country, with -- with exceptions of some sort or other, but broadly speaking most of the provinces have brought in some sort of tort constraint, enhanced no-fault, typically with some sort of limitation on the ability to sue. Not always but broadly speaking that has been the case; that has dropped claim levels down.

In the jurisdiction that I'm most familiar with, Ontario, the problem has been that you have a hundred (100) providers of insurance and they haven't been able to present a united front in controlling costs. And all you've really done there is change the rules of the game and it's taken the service providers two (2) to three (3) years to figure how to get their pound of flesh from another head of damage.

In MPI's case they have been particularly vigilant about keeping costs down. Present -- well, since they are a monopoly they can present a united front and what I see is significantly less trend in -- in the cost of claims in this province relative to what I see in other provinces.

THE CHAIRPERSON: Part of the reason is the fact that they have monopolistic abilities and, two (2), it's the nature of the program itself.

MR. JAMES CHRISTIE: Yes.

THE CHAIRPERSON: Could MCT and a trend of periodic MCTs as to capital requirement be used as a tool to consider amendments to an RSR established through reliance on something other than MCT?

MR. JAMES CHRISTIE: Yes. Theoretically

it could. You could set your RSR levels to be whatever you -- 65 million to 100 million, just to pick some numbers out of the air. You could turn those into what would be the MCT ratios that those corresponded to.

You could set a directive to say in future years you should keep your RSR between these particular targets. Yes.

THE CHAIRPERSON: And that would allow you to benchmark the MCT against other private and public insurers on an ongoing basis?

MR. JAMES CHRISTIE: Yes. It would.

THE CHAIRPERSON: If MCT is employed in the establishment of the RSR and as a result you end up with a higher RSR than is currently the case, one (1) implication would be that MPI's investments holdings would be higher than otherwise would be the case; is that not true?

MR. JAMES CHRISTIE: If the RSR was increased the -- that's on the liability side of the balance sheet, it's retained earnings, one way or another. The -- what would happen is assets would grow and so, yes, the answer to your question is all other things being equal, if RSR went up, MPI would have more assets to invest.

THE CHAIRPERSON: And I'm not going to

belabour this but just to show the complexity of the whole situation, one of the points you'd indicated before was one of the -- or variables in the -- in trying to consider what affects the MCT when it comes to balance sheet risk, is the size of MPI's investment portfolio?

MR. JAMES CHRISTIE: It is. If that was the only concern, then investing in government grade bonds would not create any additional MCT requirement because those generate a zero load.

One could invest in government bonds and not create any additional -- increase your MCT or decrease your MCT ratio.

THE CHAIRPERSON: That wouldn't matter whether they were Government of Manitoba bonds or School Board bonds?

MR. JAMES CHRISTIE: It would not matter whether they were Government of Manitoba bonds, I'd have to check to see whether School Boards would meet that criteria. The flip side of that is the better the grade of bond you invest in, the lower the return you'll get.

THE CHAIRPERSON: MPI's talked about, sort of a, surrogate riskless investment. The obvious opposite to that is that MPI's investments are higher, more money will either -- being paid in by policyholders or left with MPI by policyholders; that's the clear implication.

MR. JAMES CHRISTIE: That's a fact. If the RSR goes up then either the policyholders have paid more in the past or a particular level of RSR hasn't been distributed to the policyholders.

THE CHAIRPERSON: It's self-evident. You indicated that you were engaged by MPI's Board directly?

MR. JAMES CHRISTIE: Yes.

THE CHAIRPERSON: And you've indicated that you've provided your reports directly to their audit committee. Do you meet with their audit committee?

MR. JAMES CHRISTIE: Yes, I do.

THE CHAIRPERSON: Do you also get involved in the investment side?

MR. JAMES CHRISTIE: No, other than they tell me what their investment policy is and I reflect that in my DCAT analysis.

THE CHAIRPERSON: So you don't provide advice to them on their asset mix or --

MR. JAMES CHRISTIE: No, I do not.

THE CHAIRPERSON: Just a minor point. You suggest that SGI is a good comparator with MPI and I don't think anyone would dispute the similarities, public insurer and no fault, et cetera.

But, that's not, for example -- there are differences. SGI participates in general lines, do they not? They sell their products outside Saskatchewan. Don't they offer sort of a tort alternative that's apparently is rarely picked up with respect to basic?

MR. JAMES CHRISTIE: There are differences, but I would say MPI is different too. And in the case of SGI, you can look at the auto fund experience which is -- at least that's separately produced a balance sheet for that, and that is very close to MPI basic.

If you look at MPI in its totality with extension and SRE, in some sense, that compares to SGI auto fund and SGI Canada which operates the general insurance in Saskatchewan and has the subsidiary that sells home business in Manitoba.

And they own another company in PEI, I believe. But, you could -- there is a direct comparison, of the regulated components, pretty much straight up comparison there.

THE CHAIRPERSON: In our understanding, what we've heard here, is that this tort alternative they offer is not taken up to a very high degree.

MR. JAMES CHRISTIE: I spoke with several executives of SGI over the last couple of years just in passing about other things, and I asked them -- this was just cause I was curious; and so it's hearsay evidence. But, they had -- they had a thousand policyholders or a couple of thousand policyholders in total who had taken this up. It was a very small number. Much less than they'd expected, actually.

THE CHAIRPERSON: It's not -- the more perhaps major difference between the two (2) is that SGI doesn't have to defend their application before a public hearing?

MR. JAMES CHRISTIE: It's my understanding that there is a public utilities review board in Saskatchewan. My impression is --

THE CHAIRPERSON: I can help --

MR. JAMES CHRISTIE: -- it's anecdotal, it's not nearly as extensive as the one (1) in Manitoba.

THE CHAIRPERSON: No, just to help you out, they don't have that. They have I think it's called a Saskatchewan Rate Review Board and its -- it provides advice to the Saskatchewan Government, and although they have hearings, there's not the same level of cross-examination or expert witnesses and things of that nature.

Also, it's our understanding, perhaps you can correct me, although ICBC is regulated by the British Columbia Utilities Commission, I don't believe they've ever been subject to a public hearing with Intervenors and evidence and witnesses?

MR. JAMES CHRISTIE: The British Columbia Utilities Board, I may have the name wrong, but the regulator of ICBC at least in terms of regulating ICBC is roughly two (2) years in the -- old. The -- the Utilities Board existed before that but its ability to regulate ICBC prices is about two (2) years old.

THE CHAIRPERSON: Maybe as an undertaking MPI wouldn't mind checking what their -- ICBC's status with respect to the applications, whether they come before a public hearing.

Our understanding is that that has not been the case and that BCUC has been focussed on if you want to call it, "the big picture". We'll leave that for MPI.

--- UNDERTAKING NO. 27: Mr. James Christie to check for Board ICBC's status with respect to applications and public hearings.

THE CHAIRPERSON: Mr. Evans...?

MR. LEN EVANS: Thank you, Mr. Chairman. I just have a couple of general questions and I hope I don't overlap. I'm a bit of a slow learner, I think, so maybe I'm repeating some of the previous questions, but basically do you see any existing capitalization weakness at MPI?

MR. JAMES CHRISTIE: Yes, my DCAT report is -- is a qualified opinion. It indicates that I can create scenarios that are plausible, within my definition, meaning one (1) in a hundred (100) year events where the cash outflow exceeds the ability of a Corporation to -- to pay it without some additional funding so...

MR. LEN EVANS: Well, it sounds to me from that answer that it would be pretty minor. It seems to be a minor problem. Is there any --

MR. JAMES CHRISTIE: I would --

MR. LEN EVANS: -- existing capitalization weakness and you say, yes, --

MR. JAMES CHRISTIE: Well, I am saying --

MR. LEN EVANS: -- you qualify.

MR. JAMES CHRISTIE: -- that in my opinion the -- the current capitalization of MPI -- or the capitalization as of last year end when I did my last report was not sufficient. There should have been more capital and not less and if -- if it had been me I would not have declared -- mandated as big a dividend to the policyholders as they got.

MR. LEN EVANS: So you've more or less implied how you would correct that situation?

MR. JAMES CHRISTIE: I'm -- I don't have to answer to -- to the public.

MR. LEN EVANS: Well, -- well, let me supplement that. Does MPI seem to be at serious risk financially?

MR. JAMES CHRISTIE: No. The scenarios that I'm testing are one (1) in a hundred (100) year events so by their definition they are not likely to happen next year or even the year after.

In terms of normal operating events or that could be reasonably expected to happen in the short term, they have sufficient capital. I would caution that that's like saying I build my dyke for the one (1) in ten (10) year event; that's not very much comfort if you have a one (1) in a hundred (100) year flood.

MR. LEN EVANS: Thank you. What about the balance sheet per se? Do you see any serious balance sheet risk?

MR. JAMES CHRISTIE: Less so than they had. They were -- they had some investments in foreign currencies and -- that really weren't matched by any liabilities that they had in those foreign currencies.

They have less exposure now than they did a year or so ago. I'm not sure whether it's entirely gone, but there was some exposure to interest rate or not interest rate, to foreign exchange fluctuation.

MR. LEN EVANS: You mentioned a concern about interest rate increases or interest rate changes. In your estimate how volatile have interest rate changes been in our recent history?

MR. JAMES CHRISTIE: That's a statement of fact, not an estimate.

MR. LEN EVANS: Okay.

MR. JAMES CHRISTIE: Market yields have changed by more than a hundred (100) basis points in a year and that's a significant -- would have a significant impact on the -- the value of those assets on the balance sheet.

MR. LEN EVANS: But have you -- have you seen any interest rate changes -- maybe I didn't hear you properly, but --

MR. JAMES CHRISTIE: Yeah, I've seen interest rates change by more than a hundred (100) basis points within a timeframe of a year.

MR. LEN EVANS: So would that be serious volatility in terms of MPI's operation?

MR. JAMES CHRISTIE: It would create

volatility to the extent that their assets and liabilities are matched. There would be a natural hedge there because for instance if interest rates went up, the market value of bonds would go down but equally with higher interest rates, the present value of the claim liabilities would go down.

So the two would -- would go down, not necessarily in lock step. It would only go down in lock step if they were exactly matched.

MR. LEN EVANS: Thank you. But these interest rate changes you refer to, from what I can see, don't seem to have adversely affected the basic operation of MPI, certainly the people of Manitoba --

MR. JAMES CHRISTIE: They have not through 2006, because the accounting rules for presentation of the balance sheet said you show your assets at amortized cost, not at -- or amortized value rather than at market value.

Beginning next year the assets will be on the balance sheet at market value and there will be significant additional fluctuation going on in the asset side of the balance sheet.

That difference between book and market has been reflected in the MCT test even if it isn't shown explicitly on the financial statements of MPI. It is, right now, a footnote to the financial statements or a note to the financial statements, the difference between book and market.

MR. LEN EVANS: Reference was made to, somewhere in the discussion, to future inflation and I was wondering whether you have any forecast or you have any studies relating to the inflation outlook in this country?

MR. JAMES CHRISTIE: I do not have any. At this point when I'm looking at inflation I go to somewhere like the -- sorry, I'm just -- the name escapes me. One of the bodies in Ottawa. The Conference Board of Canada makes a forecast of -- of --

MR. LEN EVANS: Maybe the Bank of Canada does too.

MR. JAMES CHRISTIE: It does too. I look at a number of sources and they are what they are. They're estimates.

MR. LEN EVANS: Well, mentioning the Bank of Canada, it has some responsibility, I think it believes it has some responsibility.

MR. JAMES CHRISTIE: It is certainly one of its mandates is to keep inflation within a target range.

MR. LEN EVANS: Yeah. So would you agree

that inflation has not been a serious problem for many years in our economy?

MR. JAMES CHRISTIE: Inflation has not been a problem in our economy for at least ten (10) years. But I would say that all you -- if you were like me and had a mortgage in 1991 and you were looking at renewing at 20 percent inflation, in living memory it has been a problem.

MR. LEN EVANS: All right. Thank you very much for your answers.

THE CHAIRPERSON: Mr. Jorgensen...?

MR. ERIC JORGENSEN: Mr. Christie, you've testified that the MCT is a better standardized measuring tool?

MR. JAMES CHRISTIE: Yes.

MR. ERIC JORGENSEN: And that OSFI sets a regulatory requirement of an MCT score for private P&C insurers?

MR. JAMES CHRISTIE: Yes.

MR. ERIC JORGENSEN: But not for public insurers?

MR. JAMES CHRISTIE: That's because OSFI doesn't regulate the public insurers.

MR. ERIC JORGENSEN: So, in order then to set an MCT score for public insurers, say as MPI, what would we do?

MR. JAMES CHRISTIE: Well, my suggestion to you would be to read the appointed actuaries dynamic capital adequacy testing report and look at the minimum capital required in order to get a clean opinion and then set that as your MCT target.

MR. ERIC JORGENSEN: So it would come down to judgment?

MR. JAMES CHRISTIE: It would -- yes, it would.

MR. ERIC JORGENSEN: Thank you.

THE CHAIRPERSON: Thank you very much, Mr. Christie. We'll be now moving to CAC/MSOS and Mr. Williams, I believe.

Mr. Williams, do you want to start now or do you want to start after lunch?

MR. BYRON WILLIAMS: Mr. Chair, I'm at your -- I'm probably going to be about forty-five (45) minutes or so, so I'm happy to start after lunch or I'm happy to start now. It's totally up to you.

THE CHAIRPERSON: Have you got ten (10) minutes of, sort of, introductory questions that won't cause you any difficulties to begin again at 1:30?

MR. BYRON WILLIAMS: I think I could manage that.

THE CHAIRPERSON: Okay. Please proceed.

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Christie, first of all, I want to start by commending you on your middle name. You rival Mr. Palmer in terms of intriguing middle names. So I'm not sure if that's an actuarial trait or not?

MR. JAMES CHRISTIE: No. It's my mother's maiden name.

MR. BYRON WILLIAMS: Just to start out, and you covered a bit of this ground with Mr. Saranchuk, but I understand you've been performing external actuary services for MPI for the last eight (8) or -- the last nine (9) or ten (10) years; would that be right, sir?

MR. JAMES CHRISTIE: Ten (10) years.

MR. BYRON WILLIAMS: And as indicated by your discussion today, over the last ten (10) years you've developed some familiarity, at a very high level albeit, with the relationship between Manitoba Public Insurance and the Public Utilities Board; would that be fair?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And you're aware, for example, that any change to the rates for service of the basic MPI program require the approval of the Public Utilities Board, is that right?

MR. JAMES CHRISTIE: Yes, I'm aware of that.

MR. BYRON WILLIAMS: And just moving to the application process, you're aware that traditionally each May or June MPI brings forward a rate application with regard to its basic program for consideration by the Public Utilities Board of Manitoba, is that right, sir?

MR. JAMES CHRISTIE: I am aware of that.

MR. BYRON WILLIAMS: And as we're doing here today, traditionally those applications are reviewed in the fall, often in October would that be right?

MR. JAMES CHRISTIE: That's correct.

MR. BYRON WILLIAMS: And these applications are considered by the PUB, it has a hearing, it makes a decision and issues an order for rates that go into effect for the next insurance year, would that be right?

MR. JAMES CHRISTIE: That's my understanding that they go into effect for March the following year.

MR. BYRON WILLIAMS: And just as an example, this hearing, it's about rates for the 07/08 year. The application was filed in June '06 and the review was in October '06, is that right?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And you're also aware that while MPI can propose a rate to the Public Utilities Board for its consideration; the Public Utilities Board by statute is authorized to substitute its judgment for that of MPI in terms of an appropriate rate.

MR. JAMES CHRISTIE: I'm very aware of that.

MR. BYRON WILLIAMS: I wonder -- and it can substitute its judgment and pronounce a final order that leads to rates for the next insurance year, is that right?

MR. JAMES CHRISTIE: That is correct, that's my understanding.

MR. BYRON WILLIAMS: I wonder if you're also aware that the Public Utilities Board has authority to issue interim or preliminary orders; were you aware of that, sir?

MR. JAMES CHRISTIE: I was aware that they had some ability. I'm not sure how it actually works in practice.

MR. BYRON WILLIAMS: And just you're aware it had some ability -- you're aware at a high level of that, for example, if during the course of an insurance year a company became concerned that it needed rate relief on an expedited basis, it could certainly bring an application to the Public Utilities Board and seek an interim order, is that correct sir?

MR. JAMES CHRISTIE: I am aware that that process exists.

MR. BYRON WILLIAMS: And, of course, that interim order would be reviewed more fully at a later date, correct?

MR. JAMES CHRISTIE: I presume that would be the process, it sort of, we'll give you a temporary rate change and we'll incorporate that in our formal review at the normal process.

MR. BYRON WILLIAMS: And I'm not sure if you're aware of this or not, you can confirm whether you're not. The Public Utilities Board perhaps you're aware, even has the authority in circum -- certain circumstances to offer to make an interim ex-parte order; that is an order without having notice or with notice or the presentation of other parties; were you aware of that?

MR. JAMES CHRISTIE: Now that you mention it, yes, I was, although, I wasn't thinking of it as a normal operating -- modus operandi of this Board.

MR. BYRON WILLIAMS: And I just wonder if you're aware that at least on one (1) occasion over the last two (2) or three (3) years the Public Utilities Board has provided interim relief to Manitoba Hydro on a matter relating to rates for northern communities served by diesel; were you aware of that, sir?

MR. JAMES CHRISTIE: No, I was not.

MR. BYRON WILLIAMS: Were you aware that over the last two (2) or three (3) years the Public Utilities Board has also provided interim relief to what we used to call Centra Gas, with regard to matters relating to a general rate application?

MR. JAMES CHRISTIE: No, I was not.

MR. BYRON WILLIAMS: Mr. Chairman, I've successfully occupied five (5) minutes of your time. I wonder if that works for you?

THE CHAIRPERSON: Very good. Thank you Mr. Williams. Okay. We will adjourn now until 1:30. Thank you.

--- Upon recessing at 11:55 a.m.

--- Upon resuming at 1:32 p.m.

THE CHAIRPERSON: Okay. Welcome back, everyone. And I believe it's Mr. Williams' opportunity to continue.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I'd like to -- to claim that I would be as quick in this part of my cross-examination as I was in the first part. Unfortunately, that won't be the case, although I -- I hope not to be too long.

Mr. Christie, we've already talked about your awareness of the -- the regulatory process and the fact that MPI makes a -- an application to the Public Utilities Board generally in June of -- of the -- of each particular year; is that right?

MR. JAMES CHRISTIE: Yes, I understand that they do that. They file every year in May or June.

MR. BYRON WILLIAMS: And, yes, that was not a very articulate segue to where I was going, but -- and you know when they file that there is a -- a fair bit of material filed in support of that application, correct?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And what I want to focus on is the -- the application that's before the Board this year and I just want to make sure that I understand, in terms of what's before the Board this year, which document you played a role in -- in filing and I assume one (1) of them obviously -- or excuse me, in preparing and I assume one (1) of them, Mr. Christie, is the -- I believe it's AI-17, the DCAT testing which was dated September 2005; is that right?

MR. JAMES CHRISTIE: Yes, I prepared that report, the DCAT report. It's done roughly annually. Sometimes it's eleven (11) months; sometimes it's thirteen (13) months, but it's done each year.

In addition to that I prepared two (2) other reports for MPI, analysis of policy liabilities as of October which is typically ready around December 31st and then an analysis of claim liabilities as of February 28th which is typically available in mid-April.

MR. BYRON WILLIAMS: Yes, thank you, and -- and those would be the -- they -- they would be found in AI-10 of the filing; is that right, sir?

MR. JAMES CHRISTIE: I don't have AI-10 in front of me.

MR. BYRON WILLIAMS: You don't have it memorized like Mr. Saranchuk and others?

MR. JAMES CHRISTIE: I'm getting nods that those are the correct tabs.

MR. BYRON WILLIAMS: And just to confirm, in -- in terms of the filing, those are the only documents that you were responsible for in terms of the preparation; is that correct, sir?

MR. JAMES CHRISTIE: In terms of the filing itself those are the only documents and I stress those aren't prepared for the filing, they are to support the filing I guess. In -- subsequent to the filing itself I did answer some questions that are filed here. My testimonies.

MR. BYRON WILLIAMS: Yes, and -- and that's fine, sir.

Now, -- and just to be clear then, I know you -- that -- that you reviewed the document found in AI-15, Discussion of the Rate Stabilization Reserve, but you did not assist in the preparation of that; is that correct, sir?

MR. JAMES CHRISTIE: That is correct. I did not -- I reviewed it after the fact. I did not participate in its formation.

MR. BYRON WILLIAMS: And likewise there's a document titled, "Basic Operating and Investment Risk Analysis" dated June 14th, 2006, at I believe AI-16 and again you did not assist or prepare that document; is that right?

MR. JAMES CHRISTIE: That's correct. I did not assist or prepare that document.

MR. BYRON WILLIAMS: I don't think you -- this is just a bit of bookkeeping here, Mr. Christie, but in reviewing your evidence at page 3, and by "your evidence" I mean the three (3) page written document filed on or about August 17th, 2006, in reviewing your evidence I note at the third last full paragraph just under the bullets you indicate that you -- that:

"In preparing this testimony I reviewed Section AI-15, Discussion of the Rate Stabilization Reserve."

Is that, indeed, correct, sir?

MR. JAMES CHRISTIE: Yes, it is correct.

MR. BYRON WILLIAMS: And you don't say it in this document, again, this is just the housekeeping part of my task today, in preparing your -- your evidence had you reviewed the document called "Basic Operation and Investment Risk Analysis" dated June 14th, 2006?

You don't say so in your report and I'm just wondering whether you had reviewed that?

MR. JAMES CHRISTIE: Is that -- that's document AI-16? Yes, I did review that.

MR. BYRON WILLIAMS: Okay. Thank you. Can you indicate on or about when you were retained by Manitoba Public Insurance to give oral -- or to give written testimony, being your document filed on August

17th? Would that be on or about July 26th, 2006?

MR. JAMES CHRISTIE: It was probably July 25th because they called me to see if I could participate before they responded to the Board that they would be calling me.

MR. BYRON WILLIAMS: And your three (3) page report was filed a few weeks after that, being August 17th, 2006; is that right?

MR. JAMES CHRISTIE: That is correct.

MR. BYRON WILLIAMS: And if memory serve me right, you might have had some holidays between July 25th and August 17th, 2006; is that right, sir?

MR. JAMES CHRISTIE: I believe that to be the case. I haven't got my calendar in front of me but I know there was some reason why I couldn't respond immediately to the requests.

MR. BYRON WILLIAMS: I wonder if you could indicate between the date that you were retained, being July 25th, 2006, and the actual date of the filing of this document, how many hours approximately that you devoted to your three (3) page written report?

MR. JAMES CHRISTIE: I'd have to go from memory now. This would be approximately, but about twenty (20), maybe -- between twenty (20) and thirty (30) hours.

MR. BYRON WILLIAMS: And if you're outside that range, sir, you'll check and get back to me; is that right, sir?

MR. JAMES CHRISTIE: Yes.

--- UNDERTAKING NO. 28: If Mr. Christie is outside the range of 20 to 30 hours devoted to the August 17th, 2006 report, to so advise.

MR. BYRON WILLIAMS: And of that somewhere between twenty (20) and thirty (30) hours, can you indicate approximately how many you devoted to the reviewing and analysing the discussion of the rate stabilization reserve found at AI-15 and prepared by Manitoba Public Insurance?

MR. JAMES CHRISTIE: Reviewing that document would probably have taken two (2) to three (3) hours.

MR. BYRON WILLIAMS: And in terms of the twenty (20) to thirty (30) hours, in terms of the document also prepared by Manitoba Public Insurance "Discussion of the Basic Operating and Risk Analysis", can you indicate of that about -- approximately how many hours you devoted to reviewing and analysing that document in the -- before filing the written evidence?

MR. JAMES CHRISTIE: I'm sorry, the two (2) to three (3) hours that I was referring to was reviewing that document.

Was your previous question about a different document?

MR. BYRON WILLIAMS: There's two (2) documents relating to the -- and I apologize for being imprecise. There's two (2) documents filed by Manitoba Public Insurance which you did not assist in the preparation of. One is AI-15, which is titled "Discussion of the Rate Stabilization Reserve".

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And how many hours did you spend on that, sir, between the 25th July and August 17th?

MR. JAMES CHRISTIE: Estimate, about two (2) to three (3) hours for each one of those documents.

MR. BYRON WILLIAMS: In preparing your -- your written evidence filed on August 17th, 2006, did you review Volume II of the report of the Autopac Review Commission from 1988, sir?

MR. JAMES CHRISTIE: From 1988, I don't believe so.

MR. BYRON WILLIAMS: Would you have

reviewed any PUB Orders from the 1990s or the -- this decade relating to general rate applications of Manitoba Public Insurance?

MR. JAMES CHRISTIE: I have reviewed the rate orders, I guess that's what they're called, for the last -- 2001 onward.

MR. BYRON WILLIAMS: Okay. Thank you. So you didn't review any from the 1990s; is that right?

MR. JAMES CHRISTIE: No. I did not.

MR. BYRON WILLIAMS: And you don't need to turn to it, sir, I'm sure you'll -- you'll know this by memory but in 2004 you prepared another -- a dynamic capital adequacy testing report for Manitoba Public Insurance; is that right, sir?

MR. JAMES CHRISTIE: Yes, I did.

MR. BYRON WILLIAMS: And that report was dated on or about August 23rd, 2004, is that right; subject to check.

MR. JAMES CHRISTIE: Yes, that order of magnitude of date.

MR. BYRON WILLIAMS: And again, I don't think you need to turn to it, I'm sure you probably have it memorized but, in the executive summary of that report, you make the statement that -- Mr. McCulloch, do you want a copy of it for Mr. Christie?

MR. KEVIN MCCULLOCH: That would be helpful.

MR. BYRON WILLIAMS: That would, of course, require me to get one for you.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I'm going to be obliged to go by memory now for just a second, Mr. Chair, so you'll indulge me.

THE CHAIRPERSON: While you're doing that, I'll just mention something at the -- during the lunch hour. My understanding of the BCUC/ICBC situation may be somewhat flawed. We're not 100 percent certain, the information that we had came from a regulatory colleague but it's a little bit suspect; so we're not sure of the recent experience.

So we'll look forward to MPI's report and you can illuminate all of us. Thank you. Appreciate it.

MR. KEVIN MCCULLOCH: We'll wait until Mr. Galenzoski and the Panel are back in their official status; but I know that he has spoken to someone in ICBC and is ready at the appropriate time to give a response.

THE CHAIRPERSON: Thanks.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And my apologies, Mr. Chairman, I should have provided one (1) to Mr. Christie. Just, Mr. Christie, directing your attention to page 2 of the dynamic capital adequacy test and report, the third paragraph.

One (1) of the assumptions you made in the preparation of this report was that is a plausible adverse scenario should occur, MPI basic would be able to replenish the RSR through a special levy is that right, sir?

MR. JAMES CHRISTIE: Yes, I did say that. It would -- one (1) of the management actions would be to impose a special levy. I did put some constraints on that special levy that it would not be more than an additional 3 percent per annum, and that the surcharge together with the regular increase would not exceed 15 percent.

MR. BYRON WILLIAMS: Thank you for that. And that's one (1) of the benefits of having the document I guess, right in front of you. So, another name for a special levy is a surcharge, is that right?

MR. JAMES CHRISTIE: I would use the terms interchangeably, at least in the context of a dynamic capital adequacy test.

MR. BYRON WILLIAMS: And the idea is behind this special levy or surcharge that if reserves will be below an accepted level there should be a special contribution to retained earnings put into the rate over and above the actuarially indicated numbers; would that be fair sir at a very high level simplistic suggestion?

MR. JAMES CHRISTIE: The presumption here was that the adverse event had happened. The RSR had been used up or at least depleted to make the Corporation whole for that adverse event. And now you have to turn around and do something to get the RSR back to at least some minimum level. And that's what the surcharge was intended to do.

MR. BYRON WILLIAMS: Yes, and just so I'm clear on the definition of the surcharge though, that's something over and above the -- you know, the actuarial indicated rate, designed to make a contribution to the RSR or retained earnings; would that be fair?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: Now again, Mr. Chairman, I have copies of these documents, but I didn't think they'd be contentious. So I did provide copies of these to Mr. Christie and if the Board certainly wants to review them, I have copies with Mr. Singh, but I don't think, as I said, that they're contentious.

Mr. Christie, I want to turn your attention to the advisory memo from the Office of the Superintendent of Financial Institutions Canada.

MR. JAMES CHRISTIE: Yes, I have a copy.

MR. BYRON WILLIAMS: Dated December 2003?

MR. JAMES CHRISTIE: Yes.

THE CHAIRPERSON: I think we will get a copy of that one.

MR. BYRON WILLIAMS: And perhaps then I'll ask Mr. Singh to -- excuse me, Mr. Chairman, there's two (2) documents that I'm going to be referring to. One (1) is an advisory memo dated December 2003.

The other one (1) is an excerpt out of the OSFI annual report. It's only a three (3) page excerpt, Mr. Chairman.

THE CHAIRPERSON: Okay. We'd like both of them then.

MR. BYRON WILLIAMS: Okay.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Chairman, for Mr. McCulloch's benefit in what Dr. -- or -- what Dr. Singh -- Mr. -- I have a client, different hearing.

THE CHAIRPERSON: Mr. Singh doesn't mind.

MR. BYRON WILLIAMS: Yes, what -- what -- I have -- Mr. Singh is handing out are three (3) documents only two (2) of which I've shared with Mr. McCulloch so that the two (2) that I have shared, one (1) is the advisory report dated December 2/'03 and the other is the OSFI Striking a Balance Annual Report.

The third document dated August 13, 2004, I hadn't been intending to file but that's my tough luck, I guess, and I hadn't -- I don't think I'll be referring to.

THE CHAIRPERSON: We might as well give them exhibit numbers. Mr. Singh, do you know what we're up to?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Yes, I was going to say 7 is the -- the next number. I'm looking for Mr. Dawson to start slapping me fairly soon, too.

THE CHAIRPERSON: So 7 will be the Advisory, MCT and DCAT Supervisory Target, 8 will be Striking a Balance.

--- EXHIBIT NO. CAC/MSOS-7: MCT and DCAT Supervisory Target.

--- EXHIBIT NO. CAC/MSOS-8: Striking a Balance.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you, Mr. Chair. And this was -- I don't want to build up too much excitement here because it was a fairly simple point, but --

THE CHAIRPERSON: You said -- by the way, just before we go any further, now that we have this particular document dated August 13, 2004, are you referring to it at all?

MR. BYRON WILLIAMS: I don't think I will be, Mr. Chairman.

THE CHAIRPERSON: It's just difficult for us to keep our eyes off things that has all these numbers on it so...

MR. BYRON WILLIAMS: I -- I don't...

THE CHAIRPERSON: Well, put it aside and decide later, how's that?

MR. BYRON WILLIAMS: Okay. I can live with it either way, Mr. Chairman, I don't think it'll prejudice my case going in but...

THE CHAIRPERSON: I just want to make sure that if we're paying any attention to it, we give it an exhibit number and share it.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And after that very graceful introduction of a document and exhibit, Mr. Christie, I'll ask you to turn to page 3 of the advisory memo dated December 2, '03?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And I just want to draw your attention to the second paragraph and the third sentence. And I -- I'm going to read it to you and you can confirm whether I've read the third and fourth sentences correctly.

They're talking about the MCT ratio of 150 percent and the statement that I'm going to read to you is:

> "The supervisory target of 150 percent, while not measuring solvency in the strict sense of the term, is a regulatory trigger point. A company that breaches the supervisory target of 150 percent will attract increased regulatory attention and, at a minimum, an early warning intervention status (stage 1)."

Did I read that correctly, sir?

MR. JAMES CHRISTIE: Yes. Not with a lot

of glibness, but correctly at least.

MR. BYRON WILLIAMS: And would you agree with that kind of interpretation put forward by OSFI that it's -- that that -- the supervisory target of 150 percent is essentially a regulatory trigger point after which a company that's below that will attract increased regulatory attention? Would that be fair?

MR. JAMES CHRISTIE: Yes, that would be a fair statement. It is a point which if you, as a company, drop below one fifty (150) you will attract increasing regulatory attention.

MR. BYRON WILLIAMS: Now, I don't want to get -- I -- I want to turn to kind of the use of a -- a lower range in terms of a -- a device such as the MCT and I -- I'm going to ask you to make an assumption.

I don't want to get into merits -- or a debate about the merits of the assumption, but let's assume for the purposes of your and my discussion that the Public Utilities Board in its wisdom determines first of all that an MC -- using an MCT range for the RSR would be appropriate and secondly that it -- it approves a ratio of 50 to 100 percent as the target range.

Are you prepared to make that assumption, sir?

MR. JAMES CHRISTIE: It's your

assumption. I'll try to answer your question based on it.

MR. BYRON WILLIAMS: I also want to -- and -- and I wonder just on that point without elaborating, I take it you'd agree that if MPI breached the bottom end of that range, i.e., went below 50 percent in terms of MCT ratio, that should be cause for regulatory attention if this was a regulatory target?

MR. JAMES CHRISTIE: I have to answer that question in two (2) parts. If the range was a hundred(100) to -- from fifty (50) to a hundred (100) you would be already getting regulatory attention no matter where you were in that range.

If the federal regulator were regulating MPI and, in its wisdom, had chosen to set fifty (50) to hundred (100) as its range rather than one fifty (150), then at that point when it dropped below fifty (50) the Federal regulator would drop -- would intervene -- would give you attention.

MR. BYRON WILLIAMS: Okay. And the -- thank you for that. Now, let's work with this a little bit and perhaps I'll phrase it more elegantly.

We've got this range set by the Public Utilities Board for rate setting purposes for an RSR of an MCT to be between fifty (50) and 100 percent and we're also assuming that MPI has breached this in that it is below the range of 50 percent.

You'll agree with me that if you were giving advice to the regulator that would be cause for regulatory concern; is that correct, sir?

MR. JAMES CHRISTIE: In that situation, if I was asked for my advice, I would be advising the PUB that they were below 50 percent and that, given the direction that the PUB had set, they should be allowing some surcharge, special levy over some period of time to build that RSR back up to 50 percent.

MR. BYRON WILLIAMS: You've jumped ahead in terms of my questions which makes things more efficient but -- and you'd make that same sort -- you'd give that same sort of advice to Manitoba Public Insurance; is that right, sir?

MR. JAMES CHRISTIE: My advice to Manitoba Public Insurance might be stronger than that, in that I would not necessarily have subscribed to the 50 to 100 percent as the target and might be suggesting to them that they should be getting more than fifty (50) -- striving to get to more than fifty (50). They should be targeting to the upper end of that range rather than the lower end of that range.

MR. BYRON WILLIAMS: Thank you for that.

Now -- and, again, you've -- you've already indicated that if MPI was below that 50 percent target you'd be recommending to the regulator that some sort of surcharge be introduced to bring it up to that target.

I presume that you would make that advice because you would consider it prudent to include some sort of levy with the rate in circumstances where the -- where the MCT target has been breached; is that fair?

MR. JAMES CHRISTIE: I would be making that recommendation because the -- on your assumption the PUB had ordered that -- MPI to maintain an RSR between fifty (50) and hundred (100). Since they weren't, something has to give. And the quick way to get that fixed is to apply a surcharge to rates over some period of time.

MR. BYRON WILLIAMS: That's fair. And you -- you'd say -- you'd probably say that it would be imprudent not to apply for a surcharge in those circumstances; wouldn't you, sir?

MR. JAMES CHRISTIE: Yes. I would.

MR. BYRON WILLIAMS: Let me just take this one (1) -- this already laboured example, one (1) more laboured step along the way. In a case where the -- where one is below the MCT target range and let's assume there's no transfers coming in from SRE or -- or extension, you would also consider it imprudent to budget for a loss in that particular fiscal year; would that be right, sir?

MR. JAMES CHRISTIE: It would be imprudent not to ask for a rate increase. If you can't get the rate increase, then it's stupid not to budget for a loss if you know you're going to lose money. Just not budgeting for it doesn't make it go away.

MR. BYRON WILLIAMS: So the stupid thing would be not asking for a rate increase; is that right, sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: So, just so I'm --

MR. JAMES CHRISTIE: Well, sorry. What would -- should be happening is that you -- you plan to make -- get more revenue than you have expenses and, therefore, have some cash or some income available to increment the RSR.

MR. BYRON WILLIAMS: And so just to be clear, using your words, if you're in a situation where you're below the MCT target level it would be stupid not to ask for a rate increase?

MR. JAMES CHRISTIE: It would be very prudent for MPI to ask for an increase.

MR. BYRON WILLIAMS: Okay. That's fair

enough. I heard the word "speculation" used -- or "speculative" used by you a few times this morning. You were -- you were reluctant to speculate about now ICBC and SGI came about adopting the MCT.

MR. JAMES CHRISTIE: My recollection was that I did not have first-hand knowledge and anything I said would have to be -- necessarily be speculation because I didn't know the real reasons.

MR. BYRON WILLIAMS: Now are the words, speculate or speculative, are those terms of actuarial art?

MR. JAMES CHRISTIE: No I was using those in the context of standard English dictionary.

MR. BYRON WILLIAMS: I didn't think they were.

So in applying the actuarial sciences, you certainly wouldn't rely upon speculation, is that fair sir?

MR. JAMES CHRISTIE: In order to do an appropriate dynamic capital adequacy analysis, one has to, first off speculate, in the normal word -- usage of that word, what kinds of things might happen, and then using your expertise, decide which ones are, in fact, plausible to happen.

So I might speculate that the earth will start turning in the opposite direction tomorrow which might cause significant catastrophic wind damage, but I'm probably going to throw that out in terms of an adverse scenario. But I, at least, have to think about what kinds of things might go wrong and then narrow that down to the things that are plausible that could go wrong.

MR. BYRON WILLIAMS: Just -- we're going to change speeds just for a second here. In your many years of working with Manitoba Public Insurance as their external actuary, did you have occasion to meet Dr. Allister Hickson or Dr. Kwane Darko-Mensah; who worked with Manitoba Public Insurance?

MR. JAMES CHRISTIE: Yes, I met both individuals on two (2) or three (3) occasions, perhaps more than two (2) or three (3), but certainly less than ten (10).

MR. BYRON WILLIAMS: And you -- I use the word doctor. Are you aware that whether or not Dr. Hickson and Dr. Darko-Mensah played a role in the design of the risk analysis?

MR. JAMES CHRISTIE: I don't have first-hand knowledge of that. I have been told by MPI management that Dr. Hickson had a role to play in the original analysis of -- operational risk analysis that was first proposed perhaps five (5) years ago.

MR. BYRON WILLIAMS: Okay. Thank you for that. And you're aware, of course, that Dr. Hickson was an economist?

MR. JAMES CHRISTIE: Yes, I am.

MR. BYRON WILLIAMS: I just want to clarify, if I might, your definition of rate shock. And you were helpful with the Chair, but I just want to make sure that I understand it. And I'm going to try -- I'm not going to repeat your words back to you but, I do want to do justice to your words.

As I understood it, you were talking about rate shock in the context of perhaps, say 6 percent overall rate increase with certain individuals experiencing rate increases above that of 9, 12 and 15 percent.

Would that be fair, sir?

MR. JAMES CHRISTIE: Yeah, I paused -- posed that in the context of assuming that normal inflation is 2 to 3 percent, then 6 percent would probably cause -- would be sufficient to cause rate shock in the general populace. And I went on to say that that would really be driven by the fact that not everyone gets exactly 6 percent.

So when you talked about 6 percent, there would be individuals getting much more than that. And that would be -- those would be the people who instigated the letters to the editor, calls to the newspaper, or to the TV shows or whatever.

MR. BYRON WILLIAMS: So just so I'm clear, in terms of your definition, there's a kind of global rate shock in a 6 percent overall rate increase, coupled with a magnified rate shock in the case of individuals getting rate increases of 9, 12 or 15 percent, is that right sir?

MR. JAMES CHRISTIE: I suggested 6 percent as being roughly double the inflation. And acknowledged that the reason for that being a threshold is that some individuals would get more than 6 percent.

MR. BYRON WILLIAMS: Okay. And just -- given your knowledge of MPI, I wonder if you'd agree with me that it's possible that there could be no overall rate increase, but certain individuals could experience on a personal level 15 percent rate increases; is that possible sir?

And if you can't answer it, that's fine.

MR. JAMES CHRISTIE: It's my understanding that PUB has some sort of guideline that says individual policyholders shouldn't experience more than -- I believe it's plus or minus but it may only be enforced on the plus side, 15 percent increase.

MR. BYRON WILLIAMS: And just -- just so I'm clear, in the circumstance where there was a zero percent overall rate increase but certain individuals were experiencing rate shock in the range of -- or, excuse me, I'm putting words in your mouth. Let me try that again. Strike that question.

Assuming that there's zero percent overall rate increase but there are certain individuals who -- who experience a 15 percent change in their -- their own rate, would that meet your definition of rate shock?

MR. JAMES CHRISTIE: No. By and large my advice to my clients is when the overall rate increase is low, that's the time to start thinking about redesigning your rating structure because that gives you the maximum opportunity to -- to realign it without causing rate shock.

MR. BYRON WILLIAMS: Just so I'm clear, would the converse of that be true? If -- if or example rates are going to go up by 4 percent, would that be justification in your view to perhaps minimize some other individual adjustments?

MR. JAMES CHRISTIE: Absolutely. Just in terms of the minimizing implementation issues or public reaction, the higher the increase the more uniform you want to have it. That's not an actuarial analysis, that's the business of --

MR. BYRON WILLIAMS: So that would be another tool to deal with rate shock?

MR. JAMES CHRISTIE: Yes, if -- if there was a time when there was a surcharge being applied, that would not be a time to be looking at significantly restructuring the -- the rating algorithms.

MR. BYRON WILLIAMS: Mr. Chairman, if I might have one (1) second, please?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I've got an ill child so I was just making sure. It's okay though.

Mr. Christie, not that much more to go, but I do want you to help me out with -- I don't even know what to describe this next category, but we're going to -- I'm going to get you to help me with some -- out with some plain old basic level statistics.

I wonder if you'd agree with me that a normally distributive, random variable, and by "normally distributive" I mean a bell curve, is within -- would be within one (1) standard deviation of its expected value or average about two-thirds (2/3's) of the time?

Would you agree with that, sir?

MR. JAMES CHRISTIE: I'll try to answer the question I think you asked, which is --

MR. BYRON WILLIAMS: That would be appreciated.

MR. JAMES CHRISTIE: If a variable is normally distributed, then roughly two-thirds (2/3's) of the time the value that you observe will be within one (1) standard deviation of the average of all observations of that variable.

MR. BYRON WILLIAMS: Thank you. And you're going to help me along on the next question too.

If a variable is normally distributed, the -- the random variation we could expect to be within two (2) standard deviations of the -- its -- its expected value about 95 percent of the time, would that be right?

MR. JAMES CHRISTIE: Yes, that's roughly correct.

MR. BYRON WILLIAMS: Would it also be fair to say that if you're starting to move beyond that two (2) standard deviations, again assuming that there -- a variable is normally distributed that you're starting to get into outlier territory, would that be fair?

MR. JAMES CHRISTIE: No, I would typically categorize outliers as being beyond three (3) standard deviations.

MR. BYRON WILLIAMS: Might others such as Mr. Palmer for example, characterize it -- might others take it as being beyond two (2) standard deviations?

MR. JAMES CHRISTIE: There -- I'm not sure that there's a standard definition of outlier. Outlier, in a statistical sense, is typically used when you plot a graph of all of the observations and, generally speaking, outliers sort of stick out like a sore thumb. They are way above or well below the rest of the observations.

MR. BYRON WILLIAMS: Thank you. That's enough of outliers, I think.

Now, I want to take an example with you. I just want to use some die for a fair die, one (1) fair die for an example.

The example I'm going to put to you is a fair die with the numbers one (1), two (2), three (3), four (4), five (5), and six (6). Assuming that it's a fair die, I roll it, would I be correct in saying that there's a one (1) in six (6) chance that I will get a six (6), sir?

MR. JAMES CHRISTIE: Yes, you are correct.

MR. BYRON WILLIAMS: And, likewise, there's a one (1) in six (6) chance I'll get a five (5);

is that right?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And if I toss the die once the probability that I will get a six (6) is one (1) in six (6); is that fair?

MR. JAMES CHRISTIE: That's correct.

MR. BYRON WILLIAMS: So I toss the die. The first time I get a six (6). If I go to roll the die a second time the probability of getting a six (6) on the second roll is, again, one (1) in six (6); is that right, sir?

MR. JAMES CHRISTIE: That's called a conditional probability and the answer is, yes, one sixth (1/6th).

MR. BYRON WILLIAMS: And that's because the results of the second event are independent of the first, would that be right.

MR. JAMES CHRISTIE: Because you've postulated a fair die.

MR. BYRON WILLIAMS: I would never postulate anything that's unfair, Mr. Christie. Mr. McCulloch would not have it.

Going with that postulation of a fair die, let's say I'm going to toss that fair die twice in a row. Before I start, you'll agree with me that before I start the probability of getting two sixes in a row is one (1) in thirty-six (36) or the product of one sixth (1/6th) time one sixth (1/6th); is that right, sir?

MR. JAMES CHRISTIE: That's correct.

MR. BYRON WILLIAMS: And that's because the probability of two (2) independent events occurring is the product of their individual probabilities, in that case?

MR. JAMES CHRISTIE: Yes. Because the two (2) rolls are presumed to be independent of each other.

MR. BYRON WILLIAMS: Just staying with the die for a couple more minutes. The fair die. We've agreed that there's a one (1) in six (6) chance that we will get a six (6) and you'll agree with me that likewise there's a one (1) in six (6) chance each time I roll it that I'll get a five (5) or a four (4) or a three (3) or a two (2) or a one (1); is that fair, sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: So when I'm tossing that single die you'll agree with me that there is some volatility because I -- there's six (6) possible numbers that may come up and I don't know what I'm going to get before I toss it; would that be fair?

MR. JAMES CHRISTIE: Yes. Volatility is

perhaps not quite the right word. There's a randomness to the result because you've got a fair die you have been able to parameterize the model, you have no model risk, you have no parameter risk. You know that there are only six (6) sides. You know that each side is equally likely.

MR. BYRON WILLIAMS: So it's random but -- okay, so you -- that's your word that I should have used is "random;" is that right?

Just moving along on this tortuous example for just a couple more seconds, if I toss that die six hundred (600) times, I'm likely going to get some sixes, some fives, some fours, some threes, some twos and some ones; is that right, sir?

MR. JAMES CHRISTIE: Yes. That's correct.

MR. BYRON WILLIAMS: And again, assuming a fair die, over those six hundred (600) tosses each of the six (6) equally possible outcomes is likely going to turn up about one hundred (100) times each; would that be fair?

MR. JAMES CHRISTIE: About one hundred (100) times. Yes.

MR. BYRON WILLIAMS: Not exactly a hundred (100) but in that range probably? So if you roll a die repeatedly, I want to ask you, is each roll an unexpected non-recurring event?

MR. JAMES CHRISTIE: No. In that particular scenario you have a perfectly defined model. There's no question about what the model is, and there's no question about what the parameters of that model are. A better example in terms of unexpected is if you have a hundred-sided die where ninety-nine (99) of the sides are one (1) and the hundredth side is ten thousand (10,000).

Then, when you roll the die and you roll the ten-thousand (10,000) face, you might say that's an unexpected result.

MR. BYRON WILLIAMS: Thank you for that. And so just to conclude, I want to make sure I use your words not mine.

A random result within expectations is not an unexpected non-recurring event; would that be fair, sir?

MR. JAMES CHRISTIE: Now, you're starting to get beyond the realm of pure statistics and into where we talk of -- or at least I talk about what one (1) might expect or not expect in the English language sense of that word.

In the example that we've been dealing with, we have a very small number of possible outcomes, all of which are pretty close together, one (1) through six (6). None of those numbers are going to be unusual.

In the example I've laid out for you of a hundred (100) sided die with ninety-nine (99) sides being one (1) and one (1) being ten thousand (10,000) or a hundred thousand (100,000); any time you roll that one (1) odd face it's going to be unexpected because if you think about a hundred (100) sided die you're going to be rolling one (1) almost every time, and you're going to be surprised when it is ten thousand (10,000).

MR. BYRON WILLIAMS: Thank you. Mr. Chairman, I'm just -- for the benefit of the Board I'm going to be moving to what I believe is CAC/MSOS-8, which is the excerpt from the Striking a Balance, the OSFI annual report. I hope I have that number correct.

THE CHAIRPERSON: Yes and, Mr. Williams, we are going to give this other one CAC/MSOS-9 and Mr. Singh can distribute it to the rest just in the offhand chance that it has some relevance.

MR. BYRON WILLIAMS: That's fine with me, if it's fine with My Friend, Mr. McCulloch. And I apologize for the confusion on that one.

--- EXHIBIT NO. CAC/MSOS-9: August 13, 2004 report

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Christie, I can't ask Mr. Pelley any questions, so I'm going to get you to help me with OSFI 101, I only have three (3) of four (4) questions.

But, just to remind ourselves, we talked about Public Utilities Board and you'll agree with me that its regulatory jurisdiction when it comes to Manitoba Public Insurance is the approval of changes in rates for service; is that right sir?

MR. JAMES CHRISTIE: Yes and it's not that different from rate regulatory boards in other jurisdictions where you may apply for an automobile rate increase, but it's an entirely separate body; typically OSFI that regulates the financial condition of the company.

MR. BYRON WILLIAMS: And by OSFI, we mean the Office of the Superintendent of Financial Institutions Canada, is that right?

MR. JAMES CHRISTIE: I do, although I've used the term generically because some insurance companies are regulated by the Provincial equivalent of OSFI.

MR. BYRON WILLIAMS: Now, in terms of OSFI and I'm just referring you to page 16 of the massive three (3) page excerpt I've given you from the annual report. My understanding is that it regulates, among other things, one hundred and eighty-nine (189) property and casualty insurers across Canada, would that be right, sir?

MR. JAMES CHRISTIE: That's what their annual report says, I don't have personal knowledge of a hundred and eighty-nine (189) but it's the right order of magnitude.

MR. BYRON WILLIAMS: So that figure doesn't surprise you?

MR. JAMES CHRISTIE: Not at all.

MR. BYRON WILLIAMS: And it deals with assets of $91 billion in terms of property and casualty insurers?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: Okay. Just so I'm clear, would I be correct in saying in the ordinary course of events that OSFI does not have final approval over the rates for service of the hundred and eighty-nine (189) companies which are under its jurisdiction; would that be fair, sir?

MR. JAMES CHRISTIE: To the best of my knowledge, OSFI does not control the rates of any of those companies.

MR. BYRON WILLIAMS: And that's because those -- okay -- in part, that's because many of those companies operate in a competitive marketplace, is that right, sir?

MR. JAMES CHRISTIE: No, I think that has more to do with the BNA Act that says federal government gets to regulate solvency and the provincial governments get to regulate market conduct.

MR. BYRON WILLIAMS: Thank you. In terms of those hundred and eighty-nine (189) companies, can you identify which, if any, are operating in a monopoly environment?

MR. JAMES CHRISTIE: To the best of my knowledge, none of them are operating in a monopoly environment.

MR. BYRON WILLIAMS: And I don't know if you can assist me with this or not, sir and I should have provided you with this reference as well but, at page, I believe, 35 of the OSFI report there's a suggestion that:

> "OSFI and the Insurance Bureau of Canada have started fine tuning the minimum capital test for property and casualty insurers and the revisions relate to capital treatment of items arising from the new financial

instruments accounting standards."

Would that be your knowledge, as well, sir?

MR. JAMES CHRISTIE: This is coming from the 2005/2006 report? Yes, there was dialogue going on. There are now draft MCT tables out there reflecting the changes that will come into place for the fiscal years ending on or after October 2007.

MR. JAMES CHRISTIE: Okay. So there is a bit of fine tuning that you're looking at for 2007, is that right, sir?

MR. JAMES CHRISTIE: Not so much fine tuning, it's just recognizing that there is now a difference in the presentation on the balance sheet. The current MCT test recognizes the assets at their -- at the value on the balance sheet, they're amortized costs, and then it includes an adjustment to take them to market.

Under the new accounting rules the assets will be on the balance sheet at market and therefore this adjustment is not necessary.

MR. BYRON WILLIAMS: Okay. Thank you for that.

Can I refer you for a moment to your response to PUB Interrogatory Third Round Number 2?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: Just -- I'm going to put the question and you can let me know if I've given your response properly.

The question seems to be asking how do you propose that the Corporation would monitor and report on the ongoing appropriateness of the target MCT ratios, and under what circumstances would you suggest the Corporation would propose amendments to these target MCT ratios?

And your answer, and I'm not going to give the whole answer, but you indicate that the target MCT ratios would typically remain static for several years and that that could -- would be reviewed if the target MCT ratios for MPI's direct comparators such as SGI and ICBC were significantly revised; that's little Sub 1.

Did I get that part of your answer fairly stated, sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: Now, I understand in your response to questions both by Mr. Saranchuk and -- and to the Board Chairman that you -- you weren't perfectly clear on -- on how ICBC sets its MCT target. But I'm going to ask you to assume just for a moment, sir, that the MCT target for ICBC is set by the Government of Manitoba -- excuse me, by the Government of

British Columbia via special directive to both ICBC and to its regulator; would you accept that, sir?

MR. JAMES CHRISTIE: I'll accept it as an assumption.

MR. BYRON WILLIAMS: If you were to accept that assumption, sir, would that change your answer in any way in terms of your response to PUB-3-2?

MR. JAMES CHRISTIE: I don't think so. If -- currently it's at 100 percent. If tomorrow or next year ICBC were to be at 50 percent that should be cause for MPI and the PUB to look at what the RSR level is. It may not necessarily mean they'd change it but given the -- a reasonably direct comparator has changed theirs I think one should ask the question: Why did they change?

MR. BYRON WILLIAMS: So if Premier Gordon Campbell, in is wisdom, says to ICBC that you should only have a 25 percent MCT that would be reason in and -- in and of itself to look at revisiting the MPI target, sir?

MR. JAMES CHRISTIE: It would be reason to revisit it, it might not be reason to change it. But I think if you have only two (2) relatively direct compare -- comparators and one (1) of them changes, that should be at least an indication that you should look at your -- your targets and see if they're still appropriate.

MR. BYRON WILLIAMS: Thank you for that. While I'm leafing through my pages it might help you, Mr. Christie, just my last series of questions, I do want to go to your report of September 23rd, 2005, which is the MP -- Manitoba Public Insurance Corporation Universal Compulsory audible -- Automobile Insurance 2005 Dynamic Capital Adequacy Testing.

MR. JAMES CHRISTIE: Yes, I have that in front of me.

MR. BYRON WILLIAMS: I'll wait until Mr. McCulloch gets his version. I believe it's AI-17.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Just in terms of, if you could perhaps, first of all, turn to page 2 which provides an executive summary. Do you have that, sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: Just comparing the executive summaries from the 2004 report versus the 2005 report, you'll recall that in 2004 one of the assumptions that you made was that, to a degree, MPI would be able to replenish the RSR through a special levy, is that right, sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: That's for 2004?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And I may be missing it here but in your executive summary for 2005 did you make that same assumption that it would be able to replenish through a special levy?

MR. JAMES CHRISTIE: I did make an assumption but it is not stated in the executive summary. It is made in the description of the adverse scenario. Inflation on page 10. I'm sorry, page 11. It's a table at the top of page 11.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Your -- so your -- in terms of the table at the top of page 11, is that a plain old rate increase or is that a surcharge, sir?

MR. JAMES CHRISTIE: This is a -- in the terminology used the year before, special levy, a surcharge, it is an incre -- it is a rate increase over and above what would normally be the approved rate change. And it is -- it is assuming that MPI, in the normal course of events, comes to the PUB and says, this event has been going on, I need a rate increase.

I do -- I do stand corrected at this

point. I have not, in the 2005 report assumed a levy over and above the -- the eventually getting back on track with inflation.

MR. BYRON WILLIAMS: Just so I'm clear, in your assumptions for 2005 there is no special levy or surcharge, is that right?

MR. JAMES CHRISTIE: There is no levy. It is simply getting the premiums back on track by in -- over a three (3) year period.

MR. BYRON WILLIAMS: So there is no RSR surcharge to rebuild the depleted retained earnings over and above the plain old rate increases?

MR. JAMES CHRISTIE: You are correct.

MR. BYRON WILLIAMS: We'll come back to that in a couple of seconds

Going to your evidence at the bottom of page 6 of your report, sir, I want to refer you to the very last two (2) lines there, starting with the word "and".

You're talking about that:

"MPI basic may be exposed to significant liquidation risk in adverse scenarios where cashflow is not sufficient to cover immediate increases in operating costs."

I wonder if you can elaborate on what you meant by that statement, sir?

MR. JAMES CHRISTIE: Yeah. The way insurance company financial statements are presented in 2005 the assets are on the balance sheet at amortized value, reflecting the cost -- the value that that bond would have lin -- basically linear over its time until it matures.

That doesn't necessarily reflect what the market value of that bond is because the market value reflects the current interest rates, not the interest rates that were in place at the time the bond was purchased.

If interest rates today are higher than they were when the bond is purchased then market value would be lower than the amortized value. If you get into a scenario where you do not have positive cashflow, that you actually have to liquidate bonds in order to pay the claims, then you would have to sell those bonds into the market and you would only be able to sell them at market value not at amortized value.

MR. BYRON WILLIAMS: Would that be called a liquidity problem?

MR. JAMES CHRISTIE: Liquidity problem is not quite the same thing. Liquidity problem is that you just don't have any assets to sell. Not that you can't sell them at a -- at a loss and -- or at least a loss on the balance sheet, but you just don't have assets.

MR. BYRON WILLIAMS: Okay. That answer is fine, sir. Turning to page 8 of your report dated September 23, 2005, the very last line again, last two (2) lines, you indicate that:

"We stress tested many adverse scenarios, but present only the scenarios that result in the most adverse impact at a given confidence level."

Could you indicate how many adverse scenarios you stress tested, sir?

MR. JAMES CHRISTIE: Well, as a minimum we did the thirteen (13) that are set in our standards of practice. We may have done variations on some of those to test more than one (1) particular event happening.

Our standards of practice require us to report on the three (3) most adverse scenarios; that's why I'm reporting on these three (3) -- or at least in this case, on five (5).

MR. BYRON WILLIAMS: Okay. And the five (5) you reported were the most adverse, is that right?

MR. JAMES CHRISTIE: Yes. We require --

we identified five (5) scenarios where after the event happened the MCT -- the surplus of a company was less than 50 percent, would have produced less than 50 percent MCT. All of those we reported on in detail.

MR. BYRON WILLIAMS: Thank you for that. Now, when you said at least thirteen (13), so would I be fair in saying -- and if I'm being unfair you'll correct me, but would you have done more than twenty (20) adverse scenarios, sir?

MR. JAMES CHRISTIE: I don't think so. It would have been --

MR. BYRON WILLIAMS: Listening to your evidence this morning, I heard you use the figure one (1) in one hundred (100) a variety of times.

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: If I were to look at that statement of one (1) in one hundred (100) in terms of the most adverse scenarios that you've presented in this application, can you tell me what the basis is for describing that as one (1) in one hundred (100) events?

MR. JAMES CHRISTIE: The standards of practice of the Canadian Institute of Actuaries suggest that you test one (1) in one hundred (100) year events for a 99 percent confidence level.

In my report, I have tested 99 percent

because that is what would normally be done. I've also tested 97 1/2 percent because that was the traditional measure that was used by MPI.

MR. BYRON WILLIAMS: So how do I know that there are one (1) in one hundred (100) events based upon your report, sir?

MR. JAMES CHRISTIE: In some cases, you can't because we can't -- we don't have a precise model distribution. In other scenarios we've been able to create a model distribution. If we can create that then it's easy to pick off a 90th, a 95th and the a 97th and a 99th percentile.

I still would stress though, that it is still a model distribution and unlike your dice example, we don't know how many sides there are on the dice and we don't know what the faces of the die are.

So it's an approximation to the truth. It's not necessarily an exact model of what is going to happen.

MR. BYRON WILLIAMS: So, if I'm correct, in some of them you can be fairly precise, in some of the other scenarios you can't, in terms of the one (1) in one hundred (100), sir?

MR. JAMES CHRISTIE: That's correct. For instance, the inflation scenario we tested what our standards of practice tell us we should test. That standard of practice does not suggest that a 3 percent increase inflation rate is necessarily a one (1) in one hundred (100) year event or whether it's a one (1) in fifty (50) year event or a one (1) in two hundred (200) year event. It is what we are suggested to test.

That having been said, if we were in an environment where inflation had been running at 6 or 7 percent per year, I would certainly test more than a 3 percent increase.

MR. BYRON WILLIAMS: You'd probably phone the Bank of Canada and give them a bit of heck, as well sir, is that right?

MR. JAMES CHRISTIE: I suspect I would not be the first person calling the Bank of Canada.

MR. BYRON WILLIAMS: Mr. Chairman, just about few more minutes, I just want to review my notes and I have one (1) more area that I do want to go to.

THE CHAIRPERSON: Mr. Williams, we're going to have a break in any case. Do you want to have the break now, give you a chance to reflect?

MR. BYRON WILLIAMS: That's fine, Mr. Chairman.

THE CHAIRPERSON: Okay. We'll have the mid-afternoon break right now. Before we do, I have one other question for Mr. Christie, and it's just one to help our understanding.

Returning to the topic of MPI's run of rate stability and attempting to understand it in an intellectual sense I suppose, given the importance of the forecasting going forward, it is remarkable given the ongoing inflation, although it's low, and given the fallen bond yields.

So the question is: Was the dropping of the vintaging several years a major factor in providing the possibility of rate stability, in the sense that it provides the prospects of additional revenue each year even in the absence of a rate increase?

MR. JAMES CHRISTIE: Drop -- I'm not familiar with the -- the term 'vintaging', but I presume it means that you don't drop rate groups over time for -- for physical damage on vehicles.

If that's the case that would generate additional revenues for the Corporation each and every year. That increase to my knowledge is reflected in the -- in the rate applications. It's certainly reflected in my -- in my review of the base plan. It's a --

THE CHAIRPERSON: Oh, I'm not saying it's not reflected, I'm just saying is it --

MR. JAMES CHRISTIE: Yes, in terms of

being able to stand up in a public forum and say we haven't changed rates when in fact we're getting 1 to 3 percent, whatever the -- I think it's around two (2) -- two (2) and -- and in change because of non-vintaging; that is a -- you can make that statement and, you know, still say, I'm not increasing my rate levels, but still get more revenue each year.

THE CHAIRPERSON: Because new cars come in and older ones drop off.

MR. JAMES CHRISTIE: Broadly speaking its because new cars come in and -- and in some sense they replace a car that's fifteen (15) or twenty (20) years old and it doesn't take a rocket scientist to figure out that a -- a new car is going to be charged more than a car that was rated fifteen (15) years ago.

THE CHAIRPERSON: Thank you. Okay. We'll have our break now.

--- Upon recessing at 2:35 p.m.
--- Upon resuming at 2:53 p.m.

THE CHAIRPERSON: Welcome back. By the way with the wonders of the internet we are no longer misinformed one way or another with respect to BCUC. They're taking it off. They're going to print it and provide it as PUB Exhibit 14.

But we have in front of us a decision dated July 13th, 2006, on ICBC, very recent, and it seems to cover off some of the relevant things that we're discussing. I haven't read it, but it refers directly to the direction from government with respect to their RSR. It seems to at least clear up the misunderstandings.

Mr. Williams...?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes, just for the last few questions I have, Mr. Chairman and Mr. Christie, again referring to the document, the Dynamic Capital Adequacy Testing, September 23rd, 2005 --

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: -- and just -- it -- it might assist Panel Members and Mr. Christie, there's two (2) things that you'll -- you'll want to have access to fairly easily; one is from -- started at page 10 of the report itself, the Adverse Scenario Number 1. So that's pages 10 through 12.

And the other thing you might want to have in -- in hand is the actual Appendix C which sets out some of the information underlying that scenario. So that's two (2) -- two (2) parts of the report; one (1) is

Appendix C, the other one is pages 10 through 12 of the report.

Do you have that, Mr. Christie?

MR. JAMES CHRISTIE: Yes, I do.

MR. BYRON WILLIAMS: Mr. Christie, just in terms of the adverse scenario inflation, directing your attention to the fourth paragraph on page 10, my understanding is that in this scenario you assumed that there would be a significant and sustained increase in the general rate of inflation amounting to an additional 3 percent per annum beginning in fiscal year 2005/'06 resulting in an increase in projected losses and general expenses of three thousand (3,000) -- or excuse me, of 3 percent annually; did I -- is that correct, sir?

MR. JAMES CHRISTIE: Yes, that is correct.

MR. BYRON WILLIAMS: And -- and I want to direct your attention to the -- when -- to the scenario when you assume a management response. So I'll direct your attention to the top of page 11.

And my understanding is that you assumed that management would recognize the impact of inflation gradually over time. As a result the following rate increases would be implemented: March 2000, plus 3 percent, with an implied rate shortfall of plus 6 percent; March 2008, rate increase of plus 6 percent, with an implied rate shortfall of 3 percent; and March 2009, a rate increase of plus 6 percent, and an implied rate shortfall of nil; is that right, sir?

MR. JAMES CHRISTIE: That's correct.

MR. BYRON WILLIAMS: And just to go back to our momentary confusion from a while ago, this is not a surcharge?

MR. JAMES CHRISTIE: No, this is not. This is the fact that inflation has come along. It's increased costs by 3 percent annually. The assumptions here take some time for the world at large to recognize that this is an ongoing event and get it built into the -- the rate structure. But eventually it is an -- and in this scenario by 2009 rates are now increasing annually at the same rate as inflation again.

MR. BYRON WILLIAMS: And just so -- so I understand, and on this table at the top of page 11 there's no reference to the year 2006/'07.

What rate increase did you assume for 2006/'07, sir?

MR. JAMES CHRISTIE: We assumed it would be what I would call the normal rate increase that would come out of a hearing at the PUB. It might be plus or minus depending on the experience of the year.

It would probably be -- there would probably be some indication of need for additional rate increase. There might be some reluctance, both on behalf of MPI management to ask for a rate increase immediately. They might choose to use up some RSR.

There might be some reluctance -- or there probably would be some reluctance, both on management's part and on PUB's part, to allow a significant rate increase. And it would probably take two (2) years of continued inflation to support a significant rate increase for that.

MR. BYRON WILLIAMS: So just so I understand the year, if I were going to back up this table --

MR. JAMES CHRISTIE: Yeah.

MR. BYRON WILLIAMS: -- to March 2006 what rate increase would be put into that table, sir?

MR. JAMES CHRISTIE: No rate increase.

MR. BYRON WILLIAMS: So that would be zero.

MR. JAMES CHRISTIE: Zero.

MR. BYRON WILLIAMS: And if I were going to go to the implied rate shortfall rate table, what would be the implied rate shortfall for the -- the March 2006 year, sir?

MR. JAMES CHRISTIE: It would be 6 percent. The assumptions here are that there's a 3 percent shortfall in year ending -- I'm sorry.

MR. BYRON WILLIAMS: So just to summarize it, and if I've got it wrong, for -- if we were to put one (1) more line in this table, being date March 2006, the rate increase would be zero and the implied rate shortfall would be 6 percent, sir, is that right?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: If I were to go up one (1) more line, being the date of March 2005 what would be the rate increase assumed, sir?

MR. JAMES CHRISTIE: It would have -- it would have been historical at that point in time in that we were already in September 2005 and we would have known what -- that would be a fact rather than an assumption.

MR. BYRON WILLIAMS: Would there be an assumed implied rate shortfall? Probably 3 percent, would that be right?

MR. JAMES CHRISTIE: The presumption would be that the rates were applied for and approved, and they were right at the time. And then immed -- or shortly thereafter inflation took off so you were short 3 percent for that year. You didn't know about that at the time that you applied for the rates.

MR. BYRON WILLIAMS: I understand that, sir. So, whatever the number was in the rate increase side, it would be the historical number, is --

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: -- that right, for March 2005?

MR. JAMES CHRISTIE: Well, in -- in the way this is laid out it would -- we're talking about the additional rate increases, so it would have -- in the vernacular as used here it would be zero.

MR. BYRON WILLIAMS: Okay. And the implied rate shortfall would be 3 percent?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: So just to -- to fill in this so if I were going to back up two (2) years starting with March 2005, the rate increase would show zero and the implied rate shortfall would be plus 3 percent, sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And going down to March 2006, the -- the rate increase would again show zero and the implied rate shortfall would be plus 6 percent, sir?

MR. JAMES CHRISTIE: That is correct.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And again in your assumption there is no surcharges or special levies assumed, correct, sir?

MR. JAMES CHRISTIE: That is correct, other than the implicit one that's in 2008/2009, we're increasing rates by 6 percent but, costs are only going up 3 percent.

That isn't necessarily a surcharge that is simply trying to get to where our rates have to be to -- so that by 2009 premiums match claims.

MR. BYRON WILLIAMS: So that wouldn't be a surcharge, sir?

MR. JAMES CHRISTIE: No, it would not be.

MR. BYRON WILLIAMS: I wonder if you can turn to Appendix C and in particular, the years -- at page 2 of 4 to start with, which is the statement of operations.

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And I want to direct you to the -- Mr. Galenzoski told me this, column February '07, and then go down to the line "income losses before income taxes and extraordinary items." And that's third from the bottom. Line --

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And that would show as of February '07 for the -- that the -- would that show that the '06/'07 year resulted in a loss of $51 million, sir?

MR. JAMES CHRISTIE: Yes, it would.

MR. BYRON WILLIAMS: And that information would be available to the management of Manitoba Public Insurance, shortly after the fiscal year end of '06/'07, sir?

MR. JAMES CHRISTIE: Yes, it would.

MR. BYRON WILLIAMS: Now, if you turn to page 4 of 4, which is titled, Minimum Capital Test; do you have that sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: If we look at the excess -- to the second last line, "excess capital available over capital required", you'll see that as of February '07, you were in a situation of minus 254.8 -- would that be million, sir?

MR. JAMES CHRISTIE: Yes, it would, $254 million.

MR. BYRON WILLIAMS: And that's a negative, so there's less -- there's less capital available than you would want for your ratio?

MR. JAMES CHRISTIE: That would imply that the capital required is in excess of the capital available.

MR. BYRON WILLIAMS: And that's not a good thing?

MR. JAMES CHRISTIE: That's correct.

MR. BYRON WILLIAMS: If we go down one (1) more line you'll see that, in fact, the MCT ratio for that year would be minus -- as of February 07, would be minus 6.5 percent, is that right?

MR. JAMES CHRISTIE: Yes, it is.

MR. BYRON WILLIAMS: And that would be well outside any target range that you would recommend to this Board or to Manitoba Public Insurance, is that right sir?

MR. JAMES CHRISTIE: Yes, it is.

MR. BYRON WILLIAMS: And I just want to look at one (1) more year. So if you could go back to the statement of operations for February '08; that would be for the '07/'08 year, that's page 2 of 4.

Do you have that sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And you see we're looking at a $91 million loss for the '07/'08 year, is that right sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: And if we go to the -- again back to page 4 of 4, the Minimum Capital Test, you'll see, for the minimum capital test, you're at, the second last line, you're at minus 323 million, is that right, sir?

MR. JAMES CHRISTIE: That line, yes, is it...

MR. BYRON WILLIAMS: And the ratio is minus 21.3 percent, is that right, sir?

MR. JAMES CHRISTIE: Yes.

MR. BYRON WILLIAMS: Now, going back to -- I -- I want to talk about the -- the rate application for '08/'09.

The Board -- excuse me, the -- the Board of Manitoba Public Insurance would have available to it, certainly the -- the results of the fiscal year '06/'07', is that right, sir?

MR. JAMES CHRISTIE: Yes, they would.

MR. BYRON WILLIAMS: And by August or September probably of '07/'08 they would also have a minimum capital test showing that they're at -- that at the year end for '06/'07 they were at minus 6.5 percent, is that right, sir?

MR. JAMES CHRISTIE: Yes, they are. They

would have -- they should have that long before August.

MR. BYRON WILLIAMS: So this is a situation where you're coming off a tough year in '06/'07. Your MCT is well beyond any target range that you would recommend, being minus 6.5 percent, and your assumption is that there would be no RSR surcharge or special levy, is that right, sir?

MR. JAMES CHRISTIE: My assumption is that there would be a 6 percent increase in rates at a time when costs are going up by 3 percent per year. Now, that 6 percent is to affect this year's increase and the costs from the year before. I think it would take a very strong political will to see that go up by much more than 6 percent in the -- at that point in time.

MR. BYRON WILLIAMS: So at a situation where you're in the negative in terms of your MCT ratio your assumption is that there's no RSR rebuilding?

MR. JAMES CHRISTIE: That's correct.

MR. BYRON WILLIAMS: Okay. Thank you, Mr. Chairman, those are all my questions.

THE CHAIRPERSON: Thank you, Mr. Williams.

Mr. Oakes...?

MR. RAYMOND OAKES: Thank you, Mr. Chairman.

THE CHAIRPERSON: And you have a book of documents to introduce?

MR. RAYMOND OAKES: I certainly do. As the first order of business during the break I had circulated a book of documents for reference purposes in my cross-examination. I provided two (2) copies earlier this morning to two (2) members or one (1) member of the MPI executive with a hope that they could consume that with a pizza over the lunch hour.

But recognizing the tight timelines, I just wondered if My Learned Friend had any objection to those materials being marked as the next CMMG exhibit?

THE CHAIRPERSON: Mr. McCulloch...?

MR. KEVIN MCCULLOCH: I wasn't one (1) of the two (2) executive members that he gave the book to, but that's okay. We can go ahead and mark it as an exhibit.

THE CHAIRPERSON: Mr. Singh, what number are we up to?

--- EXHIBIT NO. CMMG-4: Book of documents.

MR. RAYMOND OAKES: Thank you for that, Mr. Chairman.

CROSS-EXAMINATION BY MR. RAYMOND OAKES:

MR. RAYMOND OAKES: Mr. Christie, unlike My Learned Friend Mr. Williams I don't have any junkets planned down to Las Vegas or anything so there'll be no gambling questions, or -- or I won't try and get the inside track on the actuarial science of rolling dice.

But I certainly want to follow up on questions relative to the issue of rate shock. And I heard your testimony before lunch today to say that something in the order of twice the inflation rate would approximate rate shock.

And I understood you later, under Mr. Williams' artful cross-examination, to go beyond that a little bit and say what you meant before lunch in your testimony was that if there was a general rate increase of some 6 percent, being double inflation at present, that would constitute rate shock considering the fact that there's other insured, other consumers, who are likely getting their own particular rate increase of more than 6 percent.

Is that a fair regurgitation of that testimony?

MR. JAMES CHRISTIE: I think that's a fair synopsis.

MR. RAYMOND OAKES: Thank you, Mr.

Christie. And are you aware, sir, that the application for a general rate increase for motorcycles is some 8.4 percent this year in this year's GRA?

MR. JAMES CHRISTIE: No, I'm not aware of the specific amount. I know that there was a -- anecdotally talking to MPI management that the increase for motorcycles was more than the overall increase for the general public.

MR. RAYMOND OAKES: But you wouldn't argue with me, sir, that the Corporation has applied for an 8.4 percent increase for motorcycles? There's no information you have to the contrary?

MR. JAMES CHRISTIE: I --

MR. RAYMOND OAKES: You would accept that if I told you?

MR. JAMES CHRISTIE: I have no evidence one way or the other.

MR. RAYMOND OAKES: And in the Corporation's application if it -- if you accept that it's at 8.4 percent, you'd agree with me that there will be many motorcyclists who will face more than the 8.4 percent applied for generally? For that major rate class there will be examples that are higher and lower?

MR. JAMES CHRISTIE: I would presume there will be some who pay much more than 8 percent.

MR. RAYMOND OAKES: And are you familiar, sir, with the fact that the Corporation is also moving with a -- forward with a rate line adjustment that would also involve percentages increases associated with that, many times that of the inflation rate?

MR. JAMES CHRISTIE: No, I'm not.

MR. RAYMOND OAKES: And we talked about rate shock as being then, double the amount of inflation on a general basis, and Mr. Williams came up with the term for rate shock where -- or a rate that's many times the rate of inflation. He talked about a magnified rate shock. Some of my constituents might say rate rape.

But is there -- is there a term that actuaries would use where it's many more times than double the rate of inflation? Is there another term for rate shock where it's several times that?

MR. JAMES CHRISTIE: We typically talk about dislocation study -- analysis that identifies how many policyholders are in particular bands in terms of percentage change. So plus/minus 2 percent -- some percentage plus or minus 4 -- or between 2 and 4 percent, between 4 and 8 percent, and a table would be produced showing the percentage of policyholders that are just -- that if the rate application is approved would see a particular percentage change.

Sometimes those are expressed in dollar terms rather than percentage terms, but that would be a dislocation study.

MR. RAYMOND OAKES: So, in a situation where, in Manitoba, motorcycles rates over the last decade, the increase alone, has been over 124 percent, there's no actuarial term that describes it other than the term of rate shock which you're saying is more along the 6 percent per annum.

MR. JAMES CHRISTIE: There are two (2) -- the actuarial term would be large or something like that. The fact that motorcycle premium have increased dramatically over the last decade is largely a result of the no-fault system that was introduced in this Province.

I always colloquially refer to the fact that motorcycles may be dead right, but they're dead anyway. The fact is that under a no-fault system most drive -- most groups of drivers pay for their own losses and motorcyclists as a group tend to be injured much more than others in an accident, and it doesn't really matter whether they're at fault or not. Under the PIPP system of costs those -- that group has a significant increase in costs.

MR. RAYMOND OAKES: You're aware that the Corporation has experience adjustment rules for its major classes; a capping, as it were?

MR. JAMES CHRISTIE: Only in a broad sense. I am not engaged by the Corporation to do pricing, so I only am aware of it in a -- in a broad sense of asking are the rates in aggregate -- adequate to pay the losses so that I can do my business plans in the DCAT.

I'm not concerned at the -- at least, at the level of doing that, whether individual policyholders have large increases or small increases.

MR. RAYMOND OAKES: But you would be familiar with the concept, sir, and the reason that there would be a capping in this particular application is as a result of rate shock concerns?

MR. JAMES CHRISTIE: I believe that would be a standard approach in a rate application to cap increases for groups that are significantly hit by a rate change.

Typically, I would expect there'd be some plan to get those rates to adequate levels over a period of time, whether that's two (2) years or ten (10) years.

In the case of Manitoba Public Insurance, that isn't -- the concern there is that rates are adequate in total, whereas in a private enterprise environment where I typically review rates, the concern is getting the rates right at each and every rating category.

MR. RAYMOND OAKES: And if rate shock has been defined by you at double inflation or about 6 percent, would it make sense to cap the experience adjustment capping at say 10 percent, based on that?

MR. JAMES CHRISTIE: Practical capping rules that I've seen in other jurisdictions in recent few years have been about 15 percent.

MR. RAYMOND OAKES: Those are the questions I had on rate shock. I wanted to discuss your experience, you've given testimony this morning -- direct testimony with Mr. McCulloch about your experience with respect to regulatory capital.

Could you give us a very brief definition or something about Basel 1 Accord?

MR. JAMES CHRISTIE: Basel 1, is not something I practice in a lot because it really refers to the -- it's a banking accord and not an insurance accord. As such, I have limited knowledge of the Basel Accor -- rules.

MR. RAYMOND OAKES: Okay. I understood that it was part of the formulation of the MCT?

MR. JAMES CHRISTIE: What the Basel Accord tried to do is standardize capital requirements across industries, and -- but also across countries.

The initial focus of that was the banking industry, although typically regulators address all financial institutions. So that would be life insurance companies, P&C insurance companies, mutual funds and banks.

MR. RAYMOND OAKES: And the question I had asked was about the Basel 1 Accord. Are you familiar at all with the Basel 2 Accord and the difference?

MR. JAMES CHRISTIE: No.

MR. RAYMOND OAKES: And with respect to financial risk management are you a member of the global association of professionals known as GARP?

MR. JAMES CHRISTIE: I am not.

MR. RAYMOND OAKES: And similarly then, you don't have a financial risk manger designation?

MR. JAMES CHRISTIE: I do not.

MR. RAYMOND OAKES: And the CMMG materials, if you would open that document sir, looking at that global association of risk professionals which is the first document in the CMMG binder at section 4.

This study guide would relate to operational risk analysis, is that correct?

MR. JAMES CHRISTIE: That's what it's titled; Operation Integrated Risk Management.

MR. RAYMOND OAKES: And would you be fully conversant with these approaches?

MR. JAMES CHRISTIE: No, I'm not fully conversant with these approaches.

MR. RAYMOND OAKES: And moving beyond that study guide to the next document. And the top of the document says, "The Professional Risk Managers International Association."

Are you fully conversant with the Professional Risk Managers International Association?

MR. JAMES CHRISTIE: I am not familiar with the organization at all.

MR. RAYMOND OAKES: Okay. And so when we look -- if you look at the Exam 3 and the Exam 4 which are contained in the materials -- if you press on in that binder, it says Exam 2, mathematical foundation of risk managements; Exam 3 is risk management practices; Exam 4 is case studies and standards, governance, best practice and ethics.

Would you be conversant with those examinations?

MR. JAMES CHRISTIE: These are case studies. I am familiar with some of these because they are in the public domain. For instance, the debacle at Orange County investing in futures, is a well known case example of what not to do with public funds.

I don't know what is in the other case studies here.

MR. RAYMOND OAKES: So your answer, you would be familiar with some of the material there but not fully conversant with all of it?

MR. JAMES CHRISTIE: That is correct.

MR. RAYMOND OAKES: Similarly, the material discussed under Operational Risk in Exam 3, would that be the same situation, sir?

MR. JAMES CHRISTIE: I don't know to what level these -- this particular syllabus delves into these. At a very broad level I am familiar with the concepts. At an operating level dealing with these on a day-to-day basis, no, I'm not familiar with it.

MR. RAYMOND OAKES: And you, yourself, don't have a professional risk manager designation awarded by that association PRMIA?

MR. JAMES CHRISTIE: I do not.

MR. RAYMOND OAKES: And at the first page of that document, the PRMIA document, it shows that that's sponsored at least in part by your employer; do you see that, sir?

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: And also I want you

to confirm, sir, you're not an expert in value-at-risk as described in your evidence earlier this morning?

MR. JAMES CHRISTIE: That is correct.

MR. RAYMOND OAKES: Moving to a discussion of the MCT. As described in pre-filed evidence, I understand, previously you were a member of the OSFI committee that assisted in developing the MCT, is that correct, sir?

MR. JAMES CHRISTIE: I -- not quite. I am a member -- at the time I was a member. I am now Chair of the OSFI Property Casualty Actuarial Advisory Committee. One (1) of the issues that came across that committee's agenda was the redesign of the MCT but I was not a member of the group that actually designed the MCT.

What was -- a better descriptor was that various versions of the MCT were designed and -- and they were brought to that Committee for input along with a number of other committees.

MR. RAYMOND OAKES: And just some questions about that committee briefly. How many times did the Committee meet?

MR. JAMES CHRISTIE: It meets twice a year.

MR. RAYMOND OAKES: And who would the members of that Committee be?

MR. JAMES CHRISTIE: They are -- there's about ten (10) members. Broadly speaking, they are senior actuaries from both corporate ranks and from consulting ranks. There are two (2) or three (3) representatives of the Federal regulator on the Committee.

MR. RAYMOND OAKES: And would there be any non-actuaries on that Committee?

MR. JAMES CHRISTIE: Not as voting members. There are two (2) representatives from -- from OSFI who are on the Committee as non-voting members. It's an advisory committee, so even if we vote it doesn't really have much impact.

MR. RAYMOND OAKES: Would there be anyone representing the public insurance companies, either SA, AQ, ICBC, SGI, or MPI?

MR. JAMES CHRISTIE: Not directly, in that it is an advisory committee to the Federal Regulator and since they don't regulate those entities there's no reason to have someone from those entities represented.

I was a member -- I am a member. I do some work for MPI and -- and at least am able to in some sense to delineate what might be issues there. But it's not -- from the perspective of that Committee it's not a driving force to be represented by entities that aren't regulated by OSFI.

MR. RAYMOND OAKES: And would there have been anyone representing the public at large, such as the Consumers' Association representative?

MR. JAMES CHRISTIE: No.

MR. RAYMOND OAKES: Would you know whether Basel 1 was considered in the Committee's deliberations?

MR. JAMES CHRISTIE: At least in passing it was in the sense that one (1) of the items that was discussed was changing regulatory environments. And so someone from OSFI would have spoken to some extent about how they perceive Basel 1 and -- impacting their operations or their regulatory operations.

MR. RAYMOND OAKES: And I understand that there's capital factors in the MCT calculation and we have them in the OSFI guide. They're reproduced in the CMMG booklet that was distributed earlier and pages 10 through 13 discuss the capital factors involved.

There's a 15 percent factor for common shares; are you familiar with that, and do you know how that was determined?

MR. JAMES CHRISTIE: There is a 15 percent factor for common shares and for some preferred shares. The actual decision on the amount was a function of the working group that prepared the MCT. Various alternative numbers were thrown about; that was the consensus of -- of the working group and the -- the inputs from various groups like the one I was on as to whether this was an appropriate measure.

MR. RAYMOND OAKES: So, in other words, that would have been based on the judgment of that group though?

MR. JAMES CHRISTIE: That is correct.

MR. RAYMOND OAKES: Were statistical tests related to market conditions used; for example, semi-variance to measure downside risk?

MR. JAMES CHRISTIE: Not to the best of my knowledge.

MR. RAYMOND OAKES: And with respect to the capital factor of 35 percent for deferred policy acquisition costs, how would that be determined?

MR. JAMES CHRISTIE: Again, by consensus of the working group, my belief is that the higher number for deferred acquisition costs was largely due to the fact that these are very soft, in quotation marks, assets. They are -- the cost have been expended, but in order to do a deferral on the actual accounting you show them on your balance sheet as an asset.

If the company were to need to be

liquidated or to -- to get cash to pay something out there's no value in a deferred policy acquisition expense. There is some because certain parts of deferred acquisition expenses are pre-paid premium taxes and there would be some potential to recover those.

MR. RAYMOND OAKES: Would the short answer be that with respect to the capital factor of 35 percent that's shown at page 12 there, that that was determined based on the judgment of that group again?

MR. JAMES CHRISTIE: Yes. It would be.

MR. RAYMOND OAKES: And were any statistical tests deployed with respect to that determination?

MR. JAMES CHRISTIE: None that I'm aware of. I can't say for sure.

MR. RAYMOND OAKES: With respect to the margins on unearned premiums and unpaid claims shown on page 18, can you tell me how the committee came up with those?

MR. JAMES CHRISTIE: Page 18.

(BRIEF PAUSE)

MR. JAMES CHRISTIE: Roughly like this. This may not be literally correct but it's reasonably close. Prior to the advent of MCT there was a minimum asset test which applied only to the -- despite it name, applied only to the liability side of the balance sheet.

The factors that were in use for the minimum asset test for claim liabilities were -- there was a single factor for all claim liabilities. It was felt that that was inappropriate, that there were some lines of business with little risk and some with more.

These particular factors of 5, 10 and 15 percent were chosen so that in aggregate they produced about the same result that the previous test did. That -- once that was done the determination was made to apply a factor to unearned premiums. It was felt that unearned premiums are no nearly as volatile and the single margin roughly equal to the average of the three (3) claim margins would be used.

Now -- that's roughly the genesis of those numbers.

MR. RAYMOND OAKES: Okay. You've given me the historical basis for that determination. Would you agree with me that that, again, was a calculation based on judgment?

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: Some questions about the PFAD, the provision for adverse deviation. When the

MCT is calculated is the amount used for claims liabilities inclusive of the PFAD?

MR. JAMES CHRISTIE: It is.

MR. RAYMOND OAKES: And so for the MCT, and in the present Corporation's case, that would include the 22 percent PFAD of 211,710,000 and I'm drawing that number from an Interrogatory that's before this Board as CMMG/MPI-2-11.

I realize you may not be conversant with that, but is that something that could be confirmed by you or --

MR. JAMES CHRISTIE: I have a copy of the response. I would have to go back and confirm those numbers, I don't -- I can't do that off the top of my head.

MR. RAYMOND OAKES: I understand that sir and CMMG 2-10 restates the PFAD of the 211,710,000.

MR. JAMES CHRISTIE: 2-10.

(BRIEF PAUSE)

MR. JAMES CHRISTIE: Again, I don't have those numbers in front of me.

MR. RAYMOND OAKES: Can you tell us what the components of the PFAD are?

MR. JAMES CHRISTIE: Yes, there are broadly speaking -- well there are three (3) dimensions to the PFAD. The first one (1) being a margin for claims development, uncertainty in the estimates of the margins. That can range from a low of 2 1/2 percent to a maximum of 15 percent, would vary by line of business.

The second dimension is a margin on the discount rate used. That margin can be from fifty (50) to two hundred (200) basis points.

And the third margin would be for re-insurance in the particular case of MPI, no margin for re-insurance is applied as such because there is a specific provision for re-insurance, but -- yeah.

MR. RAYMOND OAKES: So the three (3) components then would be; claims, interest rate and re-insurance, is that correct?

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: And would you be in a position as a result of your study of the Corporation's PFAD to break that out for us at all, tell us how much is related to claims, how much is the interest portion, how much is the re-insurance portion?

MR. KEVIN MCCULLOCH: Well, Mr. Oakes, I think he just told you that the re-insurance portion for MPI was nothing. So you can ask him about the other two

(2) components, if he's aware of them.

MR. JAMES CHRISTIE: I am aware of them. It is my responsibility to set those PFADs as part of being the appointed actuary for the organization. As to the precise numeric amounts of them, I'd have to go back and check the reports.

MR. RAYMOND OAKES: Would you be in a position that you could ballpark, much as you did for Mr. Saranchuk earlier today?

MR. KEVIN MCCULLOCH: I'm advised that they're in evidence, Mr. Oakes, at AI-10. If you want to check those and put them to Mr. Christie, it's fair game.

CONTINUED BY MR. RAYMOND OAKES:

MR. RAYMOND OAKES: I'll just ask some general questions. What is the purpose of the re-insurance PFAD? I recognize that you've indicated it's zero (0), but --

MR. JAMES CHRISTIE: The purpose of the re-insurance PFAD is that the primary company, in this case, MPI has an obligation to pay the claims irrespective of whether the re-insurers honour their obligation.

One (1) of the -- within the Canadian Institute of Actuary Standards of Practice is the requirement to look at the re-insurance and assess whether the use of re-insurance has increased or decreased risk.

If it has increased risk, you're required to put a provision for average deviation on. In some cases it, in fact, doesn't decre -- increase risk because the re-insurer may be more financially sturdy than the primary company.

So that is the one (1) margin where the minimal margin is allowed to be zero (0).

MR. RAYMOND OAKES: I understand. Would you agree with me then, based on what you just talked about and evaluating the re-insurers financial strength and the like; that when the margins are selected for the various PFADs that they're based on judgment?

MR. JAMES CHRISTIE: They are based on judgment within the standards of practice of the Canadian Institute of Actuaries. These -- those standards describe high margin situations and indicate what the maximum amount is. They describe low margin situations and describe what the minimum is. And it is up to the practising actuary to assess where that particular company for that particular line of business falls within the range of low to high margin.

MR. RAYMOND OAKES: Thank you for that,

sir. Just a couple of questions about the MCT in general. Does the SAAQ use the MCT?

MR. JAMES CHRISTIE: I do not know. I do not believe so. I'm not even sure the SAAQ follows P&C accounting practice or actuarial practice.

MR. RAYMOND OAKES: Are you aware of whether they hold rate stabilization reserves at all?

MR. JAMES CHRISTIE: I am not aware.

MR. RAYMOND OAKES: Moving --

MR. JAMES CHRISTIE: I am aware that they have -- they need a significant rate increase because they are significantly underfunded and it is now a political issue in Quebec.

MR. RAYMOND OAKES: Asking some questions about the balance sheet and the operating statements, in relatively simple terms is the balance sheet for MPI the result of the profit and loss or income statements since the start of the Corporation?

MR. JAMES CHRISTIE: I wouldn't characterize it as that. The balance sheet is -- is the cumulative result of -- of all the operations so far that are still unextinguished. So for instance there is an item on the balance sheet for unpaid claim liabilities. It is an estimate of all the future unpaid claims resulting from claims that have occurred up to the balance sheet date.

It's in some sense a cumulative result of all actions of the corporation.

MR. RAYMOND OAKES: I appreciate that answer, sir, and again I'm asking in relatively simple general terms, are changes in the balance sheet usually the direct result of changes in profit and loss?

MR. JAMES CHRISTIE: No, the contrary. Changes in the balance sheet drive profit and loss.

MR. RAYMOND OAKES: Okay. But given the previous comments about the cumulative basis, are changes not usually the reflection that there have been changes in the profit and loss?

MR. JAMES CHRISTIE: No, the profit and loss is determined as the final -- what's left over after everything else. Where you start with is what is an estimate of the unpaid claim liabilities or an estimate of the value of the assets, those are added up.

Changes in those estimates from the previous year get reflected in the income statement of the company.

MR. RAYMOND OAKES: I'm aware of that, sir, I was asking more the effect as a result of the cumulative effect of the garnering of either profit or loss over the year, but I'll move on.

If MPI had losses on its investment portfolio this would flow from the profit and loss statement usually through to the balance sheet?

MR. JAMES CHRISTIE: If MPI has losses on its investment portfolio, those would be reflected in the balance sheet. The change in the value of the assets would be reflected in the income statement or profit and loss statement; they would happen simultaneously.

MR. RAYMOND OAKES: And if a medical breakthrough occurred that reduced, say, the impact of spinal cord injuries and related claims incurred, that would flow from the profit and loss statement ultimately up to the balance sheet?

MR. JAMES CHRISTIE: I'm not sure I would characterize it that way. If a medical breakthrough occurred, if it was able to be applied to all existing claims, if it -- if it was something that could be applied irrespective of how ancient the injury was, that would reduce claims estimates because you would presumably have to pay less, although in may cases medical breakthroughs actually increase costs rather than decrease costs because you find a better treatment but it's a more -- it's a more expensive treatment.

It's been my experience that medical breakthroughs actually cost more for an insurance company, not less.

But in any event, given that medical change, a discovery was made that reduced the future costs, those would be reflected in a reduction to the balance sheet which in turn would be shown in the current operating statement.

MR. RAYMOND OAKES: Thank you for that, sir. I have some questions on the DCAT. When the DCAT analysis was prepared was it based on a common modelling tool that all actuaries use?

MR. JAMES CHRISTIE: It was based on a common approach that all actuary -- or all Canadian actuaries use. The particular model is the one that was developed and used internally by my company. Other company -- other consulting actuaries or actuaries at insurance companies have similar but not identical models.

MR. RAYMOND OAKES: So Ernst & Young have their own tool for DCAT analysis?

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: And the results of that DCAT analysis using Ernst & Young's tool, would it be different than one developed using, say, Ekler's (phonetic) model?

MR. JAMES CHRISTIE: I wouldn't think it

would be significantly different. The biggest driver would not be the model itself but the assumptions going into the model.

MR. RAYMOND OAKES: But the results could be different based on the same assumptions?

MR. JAMES CHRISTIE: It shouldn't be very -- it shouldn't be materially different using the same assumptions.

MR. RAYMOND OAKES: So it would be a question of degree, is what you're saying?

MR. JAMES CHRISTIE: I would think they would be fairly close if the same assumptions were being used.

MR. RAYMOND OAKES: Thinking about the risk analysis, would the results be identical or duplicable by two (2) different analysts who had the same data?

MR. JAMES CHRISTIE: My understanding of the risk analysis is it is, here is a particular formula, apply it to the data and, therefore, barring errors, I would expect everyone who uses this particular model on the same set of data should get the same answer.

MR. RAYMOND OAKES: And you would have taken courses based on research methods as a part of your actuarial training; is that correct, sir?

MR. JAMES CHRISTIE: I am familiar with research models, not necessarily by having taken courses. Some of the training of actuaries is through self-study that is ultimately tested but not necessarily through a course -- a formal course.

MR. RAYMOND OAKES: As a result of that study, sir, would you agree that duplicability of the results by different researchers is an important part of scientific evaluation?

MR. JAMES CHRISTIE: It is a standard scientific approach. When you have a research paper you're supposed to be able to publish your data and -- or the process of getting the data and have others duplicate it. Yes.

MR. RAYMOND OAKES: Thank you. I have some questions regarding the IBNR. And when calculating the IBNR is the process basically taking the costs related to a particular policy year to date for a particular coverage and forecasting the costs to when the last claim on those policies is closed?

MR. JAMES CHRISTIE: It is a -- close. It would typically be done by accident year rather than policy year, and there's a subtle difference in the definition. It also might very well be done for an aggregation of accident years at the same time rather than doing it for a single accident year and then doing it again for another accident year.

MR. RAYMOND OAKES: Okay. So subject to that clarification if we look at an example, basic weekly indemnity claims for policies issued in 2005/'06 are forecasted until the last weekly indemnity claim on those policies would be closed?

MR. JAMES CHRISTIE: It would depend on the time that that forecast was done because that particular acc -- policy would have -- cover claims that haven't yet happened at the time the first analysis is done, because some of those policies would not have expired.

We typically use an accident year approach which looks at all the accidents that occur in a particular twelve (12) month period rather than all the accidents that occur on policies issued in that twelve (12) month period.

MR. RAYMOND OAKES: And how far would they go out? For a weekly indemnity how many years might that involve?

MR. JAMES CHRISTIE: It's speculation at this point because we haven't reached the end. It could easily be forty (40) years.

MR. RAYMOND OAKES: And how about

personal care expenses, would that be about the same duration?

MR. JAMES CHRISTIE: Roughly the same duration.

MR. RAYMOND OAKES: And roughly about what share of the total IBNR would those two (2) coverages represent?

MR. JAMES CHRISTIE: They would represent a major portion of the IBNR.

MR. RAYMOND OAKES: Half?

MR. JAMES CHRISTIE: I haven't got the figures in front of me but I would expect at least that.

MR. RAYMOND OAKES: When you prepare these analyses, do you restate prior year's losses to current levels?

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: And do you adjust prior year's losses to account for changes in re-insurance terms and conditions?

MR. JAMES CHRISTIE: It depends. In some cases we're doing gross analysis so there's no need to -- gross being before the application of reinsurance, so there's no need to restate.

In other cases it may simply be looking at the impact of -- of the re-insurance. In the case of

MPI, most significant amount of re-insurance relates to catastrophe insurance and we simply remove the catastrophe claim -- or the claims under the catastrophe from the analysis and treat those as a separate set of data to be analysed.

For the accident benefits coverage, we look at the re-insurance changes but, we don't -- in fact, in recent years we have not made an explicit allowance for changes in the re-insurance.

MR. RAYMOND OAKES: Based on all those examples of evaluations and estimates, would you agree with me that in preparing the IBNR that judgment's involved?

MR. JAMES CHRISTIE: Absolutely.

MR. RAYMOND OAKES: And with respect to that judgment, would your judgment be necessarily exactly the same as another actuary's?

MR. JAMES CHRISTIE: No, I would be very surprised if it was identical.

MR. RAYMOND OAKES: When you're performing an IBNR analysis when selecting, say, loss development factors, is judgment used in that?

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: And would this be on top of the other judgments used relating to judgment of risk margins in calculating PFAD?

MR. JAMES CHRISTIE: Not directly. The assessments about loss development factors would be used to estimate the expected ultimate costs. The present value of those would have a PFAD added to it. So only indirectly would loss development factors be reflected in PFADs.

MR. RAYMOND OAKES: How about the use of judgment in risk margins?

MR. JAMES CHRISTIE: I presume by risk margins, you mean provisions for average deviation and there is certainly judgment in those because as I alluded to earlier, the standards of practice describe high and most margins and you as the actuary have to assess where the Corporation is for that particular coverage, relative -- in that spectrum from the low margin to high margin.

MR. RAYMOND OAKES: You'd indicated in your previous testimony, I believe, that you've been MPI's external actuary for ten (10) years, is that correct sir?

MR. JAMES CHRISTIE: That is correct.

MR. RAYMOND OAKES: So that would take us to 1996, in which year there was a major hail event in Winnipeg. Were you MPI's actuary at that time, sir?

MR. JAMES CHRISTIE: I believe so.

MR. RAYMOND OAKES: And would you know whether that was accommodated in your IBNR analysis?

MR. JAMES CHRISTIE: It was -- that was actually a relatively minor issue, although it was a big number, it was a relatively minor issue in terms of estimating because the analysis was done as of February 28th, unless it was leap year, and the claim had happened in, I'm guessing, August -- June was it? It was in June.

So by that point in time, a significant amount of the claims had already been finalized and while not all had been finalized most had been reported at least. And it was, the issue with hail claims is that there -- there -- for the individual concerned, there's bumps and bashes on the car, but it's not a significant issue in terms of estimating what it's going to cost to fix that claim.

MR. RAYMOND OAKES: If you page past in the materials where there was CMMG-2-11 dealing with the PFAD; the next document is a -- it's actually a CAC/MSOS Interrogatory 1-48, filed as part of the 2002 GRA.

Do you have that, sir?

MR. JAMES CHRISTIE: It's in this binder, yes.

MR. RAYMOND OAKES: And the report is -- shows it's prepared by Kenneth Quintilian and R. Jason

Cook. Are they both actuaries, sir, to your knowledge?

MR. JAMES CHRISTIE: I know Ken Quintilian is, Jason Cook at the time that this was done, has appended the initials ACAS, which indicates that he is partway through the qualification process, but not completely.

MR. RAYMOND OAKES: Okay. And I understood the Mr. Cook actually worked for MPI for a period of time; are you aware of that, sir?

MR. JAMES CHRISTIE: No, I'm not aware of it.

MR. RAYMOND OAKES: And you don't know whether he currently became a fellow?

MR. JAMES CHRISTIE: I do not.

MR. RAYMOND OAKES: I understand that Mr. Quintilian and Mr. Cook in this report used ten (10) years of data as one (1) option in repairing and preparing the report and that's at the bottom where it says June the 7th.

MR. JAMES CHRISTIE: That's what the letter says. I have no way of knowing whether they did or they didn't.

(BRIEF PAUSE)

MR. RAYMOND OAKES: Okay. So if they used ten (10) years of data that would have -- I'm sorry, you can disregard that.

Is there any prohibition that you're aware of for this Board or MPI to use additional data over and above what's being used in the current risk analysis?

MR. JAMES CHRISTIE: I'm not aware of any prohibition. I understand the -- the risk analysis is something that has evolved over the years. I believe it started off by saying we're going to deal with PIPP data because the system has changed so much that it doesn't make a lot of sense to go back before that, but that's anecdotal. I'm not absolutely positive of that statement.

MR. RAYMOND OAKES: In your opinion would MPI have staff members who were sufficiently skilled to have prepared a risk analysis using a longer time period, say twenty (20) years?

MR. JAMES CHRISTIE: There is nothing that would prohib -- make it impossible to do that. The -- the issue is that whenever you go back over regime change you have to make significant assumptions about how the experience prior to the regime change would be reflected in -- in the current environment.

MR. RAYMOND OAKES: Okay. Moving to a

different area, in the course of this I've been very favoured to have read financial statements of an insurance company and if we look at ICBC they talk about the term:

> "excess deficiency related to claims in prior years and estimated unpaid claims".

Are those terms that are used in the actuarial community that you could explain?

MR. JAMES CHRISTIE: I can. I'm just trying to find the reference in this particular report so I can refer directly to it.

Is it the last page of the report, of the...?

MR. RAYMOND OAKES: I believe that it is.

MR. JAMES CHRISTIE: Okay. Okay. Some companies present their results in their financial statements as current year claims and changes in estimates of prior year claims; this appears to be the case for ICBC.

In the particular page in front of me that's showing the 2005 year they are showing $1.6 billion of claims coming out of the current year and a $126 million charge to the current year for re-evaluation of prior year estimates.

MR. RAYMOND OAKES: Recognizing that I'm somewhat of a layman looking at the -- the financial statements of an insurance company, would you agree that an excess means that there's too much IBNR and it's being released whereas a deficiency means that it's being increased; is that a fair way to describe it?

MR. JAMES CHRISTIE: I this particular instance the $126 million is that there was insufficient provision put out the year before and it is being charged this year as they increase the provision.

MR. RAYMOND OAKES: So they would increase the IBNR because of a deficiency, essentially?

MR. JAMES CHRISTIE: They would be saying that with the passage of a year they're -- they're now estimate of the costs of all prior years is $126 million higher than it was when they did the estimate last year; that change in estimate flows through this year's income statement.

MR. RAYMOND OAKES: So those excesses and deficiencies affect the profit and loss statement?

MR. JAMES CHRISTIE: Yes. Any change in the estimate of prior years, according to accounting convention, is determined to be a change in estimate. Changes in estimate flow through the current income statement.

MR. RAYMOND OAKES: And so specifically an excess would have the effect of increasing net income?

MR. JAMES CHRISTIE: If -- what do you mean by "excess"?

MR. RAYMOND OAKES: Well, we -- just in the context we talked about. The excess meaning there's too much IBNR.

MR. JAMES CHRISTIE: Well, in this particular case it appears there was insufficient IBNR and that is -- therefore, a charge to -- when it's increased it's a charge to this year's income. If the reverse were to be the case, then the release of IBNR would show up as a credit to this year's income.

MR. RAYMOND OAKES: I realize the example talked about a deficiency, but would you agree with me that an excess has the effect of increasing net income and a deficiency would have the effect of decreasing net income?

MR. JAMES CHRISTIE: No, the exact opposite.

MR. RAYMOND OAKES: I accept that correction then. In Saskatchewan is the basic program called the Auto Fund?

MR. JAMES CHRISTIE: Yes, it is. I'm not sure that's the official term but that's certainly the colloquial description of it. I think it's actually called the Saskatchewan Automobile Fund.

MR. RAYMOND OAKES: And I understand that you were the consulting actuary for SGI who signed off on those Auto Fund annual reports for 2001 and prior years?

MR. JAMES CHRISTIE: I signed off on them for a five (5) year period, I believe, ending in 2001.

MR. RAYMOND OAKES: So, the SGI annual report since 2000, and we have -- or since 1999, we have the 2000 as the second inclusion in the CMMG materials, if we observe the annual report, my observation was that there's a pattern of excess and deficiencies similar to what we talked about but they are titled Deficiencies and Excesses Unpaid Claims Auto Fund?

MR. JAMES CHRISTIE: Where are you picking this up? This is -- are you talking about this typewritten page? I'm not sure where that title came from.

MR. RAYMOND OAKES: Looking at the last report in that, the annual report 2000 SGI.

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: If you look at the table that's at the first -- it's the third page in on that, it talks about -- the third one down is "deficiency relating to prior year's estimated unpaid claims"?

MR. JAMES CHRISTIE: Yes. I see it.

MR. RAYMOND OAKES: And in 1999 they show a deficiency of 2,285,000; that would have meant that income decreased compared to the situation where there was no deficiency; would that stand to reason?

(BRIEF PAUSE)

MR. JAMES CHRISTIE: This would indicate that in 2000, when the 1999 and prior years were revalued, there was a shortfall in the initial estimate -- or the estimate made in 1999 of $2.2 million. And that would -- and that would have flown into income over a number of years.

MR. RAYMOND OAKES: And would you --

MR. JAMES CHRISTIE: I'm just making sure what this -- that was -- that would have been the change in one (1) year, sorry, $2.2 million.

MR. RAYMOND OAKES: Right. And you said it flowed to the income statement. That would have meant that income decreased compared to the situation where there was no deficiency?

MR. JAMES CHRISTIE: That particular circumstance would have meant that the 2000 financial statements showed $2.2 million less bottom line income than if the original estimate had held true.

(BRIEF PAUSE)

MR. RAYMOND OAKES: And then if I could refer you to the SGI 2004 Annual Report and, again, it's called Auto Fund on -- but it's 2005, I'm sorry -- it's just after the MPI documents.

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: And if we go one (1), two (2), three (3) -- I'll go one (1), two (2), three (3), four (4), to the fifth page there and they talk about, down at the bottom, relating to prior years estimated unpaid claims and it's showing, I believe that would be in excess of that 64,074,000, is that correct?

MR. JAMES CHRISTIE: Yes, it is.

MR. RAYMOND OAKES: So the excess would have meant the net income was $64,047,000 higher than if there had been no excess?

MR. JAMES CHRISTIE: 2004 income was $64 million higher as a result of their re-evaluation.

MR. RAYMOND OAKES: We've just looked at some deficiencies of some 2.28 million in '99 and now we're looking at an excess of some 64 million.

What would you say would explain that

pattern of excesses from 2001 to 2004?

MR. JAMES CHRISTIE: Without -- I can only speculate without having reviewed the reports. But, my initial reaction would be that there was an undue amount of conservatism in those estimates from 2001 through 2004; or at least through 2002 through 2004.

MR. RAYMOND OAKES: Or I guess it could have been changes in claim payment patterns during that period?

MR. JAMES CHRISTIE: Yeah, it is certainly possible that the results that actually materialized were not in line with what had been expected from prior estimates.

MR. RAYMOND OAKES: And would the application of payment patterns in determining deficiencies in excess, would that role be as a result of some actuarial judgment?

MR. JAMES CHRISTIE: I'm sorry, would what be a result of actuarial judgment?

MR. RAYMOND OAKES: Would the application of the payment patterns determining those deficiencies and excesses, to the extent that they did, would that be, in part, the result of actuarial judgment?

MR. JAMES CHRISTIE: Certainly that would be part of the determination here.

MR. RAYMOND OAKES: And I note that you -- the last year you signed off was 2001, is that correct?

MR. JAMES CHRISTIE: 2000.

MR. RAYMOND OAKES: 2000. So could it be the factor that the actuaries changed, that would be one (1) factor because different actuaries will have different judgments?

MR. JAMES CHRISTIE: It's certainly possible. Another significant driver was that in around that time frame 2001, a new regulatory -- or not reg -- compensation system was being introduced in Saskatchewan, bringing in something akin to PIPP.

MR. RAYMOND OAKES: Thank you for that. Mr. Chairman, I've probably have got fifteen (15) minutes on a topic, but I will leave it to your discretion whether you want me back here bright and early at 9:00.

MR. KEVIN MCCULLOCH: I don't believe Mr. Christie will be back here bright and early tomorrow at 9:00. He was planning on returning this evening.

THE CHAIRPERSON: I imagine, Mr. Oakes, it would be best if you continued on but, before we go there we might as well check.

Mr. Roberts, I don't see him here. Mr. Dawson, do you have anything for Mr. Christie?

MR. ROBERT DAWSON: I literally would

take five (5) minutes and I can indicate that Mr. Roberts had left earlier expecting that perhaps he would have questions if the chance arose, but I don't think he'd be upset if we walked away.

So, I'm not at all trying to influence how the witness deals with this. But, I think Mr. Roberts said that if the witness were still here tomorrow, he would ask questions. But he knew leaving that he may miss that change.

THE CHAIRPERSON: Is Ms. Riley here?

MS. PAMELA REILLY: Yes, Mr. Chairman, I have no questions of this witness.

THE CHAIRPERSON: Okay. Mr. Mager or sorry --

MS. JEANIE DALMAN: No, it's Ms. Dalman and no CA does not have any questions. Thank you, Mr. Chairman.

THE CHAIRPERSON: I don't see Mr. Sousa. Professor Miller is not here, but his focus was on environmental matters. I propose to carry on.

MR. RAYMOND OAKES: Certainly, Mr. Chairman. Some questions dealing with --

THE CHAIRPERSON: Perhaps given that, I'm just going back here again. Mr. Dawson, you say you have a little bit?

MR. ROBERT DAWSON: I have at most five (5) minutes and I'm not underestimating it, at most five (5) minutes.

THE CHAIRPERSON: Okay. Then just carry on then.

MR. RAYMOND OAKES: Thank you, Mr. Chairman.

THE CHAIRPERSON: But I'm just recalling, too, when we're finished that Mr. McCulloch's going to have possible some follow-up points.

MR. KEVIN MCCULLOCH: Nothing that's so far caused me to need any re-direct.

THE CHAIRPERSON: Okay. Well, let's just take ten (10) minutes, we'll come back and we'll finish it up properly. Thank you.

--- Upon recessing at 4:06 p.m.

--- Upon resuming at 4:20 p.m.

THE CHAIRPERSON: Okay, Mr. Oakes...?

MR. RAYMOND OAKES: Thank you, Mr. Chairman. We can see the barn in the distance so -- and the horse is headed there.

CONTINUED BY MR. RAYMOND OAKES:

MR. RAYMOND OAKES: Following up on some questions that the Chair had asked about the differences between Manitoba and SGI and I appreciate your testimony, Mr. Christie, it indicated that you were a consulting actuary for SGI at a particular period in time.

Can you tell me, were -- were the rates by class for the Basic plan established on an actuarially sound and statistically-driven basis in SGI?

MR. JAMES CHRISTIE: I had no involvement with the pricing of product at SGI.

MR. RAYMOND OAKES: Okay. But from your knowledge of the Corporation in coming up with -- and I appreciate not the pricing but the actuarial basis for the calculation of rates, would that have been based on an actuarially sound and statistically-driven basis?

MR. JAMES CHRISTIE: I -- I have no idea how their prices were set. That was not part of my mandate and because we weren't doing DCATs at that point in time I had no reason to dig into what -- whether their pricing was adequate or inadequate.

MR. RAYMOND OAKES: And since then have you informed yourself whether that's the basis for SGI?

MR. JAMES CHRISTIE: I have had very limited dealings with SGI since 2000. I've done a few consulting projects for them but I don't have any knowledge of their day-to-day operations.

MR. RAYMOND OAKES: Perhaps -- I don't know whether you can answer these then. Does SGI have a number of other divisions or companies in addition to the auto fund, for example SGI Canada, Coachman Insurance Company of Prince Edward Island?

MR. JAMES CHRISTIE: To my knowledge they have SGI Canada which sells general insurance and supplemental auto insurance basically in the province of Saskatchewan. I understand that through a subsidiary company, SKZL (phonetic) I believe the initials are which sells homeowners insurance in Manitoba and through SGI Canada it owns two (2) other insurance companies; Coachman it operates broadly speaking in Ontario and ICPEI which operates in Prince Edward Island and New Brunswick.

MR. RAYMOND OAKES: So then SGI operates in other provinces with offices selling insurance in those other provinces?

MR. JAMES CHRISTIE: They sell insurance in those provinces. I'm not sure whether they have offices in them. I believe they have a claims centre in -- in at least two (2) of those provinces but whether there's anything beyond that I'm not sure.

MR. RAYMOND OAKES: And they would

compete with private insurance companies in those other provinces?

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: And so for those firms they would need to assure solvency based on the MCT in those other provinces?

MR. JAMES CHRISTIE: Certainly ICPEI and Coachman have to satisfy capital requirements imposed by the provincial or federal regulators.

MR. RAYMOND OAKES: And MPI doesn't have offices in other provinces that sell insurance?

MR. JAMES CHRISTIE: No.

MR. RAYMOND OAKES: And do you now whether SGI has applied to the regulator for Basic Auto Fund for approval of the MCT test as it relates to rates?

MR. JAMES CHRISTIE: I don't know why they would. The MCT test isn't a test or a measure to be used for pricing product, it's designed to measure the capital of a company.

MR. RAYMOND OAKES: And the MCT in BC was implemented for use by IBC through order in council, wasn't it?

MR. JAMES CHRISTIE: I don't know how -- why it was implemented.

MR. RAYMOND OAKES: Similarly, you're not aware whether it was reviewed in any public forum?

MR. JAMES CHRISTIE: I'm not aware.

MR. RAYMOND OAKES: Are you aware whether the only compulsory products in BC are third party liability and accident benefits coverage?

MR. JAMES CHRISTIE: That is correct. The only compulsory auto insurance coverages are third party liability and accident benefits.

MR. RAYMOND OAKES: And so the coverage for collision and comprehensive would be optional in BC?

MR. JAMES CHRISTIE: Yes, it would. And my understanding of ICBC is that they have, somehow or other, bifurcated their operations so they have the mandatory coverages under one (1) half and the optional coverages under another half.

MR. RAYMOND OAKES: And are you aware whether they have many competitors in ICBC for that coverage?

MR. JAMES CHRISTIE: There are at least several competitors for their -- the optional coverages. My understanding is that ICBC has roughly 85 percent of the market but there are five (5) to ten (10) strong competitors for the other 15 percent.

MR. RAYMOND OAKES: What is your knowledge in terms of Manitoba and the share of premiums written for Autopac extension and SRE?

MR. JAMES CHRISTIE: I'm not sure of the precise percentages. But I would assume it's well north of 90 percent.

MR. RAYMOND OAKES: That MPI has more than 90 percent?

MR. JAMES CHRISTIE: Yes.

MR. RAYMOND OAKES: Just a few questions about your community, the actuarial community. How many fellows of the Casualty Actuary Society would there be in Canada?

MR. JAMES CHRISTIE: In Canada roughly a hundred and seventy-five (175).

MR. RAYMOND OAKES: And how many of those work for private insurance companies?

MR. JAMES CHRISTIE: Roughly two-thirds.

MR. RAYMOND OAKES: And the rest, the other third, would be mainly consultants?

MR. JAMES CHRISTIE: Mainly consultants, there are a few that work for regulators. A few that work in non-traditional -- at least, non-traditional actuarial roles, CFOs, CEOs, work in investment banks or somewhere like that.

MR. RAYMOND OAKES: And how many consulting firms would there be?

MR. JAMES CHRISTIE: Probably ten (10).

MR. RAYMOND OAKES: I thank you, Mr. Chairman. Those are all the questions I have of this witness.

THE CHAIRPERSON: Thank you, Mr. Oakes.

Mr. Dawson...?

MR. ROBERT DAWSON: Thank you, Mr. Chairman. I feel like the keen school student on the day before classes are about to be let out for the summer. I fear that people will either key my car or steal my lunch money.

CROSS-EXAMINATION BY MR. ROBERT DAWSON:

MR. ROBERT DAWSON: Mr. Christie, just one (1) topic that I want to cover off and it deals with your reference to inter-generational inequality. And let me understand to make sure that I understand what that means.

You -- when you said that, it refers to a clear benefit to current policyholders that will be borne by future policyholders; is that what you meant by inter-generational inequity?

MR. JAMES CHRISTIE: Yes. It is.

MR. ROBERT DAWSON: And an example of that definition would be if, for example, we were to ignore RSR requirements today, that may trigger the requirement that future policyholders will have to pay that price later on?

MR. JAMES CHRISTIE: Yes.

MR. ROBERT DAWSON: And it's your view that that's a bad thing; is that right?

MR. JAMES CHRISTIE: It's my view that that is a transfer of -- of cost from one generation to another. I'm not particularly comfortable with inter-generational inequities but they certainly exist in some forms. For instance, the Canada Pension plan clearly had a real benefit for the early pensioners; they got a full pension with almost no funding. Whether that was right, wrong or indifferent, that's a decision for the politicians to make.

MR. ROBERT DAWSON: Putting aside the political issue of CPP and concentrating upon the RSR at MPI, and I believe that holds the record for the most abbreviations in one (1) sentence today, I wonder, Mr. Christie, whether it would be perhaps more accurate to say that you would advise against that practice?

MR. JAMES CHRISTIE: I would, indeed, advise against that practice.

MR. ROBERT DAWSON: Does inter-generational inequality or inequity run both ways?

MR. JAMES CHRISTIE: Absolutely. If too much is -- if, for instance, there was no RSR and next year's policyholders were charged with a surcharge to create the RSR and then it sat at some level for the benefit of future policyholders; that would be inter-generational in equity in the opposite direction.

MR. ROBERT DAWSON: And that too would also be inadvisable in your view?

MR. JAMES CHRISTIE: Yes, it would.

MR. ROBERT DAWSON: Would you agree with me that MPI's plan to institute an immobilizer fund and to -- at the cost of current policyholders, is intended to benefit future policyholders?

MR. JAMES CHRISTIE: Yes, I think I would. I hadn't thought about it before, but yes.

MR. ROBERT DAWSON: I have no further questions. Thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Dawson. Mr. Christie, just before you go and we lose your knowledge base, just a very general question.

The actuarial association also has standards of practice for other fields, as well, for example, Worker's Compensation, do you not?

MR. JAMES CHRISTIE: Yes, there are standards of practice for Worker's Compensation. It's not actually called that. It's called some generic terms that allows SAAQ to fall within it as well. But --

THE CHAIRPERSON: There's consistency between the two (2) fields?

MR. JAMES CHRISTIE: Not as much as I personally would like. About a decade ago the Canadian Institute of Actuaries undertook an initiative to create a consolidated standards of practice and the intent was to bring all the standards to the same level.

The first stage of that was just getting them all in a single document. And there is still some movement to standardize the approaches from one (1) part of actuarial practice to another.

THE CHAIRPERSON: This would explain, I suppose, and I'm drawing on memory and undoubtedly there's been changes in time, but some time ago the general goal for WCB's were simply to become fully funded.

MR. JAMES CHRISTIE: Yes, but that isn't necessarily an actuarial function. I could tell you that you're underfunded and that may still -- still use the same standards of practice that I use for MPI.

The question then becomes, are you willing to accept under-funding or are you not? And that is really back to the purview of public policy, should under-funding be allowed, or not, and if it's not, how do you get out of under funding?

THE CHAIRPERSON: Well, I imagine the practicality at the time, I think Ontario was $11 billion under water, so I guess getting to even was as accomplishment.

But, I'll let it go. Mr. McCulloch, do you have any follow-up questions for your witness?

MR. KEVIN MCCULLOCH: No, Mr. Chairman, I don't.

THE CHAIRPERSON: Is there anyone I've missed? I don't think I have. Therefore, thank you again Mr. Christie, we appreciate your attendance.

MR. JAMES CHRISTIE: My pleasure.

(WITNESS STANDS DOWN)

THE CHAIRPERSON: And we'll see everyone else tomorrow. And before everyone goes, just to give everyone an idea of time because we've been talking to each other.

We start -- first of all, we start at 9:00 tomorrow, which will give us a bit more time. Right now, we're thinking that we could possibly be through, not to rush anyone, but we could be done other than closing argument by Friday at noon.

And then what we were thinking of was closing argument possibly for next Tuesday to give people a bit of time to reflect on what's been said and probably the transcripts are out.

But, we'll leave it at that, and we'll open it up for -- if there's any comments or discussions on that, you can discuss it with Mr. Saranchuk.

Mr. Saranchuk, can you think of anything else?

MR. WALTER SARANCHUK: Not at this juncture, sir. I think that it can be said, however, that we expect that CAC/MSOS's expert witnesses will be first on board tomorrow morning for direct examination by CAC/MSOS counsel.

And then cross-examination by MPI counsel. And everyone else according to the list, with PUB counsel to follow lastly.

And thereafter once we have had the testimony of the two (2) CAC/MSOS experts, there will be an opportunity for Mr. Dawson to complete his cross-examination and then I'm not sure whether it will be a question of Mr. Williams on behalf of CAC/MSOS proceeding with his cross-examination to completion of his cross-examination of the MPI Panel and also any questions by his colleague Ms. Bowman.

But, there's also a question of accommodating Ms. Riley on behalf of the Chiropractor's Association and if she, as I understand it, is not to be exceeding an hour, half an hour for her cross-examination then she might follow Mr. Dawson, but that depends on what Mr. Williams might have to say. But that's generally the way we're looking at proceeding tomorrow.

THE CHAIRPERSON: Very good. I just asked Mr. Singh and Mr. Gaudreau. I think the only one we'd be concerned about losing track of the order of things would be Mr. Sousa and Professor Miller. If there's a way of sending them and e-mail and letting them know the prospects. Other than that we stand adjourned. Thank you.

--- Upon adjourning at 4:32 p.m.

Certified Correct

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Wendy Warnock