MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE
2006 INSURANCE RATES

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
October 5th, 2005

Pages 442 to 595

APPEARANCES

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Kevin McCulloch		)Manitoba Public Insurance
Raymond Oakes		)CMMG
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LIST OF UNDERTAKINGS

--- Upon commencing at 9:25 a.m.

THE CHAIRPERSON: Good morning, everyone. I guess it's true, if you wait long enough everything happens.

Ms. Everard...?

MS. CANDACE EVERARD: Thank you, Mr. Chairman, I think --

THE CHAIRPERSON: Excuse me, I think Mr. McCulloch has some exhibits to enter.

MR. KEVIN MCCULLOCH: Yes, thank you, Mr. Chairman. I have answers to five (5) undertakings, I believe copies have been circulated. So, I would like to first of all have the Response to Undertaking Number 1, filed as MPI-Exhibit Number 12.

THE CHAIRPERSON: Yes.

--- EXHIBIT NO. MPI-12: Response to Undertaking Number 5.

MR. KEVIN MCCULLOCH: Response to Undertaking Number 2, filed as MPI Exhibit Number 13.

THE CHAIRPERSON: Very good.

--- EXHIBIT NO. MPI-13: Response to Undertaking

Number 2.

MR. KEVIN MCCULLOCH: Response to Undertaking Number 3, filed as MPI Exhibit Number 14.

THE CHAIRPERSON: Yes.

--- EXHIBIT NO. MPI-14: Response to Undertaking Number 3.

MR. KEVIN MCCULLOCH: Response to Undertaking Number 6, filed as MPI Exhibit 15. And the Response to Undertaking Number 7, filed as MPI Exhibit Number 16.

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

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

MR. KEVIN MCCULLOCH: Mr. Galenzoski wishes to speak to a number of these Responses, and when he's done, Ms. McLaren would like also to speak to one (1) of the Undertaking Responses.

THE CHAIRPERSON: Very good, thank you.

Mr. Galenzoski...?

MARILYN MCLAREN, Resumed
DONALD PALMER, Resumed
WILF BEDARD, Resumed
BARRY GALENZOSKI, Resumed

MR. BARRY GALENZOSKI: Thank you. With respect to Undertaking Number 1, this provides the information with respect to the fees that are paid to the Department of Finance, and as at February 28th, 2005 the fees were nine hundred and seventy-two thousand dollars ($972,000), and that's calculated based on a fee -- basis points on the bond portfolio at 7.5 basis points and three (3) basis points on the Canadian and US Equity investments.

Now, we did a comparison last year to what the same fees would be from private sectors. And just to show you the -- to demonstrate this to you. If you -- if you take the total fees paid to the Department of Finance, and the total portfolio at the time, that works out to six point six (6.6) basis points.

And the equivalent fees from a private sector bond manager, and again looking at the total portfolio, so the equivalent type fees, so that we're comparing apples to apples, they'd be in the range of nine point two (9.2) to nine point five (9.5) basis points.

So, the difference in dollars that the Corporation is saving here is around three hundred and sixty-four ($364,000) to four hundred and thirteen thousand dollars ($413,000) annually by having the Department of Finance do the management.

THE CHAIRPERSON: It's very helpful, thank you.

MR. BARRY GALENZOSKI: Undertaking number 2 provides a report that we get with respect to -- it's a P&C investment monitor report by the Canadian Manager Search Group. They have between twenty-five (25) and thirty (30) property and casualty insurers that they monitor their investment portfolios and we're one of them. And this provides you some information.

And it indicates that on pages 2 to 16 you can get the fund return information, and on pages 17 to 37 there's information regarding asset allocation. And if I just might be able to take you through a couple of these, just to give you an example of what we're looking it.

For instance on -- when you get into the report on page 4 and the report is double sided so you have to -- I'm looking at the -- actually I want to look on page 3, not page 4. It's the total fund annualized relative rates of return and the little blue triangle is MPI and -- and the band shown is for the entire group that they're looking at.

And if you look at the one year numbers, for instance, you'll see that our return on our total portfolio was 12.7 percent and we were ranked number 25.

So, if there was thirty (30) -- thirty (30) groups or thirty-eight (38) companies in this analysis, that meant that we were in the top seven (7) of that group from the Corporation's point of view.

Similarly, when you look at the four (4) year numbers and that's again down the bottom, you'll see that our overall return was 8.2 percent and again we were ranked number 25, as we'd be the top seven (7) out of the thirty if there was that many in the group.

And there's similar information provided on -- on page 6; The Canadian Equity Annualized Relative Rates of Return. And near the bottom there, under the one (1) year numbers, you can see MPI's return was 20.9 percent for one (1) year and ten point four (10.4) over the four (4) years, that we were ranked number sixty-nine (69), for one year number sixty-two (62), so we're slightly below the medium on those.

If you look at -- no, okay, sorry, our ranking -- I gave the wrong ranking. Our ranking is number thirty-six (36) for both of those years, so we're actually better than the medium on both of those.

And when you look on page number 8, that's the total equity annualized relative rates of return, the one (1) year numbers.

And when you're looking at some of these graphs and you can't see the little blue triangle in there, or the star, that means it's buried underneath one of these others, so we're up in the upper categories there.

When we look at the total equity -- annualized for one (1) year, 18.7 percent return, our rank number 41 so we're -- we're above the medium on that one again. And for four (4) years, 6 percent return. That was influenced quite a bit by our US returns at that time and we were number 64, so slightly below the medium.

And then I'll just get you down into the asset allocation side. If you look at, for instance, on page 18 and again we're the little blue triangle in there or star, whatever you call that, and MPI's ranking, look at 2005.

We got sixty-four (64) -- almost 65 percent of our portfolio into the bonds; we're ranked number 45 so that means we're at about the medium on -- for these companies that we're being compared to.

So, some of these companies have more bonds than we do, some would have less. And a lot of that is going to depend on the duration of their liabilities, obviously.

And there's similar information with respect to percent allocation of Canadian equities shown on page 21. I won't go through all of that.

And on page 22 there's a percent allocation to total equities and just how we -- how we rank above that. And when you look at that, we're actually -- on page 22, we're ranked number 35 so that means that we're slightly about the average. In other words, we're holding a little bit more than most of the other companies in the -- in the -- in this particular monitoring process.

THE CHAIRPERSON: Thank you, Mr. Galenzoski, that's also extremely helpful to receive this report. In the same interests of being helpful, just to clarify, the concern of the Board inferred by our previous remarks was related like to the -- the asset mix which this highlights, okay.

And, sort of, a subset of that was the potential differences between MPI's makeup of your liabilities and the average length or maturity thereof given the PIPP portfolio as compared to a typical P&C company which some could suggest would have a shorter maturity or potential maturity.

I don't know if that's helpful to you or not but this is very helpful. Thank you.

MR. BARRY GALENZOSKI: Good. Yeah, no, that would be -- we would recognize that also. I'd like to look at Undertaking number 6, just one moment.

MS. MARILYN MCLAREN: Further to that point, though, Mr. Chairman, this is a comparison of Canadian P&C insurers. And as most things in Canada, significantly driven by Ontario. Ontario has a threshold no-fault system. But it still is a no-fault system.

Their liabilities, the length of their liabilities would be very similar to ours for that reason. Quebec as well, their no-fault program is virtually identical to ours. And they were probably not in this mix of P&C insurers, but in terms of their situation, it's very similar to ours as well.

THE CHAIRPERSON: Appreciate that. Thank you.

MR. BARRY GALENZOSKI: If I could look at Undertaking Number 6. This provides a couple of statements.

The first one is on Schedule 1. Attached is -- is quite familiar. We just compared the 2005 numbers as they were reported in our annual report compared to how we would interpret the new accounting standards.

And that just shows that assets go up by $93 million and our retained earnings go up by 93 million and you'll see that's in an -- in an account called, "accumulated other comprehensive income", but it's in the retained earnings section of the balance sheet.

On the following page, page 2 of that schedule, there's two (2) new statements. There's a statement of comprehensive income; that's where you take the net income or loss from your income statement, you add the other comprehensive income, and because it's the entry year all of it goes in there, the $93 million.

And then you have a statement of accumulated other comprehensive income and that would then start showing the change year-over-year as to the -- as to the amount of unrealized gains that were put into that side of it.

I've also attached a PowerPoint presentation that we provided to our Board recently that just talks to this subject, where the changes occurred, when are they effective, when is it -- when is it effective for MPI and what are some of the -- what are some of the impacts of these guidelines going to have.

And, in particular, on -- starting on -- on page 5 we're talking about when to adopt the new guidelines. They're mandatory for us, we believe, from March 1, 2007. We're not recommending any early adoption of this because it just increases volatility to some degree.

Impact on RSR and retained earnings. There would be an immediate increase in retained earnings for all lines of business and we're recommending that the RSR and retained earning targets not include the accumulated other comprehensive income because the income is not physically realized. This is a non-cash item.

So there's nothing that you could do with that if, in fact, you did recognize it. For instance, if it was recognized as part of our overall RSR and we were over our target and the Board said, Well, rebate that, well, we wouldn't have the cash to rebate it. So, that would present a problem.

But this is really just preliminary discussion right now. I'm just providing this for information.

THE CHAIRPERSON: Mr. Galenzoski, just while you're doing that, is the -- how do you account for the, if you like, unrealized gains, if you want to call it that way, with respect to the MUSH sector?

Your clear intention is to hold it to maturity. I'm just wondering how does that play in?

MR. BARRY GALENZOSKI: Our interpretation is, is that it's -- it's -- there is no market value so therefore it is shown at book value in that calculation.

So the $93 million that we show there is what was shown in the note to the annual report and the note to the annual report wouldn't show any gain on that section of our investment portfolio.

THE CHAIRPERSON: Okay, that's fine. That addresses directly my point. So, you're not imputing some form of market value for the MUSH section, you're just accepting what it is, is, so to speak?

MR. BARRY GALENZOSKI: That's correct. And we've never sold any of our MUSH sector bonds that we're holding and so that, again, lends credibility to the treatment that we're expecting to see on that.

And when we look on -- on page number 6 at the top we see impact on rate setting. We're recommending that other comprehensive income not be included for rate setting purposes. Again for the same reason that income is not physically realized, this is a non-cash item.

And then there's going to be some impacts potentially on the provincial summary budget and reporting, that has to still be worked out, we're not really sure exactly how that's going to be handled. That may be even some changes to provincial guidelines with respect to a balanced budget, all that's still being thought about and worked on, as they get deeper into the summary reporting that they're going to be doing in the future.

And we're -- we're certainly advising Government as to what we see happening from our standpoint, and they're looking at it from their overall situation.

THE CHAIRPERSON: You're proposing then, I take it, that although this is not in effect right now, a form of regulated income in a sense, as opposed to balance sheet income?

MR. BARRY GALENZOSKI: You know, I view this -- this change in accounting as -- as really just an improvement on the note that was in the financial statements. You know, we were disclosing what our gains were on our investment portfolio. Now we're going to be required to actually put it onto the balance sheet and show it through some income forms.

THE CHAIRPERSON: Well, no, all I was

saying, just to be clear, is that for the purposes of determining rates, okay, you're assuming that through the regulation process that we would be using a different net income level than what your actual audited financial statements are going to show. Which is a process, by the way, that we're not unfamiliar with, for example, in the utilities, like Hydro and Centra Gas we get into these concepts, particularly in Centra of, you know, allowable assets and allowable costs and things of that nature.

MR. BARRY GALENZOSKI: Sure. Just to be clear, the income statement will not change from what it is today. In other words, the net income will be what it is, and this is going to flow into the retained earnings side, and -- and we would suggest as you're seeing, that it wouldn't be part of any income that you'd consider for rate setting purposes, or for setting the RSR.

But obviously there's going to be a lot more discussion about that as we go forward. This is our preliminary review of this thing right now, and we thought it would be helpful to provide this to the Board at this time.

THE CHAIRPERSON: Well, it's helpful when we're considering the RSR levels so, thank you very much.

You were very busy, Mr. Galenzoski. Very good.

MR. BARRY GALENZOSKI: Well actually I wasn't very busy, but the guys in behind me here were very busy.

MS. MARILYN MCLAREN: Brings us to Undertaking 7, I believe? Okay.

If we look at this change request, and focus on the total of the three (3) projects that are identified there, that is the $2.6 million that we talked about yesterday.

And maybe I can just bring everyone back to Tab 40, in the PUB Book of Documents.

So the $2.6 million on this change request is the same $2.6 million of capital that's shown there at the bottom of page 1, under Tab 40.

This is our capital budget for the entire business process review. But I think in general usage, the word budget probably infers a level of detail that does not exist in anything beyond the first year of this capital budget at this point.

We really started from the position of saying, what could this possibly cost us. And we had some information from a number of years ago with respect to what it might cost for the driver's license system. We knew that that -- at that time I think that number was $10 million. We know that the costs have escalated since then.

We also know that at that time we'd given -- we had given no consideration to the photo camera component of a driver license system. And we know that there will be other costs associated with improving things, changing business processes and so on. So that's really where the twenty (20) came from.

And then each year going forward, there will have more and more detail and substantiation. I think our very first cut of this was probably $5 million a year for four (4) years. So as we go through it each year, there will be more and more detail.

And we're also using the business process review in its entirety, really has a level of detail below that. And we talked about that level of detail, if I can refer everyone now to our Volume I, SM-8, SM-8.1.3.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Page 5 in particular of that section. So the business process review that we reference at the bottom of page 5, that particular process by which we're attempting to answer the questions there, is really what we're spending the eight hundred thousand dollars ($800,000) on this year.

And the short term driver licence expected cost of six hundred thousand dollars ($600,000) that we see on the change request in Undertaking 7, is really -- actually, I can tell you that the budget for that project's been reduced to about three hundred thousand dollars ($300,000) and we don't expect to spend more than three hundred thousand dollars ($300,000) on that this year.

And all we're doing there is really making sure that this aging system has the wherewithal to -- we're putting some redundancy into it, some back up and we're making sure that it will continue to function until we can replace it.

And the $1.2 million is the work that we're doing in terms of the analysis. We've talked about the fact on page 6, so really the three hundred thousand dollars ($300,000) and the 1.2 million is being spent on the kinds of things we discuss here on page 6.

We're putting some redundancy into the old system, but we're spending $1.2 million trying to figure out how best to replace the entire driver licence, photo licence system for Manitobans.

We're spending money trying to figure out to what extent can we capitalize on the possibilities of AutoPac online on the functionality of AutoPac on line, and considering all of the other components of that.

And there's really very little more that I can say about this at this point, because final decisions have not been made. Final decisions will not be made exclusively inside Manitoba Public Insurance.

When we talked and shared with you the master agreement by which MPI administers driver licencing activities for the Government of Manitoba, the government retains significant control over driver licence policy and things like that and even things that we might consider more operational, many of that is still in the Highway Traffic Act, the New Driver Vehicle Act and the regulations to those acts.

So we -- we do not have anything remotely resembling exclusive jurisdiction in these matters. And it is still in the works.

We think that the $5.4 million that we have in the budget for next year is probably in the ball park, probably will come in a little bit higher than that with what we know right now.

If you add -- particularly, if you add some money for contingency, but it's -- it's certainly not going to be double that amount next year.

THE CHAIRPERSON: Thank you. Do you have anything more to say, or -- the -- if I may, because it might prove helpful in the long haul, when the estimates of the net DVL imbalance, if you like, between revenue and expense going out were commented on, are these expenditures included in that?

You're not sort of deferring it and amortizing it over some five (5) or ten (10) years? You're just taking them straight into expense; is that what's happening?

MR. BARRY GALENZOSKI: Not all of it. There will be some portion of that will go into expense. We only amortize external costs, we don't amortize any of our internal costs.

For instance, if we put some internal manpower on a project to do with the BPR we're not amortizing any of those costs. Those are -- those are put into our normal operating expenses.

But if we are bringing outside resources to bear, and we're building computer systems, major expenditures as some of this is contemplated, then those would be accumulated and amortization would start once those costs were -- were known.

Now, in the financial projections that you see, going forward, that is already contemplated as being part of those ongoing costs that are part -- that are already shown in those statements.

THE CHAIRPERSON: Do you mean the --

MR. BARRY GALENZOSKI: The amortization--

THE CHAIRPERSON: The period of amortization?

MR. BARRY GALENZOSKI: The amortization would be shown in there, so once the amortization starts, that's a five (5) year amortization then that would have been included, and that's one of the reasons some of those costs jump up after a period of years.

THE CHAIRPERSON: But you made it abundantly clear, and I'm not going back there, that these decisions were largely out of your hands.

But, in fairness, looking on the other perspective, I mean I suppose to some degree DVL is concerned with issues that are directly to the account of the old MPI, if you like, and to some degree they're doing functions that are related to the government side and trying to gain some sort of assessment as to the adequacy of a payment to you of $20 million a year.

Trying to assess to the degree that all of this business processing, re-enduing, et cetera is meant to improve functions that may otherwise not have been improved at all, if the government was just interested in collecting their vehicle registration fees ongoing.

I don't know if that's a helpful comment to you or not, but, sort of, it goes to the wrestling session of trying to come to grips with this situation.

MS. MARILYN MCLAREN: I think we understand that and I think we -- the process needs some time. And I think, as we talked earlier, if there's going to be some up front costs on any sort of amalgamation the opportunities that we have to, sort of, make Manitobans' interaction with us better, tends to go hand in hand with efficiencies.

You know, you don't, sort of, make customer service better by adding a bunch of inefficient things, generally, in my experience. So I think we need a little bit of time. I think we will know a lot more a year from now.

And I guess the other thing I would say is that with respect to the core operation of the government's responsibilities to be able to, sort of, issue driver licenses to Manitobans that meet national and international standards absolutely they would have been made better.

They would have been made better if it stayed there or here. You know, I think that clearly needed to change because the system had pretty much exhausted its life.

THE CHAIRPERSON: Would it be fair to

say, though, as your ongoing intentions, which we accept that these are your intentions, to improve the bonus malice system you incur these costs. Presumably the bonus malice system improves. It has an impact on road safety, accident frequencies and things of that nature, similar, not exactly, to the anti-theft program.

In other words, if you improve the bonus malice system would it be a reasonable expectation to assume that you would affect the claims costs? Therefore, expenses made would not necessarily impact premiums?

MS. MARILYN MCLAREN: That's a possibility. I think the likely way the Corporation will look at that though is from a more cautious point of view. Because I think the jury is still out on the extent to which you can really motivate something as immediate as driving behaviour by some very far removed consequences on premiums and rate setting that they may not feel for another year or so.

Most of the science around, sort of, behaviour modification talks about that really short timeframe between the action and the consequence. The consequence of premiums is very extended from the behaviour of the driving. So I'm not sure about that.

But, I think we feel an obligation to

revise the bonus malice system to get a better relationship between risk and premiums. And just, sort of, the cumbersome nature of what we have today with a three (3) year moving window on drivers that doesn't line up well with vehicle owners and all of those things needs to improve.

If we do that well, in some segment of the population it very well may motivate different behaviour on the road that will lower claims costs. Right now, I'm not confident that there will be enough people affected that way that will actually drive claims costs down.

But, I think there is some segment of the population that may very well be motivated that way. I just -- it's hard to predict how many of them. What we're really talking about is -- is motivation.

THE CHAIRPERSON: But before this Board, at a prior hearing, if I recall properly, and I suggest you correct me if I'm wrong, but it was indicated that the incidents of multi-vehicle accidents or accidents in Manitoba were higher than some other jurisdictions.

So presumably -- and I'm sure there's differences in reporting and things like that, but all I'm saying is that if there's room to improve the level of incidents, presumably one route at that is through the bonus malice system.

And as to respect to your conservative approach in taking and recording the costs before any other ones may fall, I'd suggest that that's actually fairly consistent with your approach on the anti-theft.

MS. MARILYN MCLAREN: No, I don't disagree with that. I think --

THE CHAIRPERSON: Asking if that's in your thoughts to ponder in all this, that's all.

MS. MARILYN MCLAREN: Absolutely. I mean, that's clearly part of the thought process for sure.

THE CHAIRPERSON: Thank you.

Is there anything else, Mr. McCulloch?

MR. KEVIN MCCULLOCH: No, Mr. Chairman, that's it.

THE CHAIRPERSON: Okay. Things have changed on the Board counsel and advisor front, so Mr. Saranchuk...?

CONTINUED CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Thank you, sir. Just a couple of points of clarification on the latest filings, Mr. Galenzoski. With reference to Undertaking Number 6, filed as Exhibit MPI-15.

Looking at the last page of the financial statements, where it shows the statement of comprehensive income. This is Schedule 1, page 2, just before --

MR. BARRY GALENZOSKI: I have that.

MR. WALTER SARANCHUK: -- your PowerPoint. Just for clarification, the unrealized gains unavailable for sale financial assets of $93 million, represent a one (1) time adjustment; is that correct?

MR. BARRY GALENZOSKI: Well, it's going to be adjusted on an annual basis, or every time you report basis. This is the going in position, because you have to start it at some point. So this would be the first time in, and we were using the -- the unrealized gains that we had in the notes to our financial statements for that particular year, yes.

MR. WALTER SARANCHUK: And so this is the first attempt, if you will, or first identification of it -- of the adjustment?

MR. BARRY GALENZOSKI: That's right --

MR. WALTER SARANCHUK: And then it's to be applied prospectively, according to the note at the bottom, with the application of Section 1530, comprehensive income?

MR. BARRY GALENZOSKI: Right. So then in the future what you'd see is a beginning balance and then changes to that plus or minus, and an ending balance in the future financials.

MR. WALTER SARANCHUK: Thank you, sir. Then turning to page 7 of the same filing, under future financial result variability, the third bullet says:

"Supports need for higher retained earnings targets."

Could you explain that, sir?

MR. BARRY GALENZOSKI: Yes, the -- the variability that we will see on the -- the gains, we're going to be taking in the same gains in our investment -- in our income statement that we normally would take in today. So that will still -- that won't change to any great degree.

We will see some plus or minus in the financial variability, and that will have some impact on our overall retained earnings for the basic line of business.

MR. WALTER SARANCHUK: Thank you, sir. Now, turning to Undertaking 3, your Exhibit 14 just filed, which updates the equity gain forecast based on the current forecast, and this is for 2005/06.

Looking at that column, in the attachment. With reference to invest -- the investment income section, can you comment on the -- oh, and by the way, this can be compared to a similar statement filed as part of Interrogatory PUB-1-55 (c), the attachment there, which is document number 28 -- Tab 28 rather, of the Book of Documents. If you just want to compare.

So it's Tab 28 in the Book of Documents, and the attachment for 55(c). And this is an update of that particular attachment.

With reference to the 2005/06 forecast, and then the investment income section, the bottom half. Can you comment, sir, on the 93 -- 93.5 or $93.6 million returned for long term interest, compared to the 76.476, obviously it's a higher amount, can you just explain that?

MR. BARRY GALENZOSKI: Yes, this contemplates that we'll -- we'll earn more in our long term portfolio, primarily because we'll be taking some of the gains out of that portfolio. This is anticipating that some of that will occur over the next -- before the end of the year.

MR. WALTER SARANCHUK: And can you comment on the equity gain/loss line, now at 44.3 million, compared to 23 million in the original filing?

MR. BARRY GALENZOSKI: Yes, again, this is just contemplating. In fact, most of this is already done with respect to gains that were available to us, that we were able to take, and as we saw it at the point in time that we prepared the last financial update.

MR. WALTER SARANCHUK: And with reference to the sub-total line for that column, we're looking at 145.7 million, approximately $44 million more than previously estimated in attachment 55-C, as originally filed; is that correct?

MR. BARRY GALENZOSKI: Yes, that's correct, and it's all relating to gains taken on either the bond or the equity portfolios.

MR. WALTER SARANCHUK: And most of that has already been realized?

MR. BARRY GALENZOSKI: Yes, most of that has already been realized.

MR. WALTER SARANCHUK: And just for comparison's sake, looking at basic's share at the bottom of that column there's some $118 million now versus $82.7 million and the share is changed from 86.53 percent to 87.1 percent; can you just comment on that generally

MR. BARRY GALENZOSKI: Yes, again, that's just a function of the funds available for investment and the share that would then be attributable back to basic and that comes up to the overall amount that we would provide to basic from the total investment income that we have available to us.

MR. WALTER SARANCHUK: And with reference to MPI Exhibit 12, Undertaking 1, sir, it shows the figure of fees at 3.0 basis points of some eighty-one thousand -- eighty-one point eight thousand dollars (81,800).

Do those fees include the cost of the equity manager?

MR. BARRY GALENZOSKI: No, the equity manager's fees are over and above that.

MR. WALTER SARANCHUK: Is there any estimation of that figure that you can provide?

MR. BARRY GALENZOSKI: Well, if you take a look on the document just filed under Undertaking 3 and you look at management fees, and for the forecast '05/'06 it shows a figure of $2.6 million; that's down in the investment income side. It's a reduction of investment income --

MR. WALTER SARANCHUK: Sorry, the reference is again?

MR. BARRY GALENZOSKI: Undertaking Number 3, investment income.

MR. KEVIN MCCULLOCH: Exhibit 14.

MR. WALTER SARANCHUK: Thank you.

MR. BARRY GALENZOSKI: So if you look in the investment income section and right under that subtotal that you were referring to there's a management fee of $2.6 million; that's the overall management fees on the portfolio including Department of Finance fees.

MR. WALTER SARANCHUK: Thank you, sir.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: I'd now like to proceed with the topic of claims incurred, Mr. Chairman, and Panel Members. And for starters perhaps we can look at Tab 2 of the book of documents.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Just keeping your finger on Tab 2 for a moment, if you just take a look at the statement of operations filed; these are at Tabs 3, 4 and 5 for easy reference.

Referring to the claims incurred experience as shown in Schedule 2 of Tab 3, this is for 2004/05. The big ticket item, if you will, shown in Schedule 2 is the $56 million reduction for claims incurred --

COURT REPORTER: Excuse me, may we have a break?

THE CHAIRPERSON: Then we'll take a

break.

--- Upon Recessing at 10:05 a.m.
--- Upon Resuming at 10:20 a.m.

THE CHAIRPERSON: Mr. Saranchuk, if you want to begin again, given the risk of technical failure I suggest we all speak at triple speed.

MR. WALTER SARANCHUK: Thank you, sir, I now have a few questions to ask.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Just referring back before we get into claims incurred, Mr. Galenzoski, and Undertaking Number 3.

MR. BARRY GALENZOSKI: You've already had two (2) rebuttals on that, isn't that enough?

MR. WALTER SARANCHUK: Now, with reference to the management fees of some $2.6 million, and as per Undertaking 1, the Department of Finance fees are shown in the order of nine hundred and seventy-two thousand dollars ($972,000); is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: This is from Undertaking 1?

MR. BARRY GALENZOSKI: Yes, that's correct, and the balance would be fees paid to Equity Fund managers.

MR. WALTER SARANCHUK: In terms of that balance of some $1.6 -- $1.7 million paid to the equity managers, have you determined or can you advise, as to what the rate of payment is?

MR. BARRY GALENZOSKI: Well, we would have a -- probably a different deal with each of the Equity Fund managers, it depends on -- on what the fees -- the going fees were at the time, but we have -- we have agreements contracts with each of the Equity Fund managers, in that it stipulates to fees. Some of those fees are dependent on how much money they've got to invest on our behalf.

In other words, the fee structure changes based on the amount of money available for investment that they would be holding.

So, we can provide some -- some level of detail. I would be reluctant to identify which of the fund managers are charging which type of fees. I can say fund manager A, B, C, if you want, and provide that level of information, but we have that readily available.

MR. WALTER SARANCHUK: Yeah, if you wouldn't mind, sir. Just again, it doesn't -- it won't be necessary to identify the managers. But the one (1) question I had to ask, are we talking about something in the order of forty (40) to fifty (50) basis points in some instances?

MR. BARRY GALENZOSKI: It would be in around that -- that neighbourhood. You know, there will be some that might be a little bit higher, some a little bit lower, you know, it really does depend on how much money they had available for investment, whether they're on the US side or the Canadian side. So there is different deals made with each of the -- of the fund managers.

MR. WALTER SARANCHUK: Thank you, sir.

MR. BARRY GALENZOSKI: So that's an Undertaking or...?

MR. WALTER SARANCHUK: Yes, please, if you don't mind.

MR. BARRY GALENZOSKI: No, I don't mind.

--- UNDERTAKING NO. 10: MPI to provide Board with fund information.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Now, returning to claims incurred, and we had our finger on the information in Tab 2 while we were reviewing the information in Tab 3, and the Claims Variance Analysis, and the Schedule 2, being Schedule 2 entitled, Claims Variance Analysis, two (2) pages from the back of that Tab 3.

And with reference to the $56 million improvement in respect of total basic claims incurred, Mr. Galenzoski, for the record I asked you if you wouldn't mind just commenting on what was driving -- or what did drive that result?

MR. BARRY GALENZOSKI: Yes, the big part of that is -- is under the PIPP, where you'll see it's down by $57.3 million, and the majority of that would have been driven by the actuarial review at the year end.

MR. WALTER SARANCHUK: Thank you, sir. Just before we go on to comparison of the next year forecast, that would be in TI-14, for the year 2005/2006, the year that we're in.

Is it correct that with regard to the latest filings by the Corporation, as at September 28th, 2005 compared to the forecasts of claims incurred in June of 2005, there weren't any real significant changes?

MR. BARRY GALENZOSKI: Yes, that would be correct.

MR. WALTER SARANCHUK: Okay. Now moving on to Tab 4, and in particular, Schedule 1, being the

Claims Variance Analysis shown on page 2 there, as part of the tab. This is the TI-14, Schedule 1, as filed in June. And it's six (6) pages from the back of that tab.

The forecast for claims incurred is in the order of $8.1 million; can you just explain what has contributed to that, sir?

MR. BARRY GALENZOSKI: Yeah, that's a reduction of $8.1 million compared to -- compared to what we originally filed, prior to that. The reductions are primarily a small amount in PIPP, $4 million. $13 million on claims on collisions and comprehensive is up $10 million. We've been seeing a lot more weather related claims this year. So, that's relating to that.

MR. WALTER SARANCHUK: And with respect to the year with which we are concerned, would you please turn to Tab 5 and the claims variance analysis on page 3 with the original filing; that's six (6) pages from the back of the tab.

What can you tell us about the forecast there in respect of claims incurred of some $24.6 million?

MR. BARRY GALENZOSKI: Yes, that's the increase in the claims incurred forecast. We're showing about $10 million relating to PIPP. $12.4 million related to collision and then small adjustments to the other heads of damage.

MR. WALTER SARANCHUK: And just with respect to PIPP, what do you foresee as having led you to come up with that $10 million figure?

MR. BARRY GALENZOSKI: Yeah, that just came out of the claims forecasting process. You've got to keep in mind that previous to that we would have not had the full blown forecast.

Now, they've done some revisions with respect to the actual that we've -- we've seen for the current year and updated that to the -- to the year that we're applying for.

MR. WALTER SARANCHUK: And with reference to the collision forecast of some $12.4 million, can you explain the reasons for that?

MR. BARRY GALENZOSKI: Again, you're -- you're comparing that to the -- to the previous year. And what we're looking at is more vehicles on the road at higher values, so that would primarily drive that.

MR. WALTER SARANCHUK: And, generally speaking, it would appear that the six hundred (600) -- sorry, yes, six hundred and sixty six thousand dollars ($666,000) for comprehensive is a rather significant reduction; is that taking into account the II -- the Immobilizer Initiative?

MR. BARRY GALENZOSKI: No, not really; that's mainly taking into account the suppression strategies that are underway right now.

MR. WALTER SARANCHUK: Can you -- and perhaps we'll get into this a little more -- shortly, but what -- which ones are driving the result there?

MR. BARRY GALENZOSKI: The -- the suppression strategy with respect to the probation or non-probation. The curfew enforcement is the big one there. This is where we're putting in nine hundred thousand dollars ($900,000), approximately, to assist in monitoring some of the -- the people that have been involved in a high degree of thefts and trying to make sure that they are where they're supposed to be at certain times of the day and night so that they're not having the opportunity, that they had in the past, to freely roam the streets and help themselves to our vehicles.

MR. WALTER SARANCHUK: Thank you, sir. Now, with reference to the information shown in Tab 2 and the top table, the five (5) year claims incurred comparison, what can you tell us -- what can you tell us about, first of all, the bottom line, in terms of the experience and right through to the projection?

And then in terms of the contributors,

namely the PIPP lines, collision and comprehensive?

MR. BARRY GALENZOSKI: Well, you can see that there's a fair degree of variability in -- in what's happened year-over-year and within lines -- or within the heads of damage that we're reporting on.

For instance, if we look at just the bottom line there, the totals, looking at the change 2003 to 20o4, it's up by $45.8 million and when we look at '05 compared to '04 it's down by $56 million.

We've talked to some degree about what -- what's caused that. And then it goes up by 74 million and then up by $24 million.

So, generally speaking we would expect to see the trend go up over time mainly because of more -- more units on the road, higher values, and just our expectations as we see what's happening on the PIP side.

So, when we look at the specifics, specifically the -- on the PIP you'll notice that we had a big decrease in '05 and that was -- that was driven by -- primarily by the financial review that's done by the actuaries or the -- the actuarial review I should more correctly say.

And then we go back to more normal expected increases in the -- in the next year and mitigated to some degree in -- in the following year, again all developed through our claims forecasting process and taking into account the trends that we see in the statistics that we have available to us at this point in time.

MR. WALTER SARANCHUK: And just on that point, sir, with reference to accident benefits. Before you move on to collision, as I understand it, when you take a look at 2003 you were looking at approximately $199 million -- $199.7 million in total when you take the pre-PIPP and the PIPP compared to $223 million total for the projection for 2007; is that correct?

MR. BARRY GALENZOSKI: The projection for 2007 is two hundred and twenty-one (221).

MR. WALTER SARANCHUK: Yes, if you add on the pre-PIP thinking in terms of accident benefits overall, about $23 million?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And my understanding that, according to the calculation I've been provided, there's about an 8 percent increase or difference of some $23 million to -- when you compare the 2003/2007 figures; is that about right?

MR. BARRY GALENZOSKI: Yes, that would be about right.

MR. WALTER SARANCHUK: Now, looking at

the collision experience, you can please refer to that and indicate what are the drivers in respect of the collision experience of approximately -- well, it's $185 million in 2003 compared to the projection of some $220.6 million in 2007 which, I'm advised, reflects a difference of some 35 million or 19 percent?

MR. BARRY GALENZOSKI: Yes, that's correct. That would be, basically, a four (4) year increase that you're looking at. And you're talking about a 4 1/2 percent increase a year, which would be what we would expect.

We're usually looking on the collision side at costs that exceed inflation because of the new part prices, repair costs that we are encountering on vehicles. There's more vehicles on the road so you'd expect more -- more collisions to be occurring and then it is dependent somewhat on weather-related situations like we're having today.

MR. WALTER SARANCHUK: And with reference to the comprehensive line, looking at -- in 2007 the projection of some $72.5 million to the experience in 2003 at some $50 million. I'm advised there's a difference there of about $22 million or 44 percent over that period. Can you comment on that?

MR. BARRY GALENZOSKI: Yes, a lot of that is -- is related to the theft situation that we have in the province of Manitoba and one (1) of the reasons why we went ahead with the mobilizer incentive project.

Those costs have been rising steadily over time and it becomes significant in our overall forecasting process and in our rate requirements and so we -- we budgeted for the types of costs that we think we're going to have in the coming year.

MR. WALTER SARANCHUK: And finally, with reference to the property damage line, for 2003 you experienced something in the order of $29 million in costs there compared to $32.3 million forecast for the -- or the projection for 2007, a difference of some $3.25 million or 10 percent.

Can you comment on that?

MR. BARRY GALENZOSKI: That's pretty flat. You wouldn't really expect to see much change in this particular head of damage and that's demonstrated by our forecast.

MR. WALTER SARANCHUK: By the way, just going back to Comprehensive, that $22 million difference between 2003 and a projection 2007 which I'm advised works out to about 44 percent, is that of concern?

MR. BARRY GALENZOSKI: Well absolutely, and that's one (1) of the reasons why we've developed theft initiatives to -- because that's one (1) of the major drivers in this particular head of damage and that's why the Immobilizer Incentive Fund Project was moved forward.

MR. WALTER SARANCHUK: And does that experience, in that period from 2003 through to the projection in 2007 of 44 percent, do you know if that is in line with -- with what you've encountered in say the previous four (4) years or the time prior to that.

Is this something in the way of an escalation that's being reflected, or what?

MR. BARRY GALENZOSKI: You know, I just -- intuitively I would, you know, if you went back ten (10) years instead of the four (4) or five (5) years you'd probably be looking at over a 100 percent increase in our costs, and a lot of that would be related to theft.

MR. WALTER SARANCHUK: Now, with reference to Tab 2, can you confirm that claims incurred have increased by some $88.2 million or 19 percent, since 2002/03, and I'm looking at the $555.9 million forecast for -- for 2006/07 to the 467 million -- 467.7 million in 2002/03?

MR. BARRY GALENZOSKI: Yes, that would be correct.

MR. WALTER SARANCHUK: I would refer you to Tab 17, Mr. Galenzoski, which happens to be the Corporation's Response to Interrogatory Number 17 in the First Round, served by the Public Utilities Board.

With reference to the information provided in response to Part B of that Interrogatory, the question having been:

"With reference to the $74.4 million improvement in PIPP costs for 2004/05, please provide a schedule that compares the PIPP claims cost by type of claim for 2003/04, with 2004/05 and explain the reasons for the changes."

The Corporation filed the information shown there, and can you comment, sir, in -- with reference to the income replacement line between the years 2004/05, reflecting a $21 million decrease?

MR. BARRY GALENZOSKI: Yeah, first of all I'll just preface the remarks by saying, when you're looking at a fiscal year, and we'll take 2005 for example, and you're looking at income replacement, $91,551,000 incurred. This is the dollar incurred, not just for claims that are actually happening in that fiscal year. This is any change to any of the claims that we've got on the books, that happened to get recorded in that fiscal year.

So none of this is related just to the activity that his happening on new claims being reported for the -- the given year, for any of these heads of damage, for any of the years that we're looking at. And -- and I'm sure your -- your actuary and accounting friends can help you with -- with that concept. But that's just the initial thing that we're looking at here.

So the changes that we see in these numbers can relate to a claim that happened in 1994, as well as a claim that happened in 2005.

MR. WALTER SARANCHUK: So would that reflect then, changes for IBNR?

MR. BARRY GALENZOSKI: No, the IBNR changes are separate and distinct, they're shown at the bottom. This is through the case reserves that are being maintained on our system by our various adjusters that we have within our work force.

MR. WALTER SARANCHUK: I see, and so just commenting on the experience for the income replacement line. Is there something in particular that drove that $21 million decrease?

MR. BARRY GALENZOSKI: You're now comparing year over year. And for 2004 we did have some unusual experiences we talked about at the previous hearing, with respect to the additional brain injury claims that we had. Those were serious in nature, there was a lot of dollars set aside for those particular claims, some of that would have been in the case reserves, some of that would have been in the financial provisions.

And so you're seeing an increase in 2004 that wasn't seen in 2005, because when we looked at 2004 we determined that this was something that we didn't think was just part of our ongoing claims base, in other words, an expected thing that was going to happen year over year.

So the reduction you're seeing, actual compared to actual, has been real. There was fewer dollars set up in -- for this particular head of damage in the case reserves that we had, and there may have been some changes to some of the older claims that would have also flown through -- gone through in these particular numbers also.

MR. WALTER SARANCHUK: Would the same explanation relate to the personal care line or is there some other factor too that would have entered into that $33.8 million decrease?

MR. BARRY GALENZOSKI: Yeah, that would even probably be more magnified. Again, a lot of dollars set aside for personal care for these additional brain injuries, some of which was required and some which wouldn't have been required depending on the severity, particularly going forward.

And then any, you know, reviews that go on where there may have been changes to some of the older claims because after a period of time every claim -- every serious loss gets looked at from the reserving aspect at least once a year. Some of them a lot more than that, just depending on the level of activity.

So, a reassessment would be made by the case manager as to whether they have sufficient dollars or too many dollars set aside in the file. And then that would be adjusted and the net result of any increases or decreases, and again for claims that go right back to 1994, would be shown in this number of $7.4 million.

MR. WALTER SARANCHUK: Thank you. Now, turning to Schedule 1, the next page over, in Tab 17. And just very briefly wanting your comment on the change in terms of the ten (10) years reflected in this information.

And, in particular, the income replacement line from 1995 to 2005 indicates something in the order of $70 million, or so, by way of an increase over that ten (10) year period.

Let me ask you first for your comment on that and then your comment when you look at the 25.8 percent composition from 1995 through to 60.2 for 2005?

So dealing firstly with the figures then with the percentages, can you shed some light on that please?

MR. BARRY GALENZOSKI: Sure. The $91.6 million in income replacement claims for '05, this is on the incurred, is about 290 percent more than what we showed in 1995, the $23.4 million.

And this, again, goes back to my opening comment when we started talking about claims incurred reported for a specific year in that in 2005 we're now recording changes on -- that happened in the fiscal year that can relate to any of the preceding years.

So a claim that was set up in 1995 that had income replacement claims incurred, set aside against that, use a number of, say, a hundred thousand dollars ($100,000). If that was judged to be insufficient in 2005 that would now be moved up to whatever new number, let's say it was a hundred and fifty thousand (150,000).

So fifty thousand dollars ($50,000) of the claims incurred would show up in '05 but it relates to 1995. And the same phenomena occurs and that's why these numbers are building over time because as the claim base gets bigger, and these ongoing reviews of all these files are occurring, changes, plus or minus, are being made.

Plus you've got your new incurreds, the new claims that are coming in on a given year and the new levels of activities that you're seeing on those new claims. And that accounts for a lot of the increases and decreases you're seeing going forward.

MR. WALTER SARANCHUK: And what about the percentages?

MR. BARRY GALENZOSKI: Well, again, the percentages really, I think, are not terribly helpful in the early years because that was, you know, just starting to do the reserving on -- on a new program.

So, you know, the big head of damage everyone would recognize is -- is income replacement, permanent impairment and the expenses that we see. All of those are the -- are the -- you know, we know where the big heads of damage are now.

You're going to see those level of percentages stay pretty much where they are going forward, just because of the vast volume of claims that underlie all that, and the change has to be recorded in any particular year.

MR. WALTER SARANCHUK: Looking at the personal care line and, in particular, the percentages because the figures speak for themselves. But looking at the 35.3 percent in 1995 to the 4.9 percent in 2005; are you saying it's the latter that is the more realistic and more reflective of actual experience?

MR. BARRY GALENZOSKI: It's probably more the year 2004, the 20 percent range. You know, there -- again, you know, this is one of the -- the heads of damage that we've been putting a lot of attention on as to how are we managing that; how are we estimating that.

We have -- you know, we've come up with new grids on -- on -- on the applicability of how much goes to an individual claimant with respect to the degree of -- of care that they need, and the assistance that they're going to need, whether it's full-time assistance, whether they get the entire benefit or whether they get a portion of that benefit. And so, you know, there's been some changes in -- in how that reserving has occurred over time.

And I'd say initially that personal care was being reserved. Like in 1995 you'll see it was like 35 percent and the following year it dropped down to 14.6 then it was a negative the year after that.

So that tells you a little bit about the early years of the reserving on -- on that particular head of damage. It was quite variable because you know we were -- we were learning how this thing worked, okay? Everybody was working together on this with -- with our claimants as to just how was this going to flush itself out and I think it's a more steady state now in and around that 20 percent level; that's what you'll see going forward.

MR. WALTER SARANCHUK: And of course the material filed by the Corporation does reflect the greater concern about rehab and a greater dedication of costs and programs toward that particular benefit. When you look at the rehab line however, sir, this is the next to last line, you look at -- you'll see a 7.4 percent composition in 1995 compared to 4.2 for 2005.

Can you comment on that?

MR. BARRY GALENZOSKI: But when you look at the dollar values they're about the same, you know so again it depends on the base that you're comparing it against out of the 100 percent. So, I don't know if I'd pay too much attention to the 4 percent versus the -- the 7.4; it's the dollars we're setting aside for this particular level of activity.

This -- this type of -- of expenditure is really for the more seriously injured claimant and -- and there -- that -- those numbers of seriously injured claimants isn't changing that dramatically year over year so, you know, I think if you look over the -- you know we -- we've had some variability in that number, but it has also -- it's tended to go down the last couple of years.

Again looking at outcomes that we're getting from this rather than just setting up reserves and leaving them there forever on a particular file, at some point in time the file matures, you've reached the maximum potential and therefore the reserves will probably start coming off on some of the older files and -- and newer files are being set up with -- with the type of reserves that we think we need going forward.

I would expect to see this in a more mature plan. This is the type of results that we expected to see.

MR. WALTER SARANCHUK: Now, going one (1) tab over to Tab 18, this was the information filed by the Corporation in response to Interrogatory Number 19 served by the Public Utilities Board in the first round.

And the question posed was:

"Please indicate the frequencies and severities by type of claim, as listed at page 23 of the Annual Report per year since the inception of PIPP."

And part of the response was the reference to Schedule 1 which was provide in answer.

And just referring, briefly, to Schedule 1 which is the second page in that tab and in particular the "brain damage" line. And I would refer you then to year 2004 where they've indicated or you've indicated that they were some ninety-seven (97) in number.

Is that the one (1) year blip, so to speak, that we've heard about?

MR. BARRY GALENZOSKI: Yes, that's correct.

MR. WALTER SARANCHUK: Now, with reference to the "whiplash" line, what can you give by way of an explanation to reflect the increase -- rather significant increase -- in the whiplash claims over the ten (10) year period, sir?

And I, in fairness, will recall your having referenced the re-coding of claims in answer to one (1) of the Interrogatories, but isn't there something more than that?

MR. BARRY GALENZOSKI: Well, you'll notice back in 2003 under, "Other," we had something like forty-four hundred (4,400) other type of claims which were kind of unidentified and where in '04 and '05 those have both been reduced to around fifteen hundred (1,500). And so there was some re-coding that was going on and some of the difference went into -- into things like whiplash or -- or what the other major cause of the injury was, which probably the majority fell into the whiplash side.

Whiplash is still a significant number of claims. They're generally pretty minor in nature and not generally involving major amounts of money set aside for the eventual settlement of that particular injury.

But there is a significant number of the overall number of claims we get that are in that category. And I would -- I would say most of those are minor in nature.

MR. WALTER SARANCHUK: Does the result overall for whiplash surprise the Corporation in any way given that it was the incidents of whiplash claims that, I think, were in part driving the turn to no fault?

MR. BARRY GALENZOSKI: Well, you've got to keep in mind back in those days that entitled a pain and suffering award and that generally drove the treatment process a little bit longer so that people could get a little bit more.

And there is no more pain and suffering being paid for this type of claim. So, what you're seeing here is -- is some minor medical bills that might be associated with the injury, some chiropractic or physiotherapy type treatments that would be associated with that.

All of which, you know, our claims people are looking at as how do we control that particular type of damage or injury and make sure that it doesn't have a long-lasting effect and turn into something more like chronic pain which can be a more serious loss.

So, no, we're not really surprised by this. It's still a significant reduction from what we saw in years prior to this -- prior to the PIPP program and it's not unexpected.

You know, we're tapering off at around fifteen (15), sixteen thousand (16,000) injury claims, of which a major portion of those are -- are what I would classify as minor whiplash.

MR. WALTER SARANCHUK: Thank you, sir.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Is there any information that the Corporation can share with the Board in terms of a cost per injury or cost per type of injury that you've encountered?

MR. BARRY GALENZOSKI: Not specifically. The -- you know, it's -- it's a real danger just to take the number of claims you've got, divide it into the claims incurred for a specific year, because as I stated before, the costs that you're looking at don't necessarily relate to the --

COURT REPORTER: Excuse me, may we have a break?

THE CHAIRPERSON: Then we'll take a break.

--- Upon recessing at 10:50 a.m.

--- Upon Resuming at 1:07 p.m.

THE CHAIRPERSON: Mr. Saranchuk...?

MR. KEVIN MCCULLOCH: Mr. Chairman, perhaps before Mr. Saranchuk begins again, we have for filing, the quarterly financial report, covering the second quarter and the first six (6) months of the MPI fiscal year.

The information contained in this report was reflected in the revised filings that were filed with the Board in September, but this particular quarterly report, we weren't in a position to file it until it had been tabled at the legislature; that's now been done and I'd like to file it as Exhibit number 17.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. MPI-17: Quarterly financial report, covering the second quarter and the first six (6) months of the MPI fiscal year

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Mr. Galenzoski, just before we leave the topic of claims incurred and we were looking at the schedule 1, in Tab 18, where they outlined the types of claims and the comparison.

The bottom line shows "other". We dealt with the brain damage line and the whiplash line and the other -- the bottom line shows "other" which you said somehow changed in the last couple of years when some of those claims were taking in -- put into the whiplash column.

What is -- the word 'other' incorporates or encompasses, rather, what kind of claims?

MR. WILF BEDARD: Perhaps I can respond to that, Mr. Saranchuk. What the other category is is essentially a default. If an injury is reported through our call centre or to one of our case managers that doesn't fall within those categorized types of claim, it would default to, "other."

What we had been experiencing over time as you can see, is a growth in the number of claims that fell in that category.

When we did some analysis on that some years ago, we discovered that what was happening was, if you had an individual who reported an accident and he had multiple injuries, let's say a bruise on the forehead, a sore ankle and a whiplash, they would code it as "other," but the most predominant, long lasting injury would be the whiplash, but it would fall within the other category.

So, we made the determination that we would rank the injuries by type of -- of injury by taking the most predominant injury, most long lasting injury and code it within that injury type.

So that resulted in a decline from 2003 to 2005 in the number of others -- the number of injuries in the "other" category.

So we are -- we've changed the way which are coding the injury types since we recognized what was happening.

MR. WALTER SARANCHUK: Thank you, Mr. Bedard. I'd just now ask you to turn to Tab 7. By way of a final few comments relative to claims costs and to finalize the review of the outlook.

Mr. Galenzoski, I'm looking at the very

latest filing, pages 1 and 2 in Tab 7, that's the revised TI-17, TI-17(a), and in particular, the claims costs line where from 2001/02 being in the amount of $496 million, they progress to 724 million in 2009/10.

Bearing in mind that comparison and then above that the net claims incurred increasing from 433 million in 2001/02 to 629 million in 2009/10, I think you addressed this somewhat earlier, but can you comment on the trend reflected by those figures?

Is this, for example, something that was anticipated; is this to continue; were you surprised by anything here; what's the Corporation's approach -- thoughts about the trends reflected?

MR. BARRY GALENZOSKI: Well the trends are somewhat anticipated. I think totally anticipated to be exact. The -- we've got about a 45 percent change in the numbers from '01/'02 through '09/'10. There's quite a number of years there.

There's about seven (7) or eight (8) years that we're looking at so at the average it would be somewhat consistent with what our views would be. We've got a number of components to look at here. First of all you've got the claims expenses themselves -- or net claims incurred, I should say, themselves.

And that's being driven by the factors

that we talked about earlier when we were looking at the various heads of damage, particularly under the injury side.

Claims expenses relate to our own expenses, internal expenses, relating to the settlement of the claims process. So that would be our staff costs, our building operating costs, things along that line. Those are -- are going to be increasing over time.

And then road safety and loss prevention. Those costs are -- have been moving up but, more particularly, what you're also seeing in here is that there is some additional costs in there because of the Immobilizer Incentive Fund project.

They've flowed through that line and that -- that creates the negative bottom lines that we're seeing for some of the years going forward which is then being reimbursed by the IIF fund. So that's included in that.

MR. WALTER SARANCHUK: So, overall, looking at the bottom line for claims costs, are you saying that trend is pretty well reflective of what was anticipated, or not?

MR. BARRY GALENZOSKI: I'd say the trend is -- is -- has been anticipated in the -- the actuals. And in the going forward position we're in fairly good position because you've got to remember that on the premiums earned side there's no rate increase involved.

So this is all being done and all affordable within the existing rate structures as we see now and the -- just with the normal upgrade and increases in volume of business that we expect to see in the future.

MR. WALTER SARANCHUK: Thank you, sir.

Now, turning to Tab 15, which incorporates the responses by MPI to Interrogatory Number 13 served by the Public Utilities Board in the First Round.

Before getting into some questions dealing with the last three (3) or four (4) pages of that attachment; Mr. Bedard, can you provide us with an update on the tort runoff?

And perhaps just explain what -- begin by explaining what that is? And this is pre-PIPP.

MR. WILF BEDARD: Yes, the tort runoff, of course, is the book of business that we had outstanding when we moved to the no fault system in 1994. When we went into the no fault system we had an outstanding case load of in excess of twenty thousand (20,000) injury claims that we had to run off.

So, we had to strike a strategy to resolve that and run it down and manage that as best as we could.

And we've been doing that since 1994 while we've been administering the PIPP program as well.

The filing at PUB/1-13 demonstrates that we had twenty-nine (29) outstanding at the time of the information request. I can tell you that we have, since June 30th of this year, settled one (1) more; we are down to twenty-eight (28).

When we were here last year we had forty-eight (48) outstanding. So, that demonstrate a reduction of about 40 percent which is a little bit less than what we had anticipated. Every year we had -- we're hoping to reduce the case load -- outstanding case load by 50 percent. And we've been pretty close to that over time.

So, we're down to twenty-eight (28). We're still working on it. All these cases are being handled by one (1) individual within MPI. All are with independent defence counsel as well. We do have a number of -- of mediations and pre-trials scheduled.

We're actively pursuing these. We're just not letting them sit idle at all. We are as interested as you are to get these down to zero as soon as possible. We're managing these very well and hopefully I'll have similar good news to report when we're here next year.

MR. WALTER SARANCHUK: And in terms of the reserve adequacy?

MR. WILF BEDARD: Yes, we review that on an ongoing basis and we are very confident that the allocation that's currently set aside in both the case reserves and in the IBNR for the run off is more than adequate to -- to meet our needs.

MR. WALTER SARANCHUK: Thank you, sir.

Now, turning to the last four (4) exhibit pages. This is beginning three (3) pages into Tab 15.

The first of those is entitled, MPI Bodily Injury Basic Expected Versus Actual Reported.

And the second one (1) is, Bodily Injury Basic Expected Versus Actual Paid.

Could you, Mr. Palmer, please describe the information shown on those first two (2) exhibits?

MR. DONALD PALMER: As at February 29th of 2004, we do an analysis of -- of the required reserve or our liabilities at that point in time. Included in that is a projection of how that will run off.

So, if we have, for example, $10 million that we know is the liability, we also have a projection as at how that $10 million will be incurred and paid over time.

What these two (2) exhibits show, the first one (1) is what we thought the claims incurred would be for the year 2004/05, as of the evaluation at the end of February of '04. So, for example -- and then compare that with the actual experience that emerged.

For example, for the 1993/94 accident year, that would be claims that occurred during the period March 1, '93 to February 28th, 1994. Our run off was expected to be two hundred thousand dollars ($200,000). Our actual incurred for accidents that occurred during that period of time was fifty-eight thousand dollars ($58,000), which means that we had a favourable variance of a hundred and forty-two thousand dollars ($142,000).

That in turn is calculated for each accident year, both pre and -- and pre PIPP and during the PIPP years as well. For a total for pre PIPP years we would have expected $1.6 million, we had three hundred and twenty-three thousand dollars ($323,000) for a favourable variance of 1.3 million.

MR. WALTER SARANCHUK: So that supports what Mr. Bedard just said?

MR. DONALD PALMER: Yes, it does. The next page is the same analysis, but instead of looking at the amount of claims incurred, including change of reserves, we're looking just at the actual dollars paid out, and those show similar results. For the pre PIPP years we would have expected to pay out almost $2.9

million, we actually paid out about $1.6 million, for a favourable variance of one point three (1.3).

MR. WALTER SARANCHUK: So the negative difference in the last column implies a run off more favourable than expected?

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: Now with regard to the next two (2) exhibits, can you confirm that they present the same information with respect to the first four (4) months of the current fiscal year, relative to the 2004/'05 fiscal year end evaluation?

MR. DONALD PALMER: The only difference would be this is taking as a base the actuarial evaluation that occurred on February 28th, as of February 28th, 2005, the previous years took the evaluation as at February 2004, otherwise it's essentially the same analysis.

MR. WALTER SARANCHUK: And can you confirm that the favourable run off on bodily injury liability has continued into the current fiscal year, including for pre PIPP claims?

MR. DONALD PALMER: I can confirm that.

MR. WALTER SARANCHUK: Would the current fiscal year information imply that there is some overstatement of the expected 2005/'06 bodily injury claims incurred in the application?

(BRIEF PAUSE)

MR. DONALD PALMER: I don't know that you can necessarily say that. Certainly we have had some favourable development. You know, there's a flip side of that coin that there might be some -- some latent claims in there.

So we do adjust those numbers every year and we had a slight favourable development between the 2004 and 2005 evaluations.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: But any late reported claims would be reflected in those exhibits, as well?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: I now would refer you to the information in SM-5.2 of the Application, this being in Volume I, and comparative claims forecasts, and

I think we dealt with this earlier to some extent.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: In terms of the claim forecasting methodology, namely the three (3) methods, those are the financial, linear and exponential; is that correct?

MR. DON PALMER: That's correct.

MR. WALTER SARANCHUK: And is it a fact that only the linear and exponential are actuarially sound and statistically driven?

MR. DON PALMER: No, I wouldn't agree with that.

MR. WALTER SARANCHUK: Well, why not?

MR. DON PALMER: To be actuarially sound and statistically driven means that we're using various techniques to forecast the expected value of future claims.

Depending on the underlying assumptions that you are using, you can get different answers using different techniques.

So, all three (3) of these have different underlying assumptions. The financial forecast method is still using some underlying trends, but also putting on -

- overlaying on top of that some of the current field information. Still a forecast, still use -- the result being the expected value of future claims.

So, I would -- I would say that all three (3) would be actuarially sound.

MR. WALTER SARANCHUK: Would it be fair to say that the financial forecast is more judgmental?

MR. DON PALMER: There are more judgmental factors included in that, yes.

MR. WALTER SARANCHUK: And that's the method adopted by the Corporation?

MR. DON PALMER: That's correct.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And the other two (2) are used as reference points or guidelines?

MR. DON PALMER: That's also correct.

MR. WALTER SARANCHUK: And is it correct that the financial method is a hybrid of the actual methods and management judgment, based on experience and a number of other facts?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So just turning to page 8 for a moment in SM-5.2, where you come up with the three (3) methods of forecasting claims incurred for 2006/07, it is indicated in the bottom paragraph there that:

"The above projections are the most plausible scenarios and reflect the cost savings initiatives and other countermeasures taken to moderate the increasing claims costs."

Now, how does the Corporation go about arriving at the financial method for its estimate when comparing linear and exponential?

MR. DON PALMER: Could you restate that question, please?

MR. WALTER SARANCHUK: How does the Corporation come to adopting the financial method of calculating it, when compared to the linear and exponential?

MR. DON PALMER: The financial forecast uses all underlying data. And we bring that to the claims forecasting committee which is made up of not only actuarial staff, but the staff from finance and staff from claims as well. Essentially all areas of the organization are represented within that claims forecast committee.

Using all of those projections they're brought to the financial forecast committee and adjusted using current trends and -- and current field information.

MR. WALTER SARANCHUK: With reference to the information shown on the tables at the bottom of page 7 and the top of page 8 in SM5.2; can you explain what's reflected in those tables?

(BRIEF PAUSE)

MR. DONALD PALMER: Those particular tables demonstrate the difference between the actual experienced in emerged and what our forecasts were at the time using those three (3) different methods.

For example, for 2004/'05 our financial forecast was $527 million. The actual emerged experience was $457.2 million for a 15 percent variance. The linear projection for this particular year was -- was a little better with a forecast of $518 million that showed a positive variance or favourable variance of 13.3 percent.

The exponential method, the initial forecast was $537 million, which had a variance of 17.5 percent.

MR. WALTER SARANCHUK: Based on the last column in each of those two (2) tables of percent variance; is there any particular conclusion that one can draw from the information shown, that's for the last -- the latest five (5) years, the percent average forecast variance column?

MR. DONALD PALMER: For those particular five (5) years that would indicate that the exponential was a closer fit than the other two (2) models.

MR. WALTER SARANCHUK: And have you come to any conclusions arising out of that?

MR. DONALD PALMER: No. I think that using a five (5) year sample was not too much data to -- to work with. I mean, if you look with -- at the most current year the -- the exponential method was the worst. So it's hard to make a -- draw a conclusion from that particular table.

MR. WALTER SARANCHUK: Have you, yourself, for example, reviewed the last ten (10) or fifteen (15) years experience?

MR. DONALD PALMER: No.

MR. WALTER SARANCHUK: Turning now to the information shown in Tab 16 of the book of documents. It's the information, namely, the tables filed by the Corporation in response to the Interrogatory numbered 14 served by the Public Utilities Board in the first round.

And there are, essentially, three (3) tables on pages 2, 3 and 4. Could you please describe the information shown in those documents?

MR. BARRY GALENZOSKI: Yes, what we're showing here on the -- on the first table we're showing the five (5) year claim frequency comparison. So this is just giving you and idea as to the -- the numbers of claims on a both projected, revised and actual basis by fiscal year. And you can see the results of that when you look -- when you go through that.

The next table over, Table 2, is a five (5) year comparison of the severity of the -- of the claims, and so this would give you the average severity, and again on the same basis projected, revised and actual by fiscal year.

And then when we look on Table 3, now we're just looking at basic, and we're looking at the claims incurred comparison, so this is now the dollars in claims incurred. And again, it's providing you on the projected, revised and actuals. And it's provide -- you know, gives you the overall dollars. But again, this is the dollars that went through on the particular fiscal year.

MR. WALTER SARANCHUK: And for the

projected column in each case, when in the year is the estimate actually made?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yeah, the projected is the one that's the year previous numbers, and then the revised is the application that we would put forward, and then the actual obviously is when the year is completed.

MR. WALTER SARANCHUK: And for the frequencies shown in Table 1 on page 2, can you comment on the under projection for all coverages combined, much of which arises from the physical damage coverages of collision, comprehensive and property damage?

MR. BARRY GALENZOSKI: Well there would be a number of reasons for this occurring obviously. Weather related is -- is probably the biggest one (1) for the physical damage type claims. We're going to end up getting more or less claims depending on weather conditions -- conditions, such as today, where we would get higher frequency of claims being reported than we would normally have expected if weather -- weather would have been more normal.

So, you're going to have that filter into all of -- all of these numbers with respect to the physical damage side.

MR. WALTER SARANCHUK: And for the claims incurred shown in Table 3, could you please comment on the change evident on PIPP, having been significantly under projected up to 2003/04, and then it appears significantly over projected in '04/'05.

MR. BARRY GALENZOSKI: Again, that's the same phenomenon that I talked to you about before with respect to these are the dollars that are going through in a particular fiscal year for claims changes on all claim -- on the whole claim database that we've got. So you -- you're going to have a variety of -- of reasons why those numbers are going to be higher or lower when you look at year over year results.

MR. WALTER SARANCHUK: Can you comment on the over projection on bodily injury that appears to be prevalent?

MR. BARRY GALENZOSKI: Well let's take a look at '04/05 for instance, where we had projected 206 million, revised that to two hundred and twelve (212), and -- and ended up at one fifty-four (154). That's on the PIPP side.

That was influenced, significantly, by changes to the financial provisions. And so that is something that would -- would happen closer to the event of our year end, rather than something that you would project or -- in either your initial numbers that you provide a year out in advance, or when you do the application.

So, you know, you're -- you're looking at numbers that resolve themselves as they get closer to year end. And so you would have some degree of variability in those numbers.

You look at the year previous to that and -- and PIPP was projected at 186 million and it went to one eighty-nine (189) for revised, and it ended up at two twenty-nine (229). So again, the opposite can occur, and this would have been the year that we would have had those increase in the -- in the brain injuries.

MR. WALTER SARANCHUK: Well the question really pertained to bodily injury?

MR. BARRY GALENZOSKI: The public liability, if you're looking at the post March 1, 1994 numbers, there you're going to see variability, which is really the -- the number of claims that we get is -- is very small on this side, and therefore you can get high variability in the results. In other words, it only takes one (1) or two (2) claims of significant dollar value to increase these numbers a fair bit, or decrease them, if you don't have those claims.

So it's very tough to predict what that number's going to come out with. These are the claims where there's tort actions involved outside the jurisdiction of Manitoba and so you're going to get variability in those numbers.

But, there's a small number of those claims.

MR. WALTER SARANCHUK: In terms of the PIPP benefits, those are indexed for inflation every year; is that correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: In terms of the actual income replacement coverage, there's a cap there at 90 percent of sixty thousand dollars ($60,000) or thereabouts, is that reviewed on a regular basis?

For example, the Workers' Comp. legislation has been recently changed to -- as a result of some amendments there, what is the MPI practice relative to income replacement ceilings, if you will for the purpose of those benefits?

MS. MARILYN MCLAREN: When the PIPP program started, the principle that was adopted when the legislation was being drafted and the principle that was adopted by the Legislature when they passed that Act, the modifications to the MPIC Act, I guess, was that the plan ought to cover on a, you know, universal basis, 90 percent of Manitoba wage earners.

So, what we do is keep track as to whether -- the extent to which -- I mean, and it's not a scientific mathematical study every year, but we make sure, sort of, that the reasonableness of the annual CPI increases are, for the most part, keeping reasonable pace with annual income increases in the Province. So, that today I think it's sixty-six or sixty-seven thousand dollars ($66,000 or $67,000), still reasonably represents 90 percent of Manitoba wage earners.

So, until the legislature decides to change the principle, our responsibility is to make sure that the compensation stays in line with that original principle.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren.

Now, I'd direct your attention to...

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Just before I ask you to turn to Tab 33, I was...

(BRIEF PAUSE)

MR. WALTER SARANCHUK: I'm interested in the Corporation's view regarding the tables that were just reviewed in Tab 16.

Do they provide any evidence of systemic bias in claims forecasting?

MR. BARRY GALENZOSKI: No, I'm not sure I understand where you're pointing at with respect to systemic bias.

I guess you'd be looking at the claims incurred numbers as being the main one to look at?

MR. WALTER SARANCHUK: Yes.

MR. BARRY GALENZOSKI: If we take a look -- just run the claims incurred numbers, looking at 2000/2001, we were under -- we were under the -- our projection and revised numbers were under actual. We were under actual for the '01/'02 year. We were under actual for the '02/'03 year. We were under actual -- we were under on the projected and revised numbers on the actual for '03/'04.

So, I guess if there's any bias, it's that we underestimated it for a number of years compared to the years that were overestimated.

MR. WALTER SARANCHUK: If you would just

continue on to the 2004/05 and '05/'06 years?

MR. BARRY GALENZOSKI: It doesn't really make my argument, so I stopped there.

MR. WALTER SARANCHUK: That's why I asked you to refer to those.

MR. BARRY GALENZOSKI: Okay, those years, for '04/'05 we were -- we were under because of the -- the reserve reductions on the IBRN. We were projecting at five-o-five (505), revised at 513 million, we ended up with 457 and currently we don't know the final outcome in '05/'06.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So on an overall basis, have you come to any conclusion in terms of a systemic bias?

MR. BARRY GALENZOSKI: There is none.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: As a result of the change in the Workers' Compensation Board legislation and the regulations raising -- or at least eliminating the target -- the ceiling for employment income, and considering the fact that some accident victims have an option or an election to take either the Workers' Compensation or the MPI benefits, does the Corporation view that as being favourable from its standpoint to the extent that there perhaps will be more people opting for Workers' Comp?

MS. MARILYN MCLAREN: I think you're looking at a very, very small likelihood because the program does cover 90 percent of Manitoba wage earners. So, for the first -- you know, 90 percent of all claims are pretty much on an equal basis in terms of income. People who earn more than that may very well decide to go elsewhere.

Our experience tends to be that for those people who have a choice, with Manitoba really being the only jurisdiction in the world that we know of where workers have that choice, everywhere else Workers' Compensation is primary. They go there without choice.

People with longer term injuries are probably more likely to come to us. Shorter term injuries are more likely to go to Workers' Comp. But, you know, people make very individual decisions. So, I think that the chance that you have someone very seriously injured at the very top end of the income scale that may otherwise have decided to come here that would go there, I guess there's a possibility.

But it's certainly not material in terms of claims costs.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren.

I'll now move on to the topic of claims cost control initiatives. And we'll have a few questions on bodily injury and then, in so far as the all perils coverage goes, I'll touch on, after market and recycled parts, after which, My Learned Friend, Ms. Everard will then continue her cross-examination in that little area.

Dealing with bodily injury claims costs control initiatives, I'd refer you to Tab 33 which indicates the Corporation's response to question number -- I'm sorry, to the Interrogatory number 6 served by the Public Utilities Board in the second round.

And the Corporation was asked as follows quote:

> "Please provide an estimate of the average time to undertake an evaluation of a case and the anticipated timeframe to complete the review of the remaining one hundred and six (106) case files."
>
> End of quote.

Could you read in the response please, Mr.

Bedard?

MR. WILF BEDARD: Certainly. The response is:

"Given the complexity of the files in the prolonged recovery unit the evaluation process is a lengthy one. In addition, the case managers in this unit are required to undertake all duties normally associated with case managing a file such as meeting with the claimant, consulting with caregivers, administering benefits and developing rehabilitation plans. For files of this nature performing such tasks successfully requires considerable effort as previous assumptions must be re-examined, adequacy of existing medical information reassessed and new options of rehabilitation explored. All with a view to reducing dependency on treatment, enhancing quality of life and reintegrating the individual into the community to the fullest extent possible. The Corporation anticipates that all files currently in the unit will be evaluated in the coming year."

MR. WALTER SARANCHUK: Thank you, sir.

Apparently, based on some information provided by the Corporation through the Interrogatory process, only three (3) claims have been settled over the last six (6) months or so; is that considered normal?

MR. WILF BEDARD: Well, they're not settled. This is a unit that's only been in place since about May of this year. We put a supervisor and five (5) case managers together to concentrate on the category of injury that falls within the scope of this initiative.

They are continuing to manage these cases. They've only concluded their reassessment on four (4) at the time, but that continues to grow. Work continues to be pursued on all of the cases in that unit.

Those that are successful will be concluded on that basis in terms of determining that people can have -- gained, let's say, their pre-accident condition. They are now able to return to work. They -- the new revised rehabilitation plan has been successful and allowed them to return to a new occupation or -- or a former occupation. Then that's where we're getting our savings in terms of -- of the case reserves.

We'll continue to manage these, we'll

continue to work on these files, in the way that this answer has described, over the coming years. Some will be successful, as described, others will not be, and new files will continually be coming into the -- into the program that meet the criteria for this type of evaluation.

MR. WALTER SARANCHUK: And in terms of the injuries that give rise to this kind of examination. Is there -- do they fall within a particular category?

MR. WILF BEDARD: What we've been seeing over time is that where we do end up having a number of people who, for whatever reason, they can no longer resume normal activity, usually employment. The rehab plans that we've had in place have failed for one (1) reason or another.

The injuries generally are non-catastrophic, they are soft tissue whiplash type injuries predominantly, and they've been on income replacement in excess of -- of five (5) years.

And we believe that a good hard look at what's been going on with these individuals over that time is necessary, and the reassessment is -- that's being undergone in this unit is -- is providing that type of -- of critical oversight.

MR. WALTER SARANCHUK: So in terms of a

goal, or a guideline that you follow in -- in operating that department, I guess theoretically it is to have all of those claim files addressed, and have those people back to their pre-existing activities.

But realistically these are, I take it, some of the most difficult types of claims to resolve; is that correct?

MR. WILF BEDARD: Yes, that's correct, they -- they clearly have -- have been suffering from their injuries associated with an accident for a number of years. The medical treatment plans that have been put in place, the rehab plans that have been put in place, obviously have failed to this point.

And many of them will -- will be legitimate and for good reason. Other -- others perhaps needed a little bit more creativity, a little bit more oversight, perhaps a reassessment of -- of the individual's condition. That's what we hope to be doing within this unit over time.

This unit is in place on a two (2) year pilot. We thought that, given the number of cases that we had that fell within this category, that it would be beneficial to the Corporation to remove them from the general case load of case managers and develop this unit, and so far they have been reaching quite a lot of success.

I know that, as recently as this morning, I got another memo from the Director of bodily injury who's in charge of the unit telling me that we've been successful in reintegrating two (2) more people into the work force as the result of a new created rehabilitation plan. And as a result of that, we have reduced reserves to -- reduced reserves on those two (2) cases to the tune of almost a million dollars.

So, it benefits everybody, it benefits the Corporation, it benefits the individual, it benefits the -- the premium payers, these people are -- are no longer collecting income replacement, they're no longer dependent on -- on the treatment modality. And I think it's a real win for everybody, and that's the reason why we -- we put this unit in place.

MR. WALTER SARANCHUK: Thank you.

Can you advise as to the status of the Corporation's negotiation for an agreement with the chiropractors? For example --

MR. WILF BEDARD: Yes, I can.

MR. WALTER SARANCHUK: -- the -- the previous agree -- for example, sorry for the interruption. The previous agreement expired when?

MR. WILF BEDARD: The previous contract

expired at the end of the calendar year 1999, and that the terms and conditions of that agreement are still in place. So we are still refunding or paying chiropractors for treatment based on the -- the schedule of 1999.

MR. WALTER SARANCHUK: So then what is the current status of those negotiations, sir?

MR. WILF BEDARD: Currently we are in active negotiations. There is meetings that are ongoing between MPI and members of the Chiropractor's Association. They are meeting right now about every two (2) or three (3) weeks.

They continue to work on the issues at hand, being some determination in terms of what an appropriate frequency and duration period would be for a soft tissue injury for an individual undergoing chiropractic treatment. And there's been many discussions and many differences of opinion on that issue over the past number of years.

Over time there have -- the negotiations have stalled. It's gone in fits and starts but we are in active negotiations right -- right now with representatives of the Association.

MR. WALTER SARANCHUK: So in terms of a -- a negotiated new agreement if you will, is there a target date that the Corporation has in mind?

MR. WILF BEDARD: No, we have no target date.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And so can we conclude from that, that the Corporation is satisfied with the current state of affairs, the current arrangement?

MR. WILF BEDARD: Well, we continue to -- to have a very healthy relationship with them in spite of the fact that the agreement has been ongoing negotiations for this period of time, but the relationship is healthy.

They know what our issues are, we know what their issues are and hopefully at some point in the future, we'll come to terms with -- with a new agreement.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And at SM-5.3(d) in Volume I, there's reference to the CARS systems enhancement. That's at page 10.

Can you please explain what the CARS systems is and please elaborate on the information that's been provided in SM-5.3(d).

MR. WILF BEDARD: Sure, CARS is our automatic claims system that tracks our claims activity for us. And over the past number of years, we've recognized that we needed to start collecting a lot more injury data within the claims system, and over the past number of years we've been doing that.

Hopefully with that information we'll be able to under -- understand the progress of -- of PIPP, track certain activities better, over time, and have a much better understanding of what's driving that program into the future.

MR. WALTER SARANCHUK: And moving on to the all perils costs that you incur, in terms of the after market and recycled parts success, if you will. I wonder if you'd turn to Tab 19, please, which reflects the information provided by the Corporation in response to PUB Interrogatory 22 in the First Round.

And can you just take us through those figures and comment on them, particularly the most recent experience, Mr. Bedard?

MR. WILF BEDARD: Certainly. There are three (3) -- in the process of repairing vehicles there are three (3) types of parts used. New parts being original manufactured parts, parts that are manufactured by the individual who manufactured the car.

So if -- you'd repla -- replacing a hood on a GM with a hood purchased from GM.

After market parts are parts that are new parts but are manufactured by somebody else, other than the original equipment manufacturer.

And recycled parts are parts that are original OE parts but are purchased from the recycling operations around Manitoba.

And we keep track of the expenditure in all three (3) categories so, for example, for the 2004 year, the total number of parts that we used within MPI for repairing vehicles, 63 percent of the parts used, representing $65.5 million, was expenditure there.

Twenty-two (22) percent of the parts used were after market, representing $22.8 million.

And the after market -- pardon me, the recycled parts being 15 percent or -- pardon me, $15 and a half million in -- in purchasing of those parts.

MR. WALTER SARANCHUK: And one final question: 2001 indicates that -- or the line for 2001 indicates that there were more -- there were more new parts, if you will, purchased, as opposed to the other years; is there a particular reason for that to your recollection? The $70 million, for example.

MR. BARRY GALENZOSKI: There would have been the hail storm that year that probably accounted for that.

MR. WALTER SARANCHUK: Thank you, Mr. Galenzoski.

Subject to whatever question or two (2) the Board Panel might have, I'll now turn the microphone over to my colleague, Ms. Everard.

THE CHAIRPERSON: Just before I call on Ms. Everard, just a couple of questions. And appreciate we're not actuaries, the three (3) of us sitting up here.

Mr. Galenzoski, you were talking about the PIPP and the claims incurred and the fact that it turned out in '04/'05 that $50 million of claims with respect to PIPP that had been put in in '03/'04 were subtracted out in '04/'05; did we have that right, that you were referring to a financial factor?

MR. BARRY GALENZOSKI: No, it wouldn't have just been '03/'04, it would have been from all the years prior. This -- that's what -- the point I'm getting at is that whatever you see in a fiscal year number, it just is the change in all the numbers from all the other years, plus the new incurred for the current year.

THE CHAIRPERSON: Thank you. I

appreciate that. That clears up something.

So the review that was undertaken was going back over the -- all the years that the claims were open. This is a special project, or...?

MR. BARRY GALENZOSKI: No. This is just normal work that we do. Twice a year there's reports which are both filed here in the application where we're looking at our entire claims database and reassessing it.

THE CHAIRPERSON: I realize on the total size of the unpaid claims, the percentage, although it's large from a net income perspective, pales into insignificance when it looks at the total unpaid claims portfolio.

But the -- as part of the ongoing process was there some particularly dominating fact that would lead to the adjustments, like a change in a discount rate or something of that nature?

MR. BARRY GALENZOSKI: No. Nothing like that. It would have been no major changes to those types of factors. It was primarily, you know, just reductions that we saw from the previous year on those head injury claims. As well as just other changes for all the other years going together.

You are talking about a liability that exceeds $1 billion and so you're correct in your statement that it doesn't take an awful lot to change it by a significant dollar value. And that's one of the points we make in -- in support of a higher RSR.

THE CHAIRPERSON: Exactly that. In other words, if we can see a shift that appears to take place in two (2) years. But you correctly point out that it actually affects a number of years in the past, if you worked out the ultimate claims costs, I imagine, for a whole variety, a number of years, there's no reason to discount the possibility of the opposite occurring in a future year?

Where a review near the end of the year would add $50 million to the claims incurred in the -- in that case, the provision itself.

MR. BARRY GALENZOSKI: I can tell you that I have been on the unhappy side of that equation too. With our PIPP -- our pre-PIPP run off, for instance, we were many -- many tens of millions of dollars -- I think it was -- ended up to be $80 million under reserved. So absolutely that can happen.

THE CHAIRPERSON: What type of precautions do you -- well, I know there's no such total protection against things like this, but do you undertake these reviews a long way ahead of the year end or is it, sort of, done on the cusp of the auditor signing off?

MR. DONALD PALMER: It's done -- we do it twice a year as Mr. Galenzoski mentioned. The first review is as at October 31st of each year. At that point in time we take extra time to review all the factors that we use, all the -- to -- to look at all the data, all the emerging trends, review all the factors that we've picked.

So that typically takes a couple of months. And then we use that as our basis for the February 29th evaluation, which we're under the gun a little bit more from a time perspective. We do some testing of the assumptions that we pick in -- in October, and then use that as the basis for our February 29th eval -- or 28th evaluation.

THE CHAIRPERSON: And just to confirm our understanding, the management of approval process of adjustments of that nature, how would that flow?

Do you have a project team doing the evaluation and they would presumably -- would they actually make the adjustments to the reserves, or would they propose them in sort of summary total or individual, or...?

MR. DONALD PALMER: Yeah, they're -- you know, when you say management approval, there is a management oversight of the -- of the work that goes on from the -- on the actuarial side. And by the way, you can find that work in Volume III, Part II at AI-9(a) and AI-9(b), that would be the reports as at October 31, '04, and February 28th, '05, respectively.

But, when we -- when we look at the work that's done by the external actuaries and internal actuaries regarding those reports, there will be meetings held where we will, you know, talk about the results achieved.

But there is no attempt made by management to try to move these numbers one way or the other, up or down or sideways, you know, we pretty much are accepting, once we've agreed with all the -- the findings, as far as the changes that they're making to the report, anything that they might want to bring to our attention.

And then we immediately book the results, generally speaking, unless there might be some underlying reason occasionally that, you know, for instance, if the change isn't that large, we may not book it until we see the year end results.

But, generally speaking, if we've got new information it's pretty much imperative on us to book that and -- and reflect that in our financial results as soon as we can.

THE CHAIRPERSON: I wasn't actually

pleased to raise it, because I wasn't trying to infer anything to the criticism of the Corporation. I was just wondering, through the process of that review, if lessons are learned that affect case reserve setting going forward, things of that nature, or just a -- just a normal part of the practice review?

MR. DONALD PALMER: Sure. Part of the evaluation of -- of liabilities is not only a quantitative evaluation but also a qualitative evaluation. I'm personally in contact with Mr. Bedard and Mr. Bedard's staff, as far as any reserving trends, changes. And not only will they report changes to me, but if I see something in -- in terms of some of those procedures, I will report to them.

And -- and often procedures are changed based on that, in order that we have a more consistent reserves -- case reserves going forward, which ultimately makes -- makes our job a little easier, if we have consistent underlying data, then -- then certainly our results are better as well.

THE CHAIRPERSON: Thank you, appreciate that. I just had one (1) other question on this particular area, and it relates to the fact that the PPI, the general review, we haven't actually you know, gotten fully into it right now, about the things that you would learn on trends and that. So excuse the question if it sounds odd.

But not directly to do with MPI, but with respect to the actions of other insurers, because PPI is duration driven, and in fact, the weekly indemnity benefits, it's the question of how long it takes people to recover and rehabilitate properly.

There has been some trends that have been noted with adjustments of, you know, for example, collective agreements, et cetera, where agreements are made between unions and managements to integrate the benefits on private insurance policies so that they don't duplicate your benefits, which create, what some people have called a moral hazard or something, or less of an incentive perhaps.

Have you noted any trends of that nature, do you have any concerns with respect to the duration growth from that type of thing?

MS. MARILYN MCLAREN: We have some concerns about the uncertainty we have in that area, I guess. And I don't know that -- you know, there's limited anecdotal information that comes forward from claims that says, occasionally, you know, we think one (1) of the problems with a particular claimant is because we think they are double dipping.

They're getting the income replacement indemnity from us, but they're also claiming sick leave or whatever from their employer. It's very anecdotal, and nothing at all there that would cause us sort of substantive concern on the claims side.

But in the early days of the program we worked very hard and a number of labour agreements and corporate policies were changed to reflect the primary plan that we have here with MPI.

But, I -- our uncertainty lies in the fact that we're not sure to what extent that has, sort of, fully permeated the labour force. And we do feel an obligation to sort of continue to get a better handle on that and make sure that employers are all fully aware that the plan is primary and that they respond appropriately to that.

So, that is something that will continue to be pursued by the Corporation.

THE CHAIRPERSON: But, in any case, to give comfort to everyone, you're monitoring each claim on an ongoing basis with medical reports and things of that nature. So, I don't want to overbuild the problem more than it is. Thank you.

Ms. Everard...? Sorry, Mr. Evans...?

MR. LEN EVANS: Just a general question.

Maybe this is not the right place, but I was just comparing your various benefits under PIPP income replacement and so on with the various other provinces and you provided this information. I'm very pleased to see you compare fairly favourably with these provinces that you indicate.

Based on that, however, I believe you commissioned a Barron (phonetic) report and you have a revised Baron report on that and I don't know whether this is the place to just ask you.

Are you satisfied and have you -- is there any reaction by MPI to the Barron report?

MR. DON PALMER: The purpose of the Barron report, one of the prime purposes was -- was to look to see if the performance, the financial performance of the plan is about where it -- where we thought it would be when we entered into -- into PIPP in 1994.

We did some projections with us and with Tillinghast (phonetic) at the time to take forecast and say, what's going to happen with this new plan. Whenever you do that kind of extension -- extensive change to your compensation structure, there are some pretty heroic assumptions that you might have to make, because we didn't have any existing data.

I guess we look at, with some pride, at

the -- I think in the conclusion of the Baron report that said these projections were remarkably close to what -- what has been the actual experience.

So, from that standpoint, yeah, we're very satisfied with the results of that report.

MR. LEN EVANS: Thank you.

THE CHAIRPERSON: Thank you. Ms. Everard...?

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman. We'll move then to the topic of auto theft suppression initiatives and if I can refer you, Ms. McLaren, to SM-8.7.2 as a starting point, in Volume I of the Application.

(BRIEF PAUSE)

MS. CANDACE EVERARD: It's page 22 of SM-8.7 and there's reference in paragraph SM-8.7.2 to the Coppell (phonetic) Consulting Services study. Perhaps you can give the Board an indication of the high points of that study. I appreciate that it's at AI-17 in full form, but a summary would be good if you could provide that.

MS. MARILYN MCLAREN: We'll try a very brief summary without pulling the document, and if you want me to, I can be more specific.

Really what we were trying to do was trying to get an independent external assessment of the programs that we currently had in place, I guess, about a year or so ago, maybe a little less than that; perspectives on what best practices were in other jurisdictions and recommendations from that organization as to how the Corporation's existing sort of contributions at the time in the auto-theft world of Manitoba could be improved.

MS. CANDACE EVERARD: And I understand, or I believe that one of the items that came out of the report was the appointment of the director of auto-theft prevention, or was that something that the Corporation did independently of the Coppell study?

MS. MARILYN MCLAREN: We did that independently.

MS. CANDACE EVERARD: If I could direct your attention then to one of the interrogatories posed by the Board in the first round, number 63, which deals with the director of auto-theft prevention and the staff in that department.

It's not in the book of documents.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: I note from the response to the Information Request that there are six (6) staff members in that particular department; is that correct?

MS. MARILYN MCLAREN: Yes. That sounds right.

MS. CANDACE EVERARD: And can you summarize for the Board what the mandate of that department is and what specific initiatives it'll be working with going forward?

MS. MARILYN MCLAREN: The mandate of that department is really to serve as the focal point and management oversight for all of the Corporation's auto theft initiatives.

As you know, many -- particularly the two (2) big initiatives that we've embarked on this year are in no way, shape or form, sort of, fully under the control of Manitoba Public Insurance. And that's, you know, breaking new ground, to a certain extent, for the Corporation because we tend to come up with initiatives that are, for the most part, within our -- much more so than this, within our control.

So, we're partnering with a number of organizations in the Auto Theft Task Force and with respect to the auto theft suppression strategy. And we're partnering with CAA Manitoba, in particular, but other suppliers of immobilizers and the immobilizer retail industry in Manitoba on -- on the Immobilization Strategy as well.

So, this individual clearly is responsible for the people and the resources within MPI dedicated to fight auto theft. But, also the individual director responsible is -- is the key focal point for all of our collaborative initiatives with the community as well.

MS. CANDACE EVERARD: Thank you.

If we can continue looking at SM8.7 and, in particular SM8.7.4 which is entitled, Manitoba Auto Theft Suppression Initiative, or MATSI.

Now, I believe from some earlier evidence, both from you and Mr. Galenzoski the name of the strategy has now changed to the Winnipeg Auto Theft Support Strategy; is that correct?

MS. MARILYN MCLAREN: Suppression Strategy.

MS. CANDACE EVERARD: So how does that new strategy differ from MATSI, if at all?

MS. MARILYN MCLAREN: It doesn't. The

name changed because really, for all intents and purposes, the Manitoba label on the initial program was -- was a little bit broader than the program really is.

This is a program focussed on Winnipeg.

MS. CANDACE EVERARD: And can you -- we know we've heard already in evidence that the goal -- or one (1) of the goals of this initiative is to keep tabs on specific identified individuals.

And can you just explain specifically how that is going to be accomplished and -- and what role each of the various parties will play in bringing that to fruition?

MS. MARILYN MCLAREN: The people that are going to make this happen really, is specially identified team of staff in the Provincial Department of Justice; Corrections Branch of the Department of Justice and the Winnipeg Police Service.

Really, the concept is that auto thieves, people who have been convicted of auto-theft, have really been categorized into three (3) main categories. And those are the very worst of the worst in terms of how often they offend and then, sort of, the next worst category, and then those who have had some involvement in auto theft and have been convicted of auto theft but have, based on this categorization, have a better chance of being turned to more fruitful endeavours in the world.

So, the major focus of this initiative is really the top two (2) categories. They're known, you know, within this task force, as the level 4 and the level 3 offenders. There is close to seventy-five (75) in the very worst of the worse category. And there's about a hundred and twenty (120) in the next category.

And based on which category they're in they get differing amounts of contact from probation services. And the Winnipeg Police Service has stepped up and are providing significant and immediate back up when necessary to the probation staff.

And if the probation staff are in a situation where they cannot respond or if they find out someone has breached their conditions, the police are there following-up in less than three (3) hours, generally.

So what we've seen start to happen is a couple of things, again anecdotal information. We've had situations where someone has been released with conditions, has breached the conditions the first day and was back incarcerated that evening.

We're also hearing that the -- particularly, or both actually, the level three (3) and the level four (4) individuals are noticeably unhappy with the level of supervise -- supervision they're receiving. They're pushing back a lot, so that's really a good indication to us that it's working as well.

MPI is funding the probation services component, that's our role in this, we don't have control of those staff, we don't have control of the program. We have a lot of involvement in sort of getting reports from it, participating in Steering Committees, have a lot of oversight with the decision making process as to how this happens and who is categorized into what -- which group, and whether it is three (3) hour -- every three (3) hour in person contact, whether it's phone contact.

All of those decisions are made by Probation Services and -- and Winnipeg Police.

MS. CANDACE EVERARD: Has there been any noticeable results as a result of this initiative to claims frequency or claims costs at this stage?

MS. MARILYN MCLAREN: Well as I mentioned the other day, overall, Winnipeg theft is down, I believe, close to 14 percent year to date compared to last year. Now, this program itself was not fully staffed and fully operational until just the last month or so.

So I don't think this program can take full credit for that, but there was a -- a pilot program that focussed on fifty (50) of the worst offenders, not the almost two hundred (200) that this -- that we're now funding, but fifty (50) of them. And I think that -- that most of the very positive results we've seen so far are really to the credit of -- of the first pilot.

MS. CANDACE EVERARD: And we understand, from the answer to Question 63 in the First Round, that the funding, being provided by the Corporation, is about nine hundred thousand dollars ($900,000), annually?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: And that's going to be for two (2) years?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Is there any possibility that the funding will extend beyond the two (2) years?

MS. MARILYN MCLAREN: I -- I think that's a possibility. There's certainly no decision been made by the Corporation in any way, shape or form. But I think what we were trying to do when we set this program up is really find a mechanism that we had a lot of confidence would give us some short term benefit, until we could have significant immobilization, particularly the Winnipeg fleet, that would be the long term solution.

This -- a program like this really has

been proven successful in other jurisdictions. We believe it can give us 10 to 20 percent reduction in theft, likely. But it takes constant, constant pressure, and allocation of the resources.

And what we found in -- in -- particularly in Regina, when either the probation staff or the police have an emerging issue that they have to deal with, they divert the resources and within hours theft spikes right back up again. So it's not sustainable in the long term.

If we thought that after two (2) years we could make a case that we still needed a bridge to the immobilized fleet, we might consider continuing the funding, all else being equal, but as I say, we're a long way from making a decision like that.

MS. CANDACE EVERARD: Okay. Let's turn then to the immobilizer strategy, which is referenced in the application materials at SM-8.7.5, which is at page 26 of that section in the first volume of the material.

Noting on page 27, the second full paragraph, which indicates that the Corporation has adopted a three (3) prong strategy to significantly and permanently improve the incidents of auto theft in Manitoba.

Can you read in for the record what the components are of that three (3) prong strategy?

MS. MARILYN MCLAREN: Yes.

"The first component is the establishment of the $40 million Immobilizer Incentive Fund from basic Autopac retained earnings.

The fund will be created by segregating basic Autopac retained earnings into two (2) components, $40 million in the IIF, and all remaining basic Autopac retained earnings will be in the RSR.

This $40 million represents a large percentage of the basic plans 2004/05 net income, which was $68 million above forecast. This fund will be used to provide every Manitoban who installs an after market immobilizer that meets the national standard, with a contribution of a hundred and forty dollars ($140) towards the cost of the device and its installation.

The total cost of the device, installation and taxes is expected to be no more than two hundred and eighty dollars ($280).

A description of the expected charges

against this fund, the financial reporting of all related activities and assumptions with respect to take up of the incentive are included in the document filed in Section AI-17(c).

The second component is application to PV for approval of interest free financing and waiving of the standard four dollar ($4) financing fee for every Manitoban who installs an after market immobilizer that meets the national standard and chooses to finance the residual costs of the device and its installation.

In addition, the repayment into the hundred and forty dollar ($140) loan can be arranged for up to five (5) years and would not commence until the next renewal date.

And the third component is continuation of the annual forty dollar ($40) insurance discount for vehicles with approved after market immobilizers."

MS. CANDACE EVERARD: And I think it's been made clear on the record already that this program is in place now?

MS. MARILYN MCLAREN: Yes, it is in place now. The other thing that's not clear, from this material, is that there was about twenty-six hundred (2,600) Manitobans who had purchased and installed after market immobilizers, prior to the announcement of this program.

The Corporation has provided them with a hundred and forty dollar ($140) cheque, effectively, and recognizes -- in recognition of their sort of early adopter status, and we didn't want anyone to be disadvantaged by taking an early step to immobilizing their vehicle.

That's been done already; those cheques are in their hands.

MS. CANDACE EVERARD: So just to clarify. This is all in place even though it hasn't yet been approved by the Board?

MS. MARILYN MCLAREN: What this document talks about specifically requesting approval for is elimination of the financing fee.

And I guess strictly speaking, you know, we've used that language here but technically, legally in the Corporation's perspective likely and retrospect on my part, you know, we are applying no financing charges on something that is not a basic insurance premium.

You know, when we come here and apply for the four dollars ($4) fee, and the prime plus 2 percent interest rate which always forms part of the Application, it's in relation to a basic compulsory insurance premium. This is different than that, as well.

So yes, it's up and running and has been implemented.

MS. CANDACE EVERARD: Okay. If we can turn the page then to page 28, continuing on in this section dealing with the immobilizer initiative.

The first full paragraph on page 28, references three (3) important principles that the Corporation feels are critical to the success of the program.

Can you advise of how the Corporation will be able to or how it will track the progress towards the goals that are set out?

MS. MARILYN MCLAREN: Well I think the first two (2) are pretty straightforward. You know, we are regularly tracking how many -- how many vehicle owners have expressed interest, how many have made a commitment, how many have had the devices installed.

We've kept track of how many of them are just paying their share of the hundred and forty dollars

($140) up front; how many want to take advantage of the financing.

Of the people who have come forward, how many own the high risk vehicles, the top hundred (100), and how many own other vehicles.

All of that, so we are constantly tracking that and we will know, at any point, where we're at in relation to the 2011 goal and the 90 percent of the Winnipeg based fleet goal.

The third critical success factor really is in place and not only have we got the working relationship with CAA Manitoba, other individuals and companies who own the rights to other after market immobilizers that meet the national standard are -- have or are very close to entering the Manitoba market place as well.

And we expect they will be meeting that same price and will help achieve the access and availability targets that we've got to make the plan work.

MS. CANDACE EVERARD: And if I understand what -- or if I understood, rather, one of your earlier answers correctly, while you can't pinpoint exactly why there's been about a 14 percent downturn in thefts, it's the Corporation's belief, at this stage, that this initiative has had a least a significant hand to play in that?

MS. MARILYN MCLAREN: The Immobilizer Incentive Fund, I don't think, has had any role to play in the reduction of theft we've got so far, no.

No, I mean the reality is that Winnipeg auto thieves have certain characteristics and one of those is that they look for certain vehicles.

And we truly need 90 percent of their target vehicles immobilized before we'll see a significant decrease. Right now, today, they've still got a better -- probably better than eight (8) or nine (9) in ten (10) chance of finding one of these vehicles that they like and know how to steal that is not immobilized. We need to get that down to well, well lower than a one (1) out of two (2) chance.

They need to be searching and searching and searching and say, heck, this just isn't worth it any more to find one that doesn't have an immobilizer. We're a long way from that.

MS. CANDACE EVERARD: So what's the plan or what's going to happen if, for whatever reason, 90 percent of the -- the targeted vehicles don't take up on the program?

MS. MARILYN MCLAREN: Well, as Mr.

Galenzoski said the other day, you know, there's all kinds of different things the Corporation could do in that regard. But I think we have barely -- barely scratched the surface in finding ways to get them to be part of the plan.

I think we have a lot of work to do yet to make the plan that has just now been -- you know, within the last few months or so introduced, highly successful. And we hold confidence that it will be successful.

So I think, what do we do if it's not successful has not crystallized in our minds at this point.

MS. CANDACE EVERARD: And just in fairness, I'm thinking, specifically, about something that was set out in your prefiled testimony on page 5 where the statement was made that:

"If this immobilization strategy fails to move the Corporation towards the goal the Corporation expects to take more rigorous and stringent action in 2007."

Just from reading that it sounds like there may be something a little bit more specific in mind and I just want to clarify what you might have been referring to in that part of your testimony?

MS. MARILYN MCLAREN: No. We haven't got anything specific in mind. We know what the levers are. You know, there's always levers related to insurance rates. There's levers related to coverage. A lot of these vehicles end up being -- probably not as many as I would like most of the time, being written off and therefore off the road once they're stolen or in another kind of crash.

There may be some things that we can do, you know, to sort of change the standards of repair to get them back on the road. So I think you look at what are the requirements to get vehicles back on the road.

What is the coverage applicable to certain vehicles and is there anything we can do on the rating side. Those are very general areas that we would be pursuing, more specifically, when we decided we needed to.

MR. LEN EVANS: Excuse me. I wonder if I could ask a question. This is very interesting. I understand you've advertised generally about the immobilizer program.

Have you thought about sending direct mail to people who own these particular vehicles that are subject to theft, I mean, a direct letter to them pointing out the benif -- your program -- the benefits of your program and urging them to apply?

MS. MARILYN MCLAREN: Absolutely. Actually the letter -- the first letter has been drafted. It's approved and it's ready to be mailed. We will follow up with a couple more letters and we'll start in on phone calls and we will be asking for our brokers to help.

What we need to do first though, before we really start generating more demand, is that we need to make sure that the capacity in the marketplace is there.

When we introduced this program we had -- you know, Winnipeg had the capacity to install about a hundred immobilizers a week. We need to be able to do about seven (7) or eight hundred (800) a week and we're already now at three hundred (300). So we've done very well.

But before we start generating more demand, we need to know that we've got the back end in place.

THE CHAIRPERSON: We're just going to have our mid-afternoon break now. Thank you very much.

--- Upon recessing at 2:30 p.m.

--- Upon resuming at 2:55 p.m.

THE CHAIRPERSON: Ms. Everard...?

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Continuing on then at the book of documents, Tab 14, which contains two (2) Information Requests. Maybe not. Just a moment.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Sorry. I want to refer you to an Information Request that's actually not in the book of documents. It was the third question asked in the second round by the Board.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I'm told by Mr. Saranchuk that some of the books of documents have this particular Information Request at Tab 14, while others don't, and I'll accept responsibility for that.

In any event, it's -- it's Question 3 in the Second Round that we want to look at, and specifically sub C.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And my question is, looking at the answer provided by the Corporation in response to sub C, does this answer reflect that comprehensive premiums represent an average premium, meaning that there are high and low risk vehicles?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: All right. Looking at then Tab 13 in the Book of Documents, and in particular the seventh question or question 7 asked in the First Round by the Board. And looking at the schedule provided, or the attachment provided by the Corporation in that answer, I'd ask that someone explain the first two (2) lines on the table, which are entitled, Immobilizers purchased for current year and previous year.

(BRIEF PAUSE)

MR. DONALD PALMER: The current year is -- is the immobilizers purchased within that year and then the previous year is the accumulation of the past years as well. So you -- you get the population of the number of vehicles that are immobilized.

(BRIEF PAUSE)

MR. DON PALMER: And it's not completely additive, because we have attrition of the population every year, so there is some dropout rate that's accounted for within that, as well.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, and then continuing on with this attachment, if we could look at the line items under the heading, Impact of a Discount on Impact Statements, including the lines relating to discounts and reductions in basic claims incurred and extension, claims incurred?

MR. DON PALMER: Could you --

MS. CANDACE EVERARD: Okay, maybe that wasn't a clear question. In -- perhaps I'll phrase it this way: In taking into account those four (4) lines, that is the first two (2) lines relating to discounts and the second to -- or the third and fourth lines relating to reductions, it would appear looking at the last line in that section, total impact on income statements, that the Corporation does not expect to receive any material benefit from the program for the first two (2) years; is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Looking at the next section of the table which appears to be entitled, Impact of the Immobilizer Fund Strategy, perhaps someone can explain what this section represents?

MR. BARRY GALENZOSKI: Yes, this is just giving you a year by year indication as to the costs that would be charged against the Immobilizer Incentive Fund and how that fund would be brought down over the years.

MS. CANDACE EVERARD: And it would appear the total, and I'm looking at the line that reads, "total impact on basic RSR" the far right hand figure, is approximately $32.5 million; is that right?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: Now, I notice in Mr. Galenzoski's revised prefiled testimony, that's part of Exhibit PUB/MPI-8, and in particular at page 2 of that testimony at the bottom of the page, there's reference to costs of 1.6 million relating to the immobilizer program.

Is it the case then that there has been any benefit derived in the numbers for the current year, stemming from conversions that have already taken place?

MR. BARRY GALENZOSKI: No, there wouldn't be anything forecast in here for that.

MS. CANDACE EVERARD: Okay. Looking back at Tab 13 of the book of documents and the schedule provided in response to the IR there, is it correct that the Corporation is expecting comprehensive claims to be about $100 million less, that would be comprised of 85 million in basic and 15 million in extension over a period of a number of years, leading to a positive impact on income statements of approximately 97.5 million over the duration of the fund?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: And if we're reading this correctly, it would appear that that fund of 79.5 million is to be offset by the 32.5 million in costs making a net change of 46.9 million?

MR. BARRY GALENZOSKI: Correct.

MS. CANDACE EVERARD: So, just to confirm then, is it the case that the change or benefit of 46.9 million is the net benefit to be gleaned by the Corporation as a result of the immobilizer program if all of the assumptions prove correct in a perfect world?

MR. BARRY GALENZOSKI: Right.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Moving then to some questions on safety initiatives. If I could direct your attention to SM-5.5(b) and in particular, page 14.

(BRIEF PAUSE)

MS. CANDACE EVERARD: It would appear from page 14 that the Corporation's three (3) main priorities relating to road safety are: Occupant restraint usage, impaired driving and unsafe speed.

Is that correct?

MR. WILF BEDARD: Yes, that's correct.

MS. CANDACE EVERARD: And can you advise if the Corporation has any reports relative to these priorities and their effectiveness as has been produced with respect to the graduated driver licensing program?

MR. WILF BEDARD: Yes. That was the report that we filed and discussed yesterday, or perhaps it was Monday, on the graduated driver licensing.

MS. CANDACE EVERARD: Yes. And what I was getting at is whether there is any report relating to occupant restraint, impaired driving or unsafe speed that would be a report of a similar nature as the one that was looked at relating to graduated licensing?

MR. WILF BEDARD: These are -- no, there isn't. These are the -- the initiatives that are the key -- three (3) key initiatives for our road safety area and continue to be over the last number of years.

MS. CANDACE EVERARD: And has the Corporation been able to gain any indication of the measure of success as a result of these three (3) initiatives?

MR. WILF BEDARD: We know that there's a high degree of recognition of our programs. The public is well aware and support what we're doing here.

When we speak to the public in terms of our polling and awareness of the initiatives there is a high degree of -- of awareness and recognition of the initiatives.

MS. MARILYN MCLAREN: These are priorities, not specific programs that we would be measuring against specific results. If you be -- you know, there's a level of detail, sort of, within that, right, if you want to look at something like occupant restraint usage, for example.

All the road safety stakeholders in Manitoba established an agenda to try to increase usage; we played a role in that. But there are other factors that were all part of that.

So it was not an initiative driven solely by the Corporation, for example.

MS. CANDACE EVERARD: Okay. Just for a moment, I want to look at expenses relating to road safety. If I could direct your attention to TI9A. First, the original TI9A that formed part of the June filing.

It appears that the figures for safety and loss prevention, which is the fourth last line in the table, reflect an expense of about 1.6 million in 2004/05 and an increased forecast for 2006, or pardon me, an increase projection for 2006/'07 of about 3.1 million.

Is that as a result of the immobilizer initiative or is there some other reason for that increase?

MR. BARRY GALENZOSKI: No. That I believe is the immobilizer initiative that's impacting those numbers.

MS. CANDACE EVERARD: And with respect to the revised version of TI9A there's a similar increase; would that be the same reason for that as well?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: Okay. Then there

are just a couple of miscellaneous issues that we'll address before we close our cross. And the first relates to the subject of Interprovincial trucking.

Can someone confirm that there are approximately seven thousand (7,000) Interprovincial truckers in Manitoba?

MR. DONALD PALMER: Interprovincial registered trucks. And subject to check I would accept that.

MS. CANDACE EVERARD: Now, when we're speaking of Interprovincial registered trucks, is there something unique about those registrations, relating to coverage?

MR. DONALD PALMER: They are -- the coverage -- they are subject, or the drivers, if they are Manitoba residents, are eligible for PIPP coverage. There is not a requirement for other coverage to be sold by Manitoba Public Insurance.

MS. CANDACE EVERARD: Okay. So the registered owners then, or the operators would not pay any premiums to the Corporation for coverage?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And in turn, they would not be entitled to any collision or comprehensive coverage from the Corporation.

MR. DONALD PALMER: That's also correct.

MS. CANDACE EVERARD: So if one (1) of these vehicles then is -- is involved in a collision in Manitoba, how is the owner compensated for loss, in terms of the damage to the vehicle?

MR. DONALD PALMER: That would be dependent on their other insurance arrangements that they would have made with Manitoba Public Insurance or some other insurance company.

MS. CANDACE EVERARD: Now, what about in a scenario where such a truck or a trucker would be at fault for an accident in Manitoba, the other vehicle involved in the accident being MPI insured, who would bear the cost for repair or replacement of the MPI insured vehicle, that is the other vehicle, not the truck.

MR. DONALD PALMER: Generally they would be insured by Manitoba Public Insurance under the basic program in most cases.

MR. BARRY GALENZOSKI: I can add to that, that we would have subrogation rights against that vehicle and we would do that.

MS. CANDACE EVERARD: You would pursue those subrogation rights?

MR. BARRY GALENZOSKI: Yes, we do.

MS. CANDACE EVERARD: Just to clarify, the subrogation rights would be pursued as against the insurer of the truck?

MR. BARRY GALENZOSKI: Yes, that's correct.

MR. DONALD PALMER: Given that it's an out of province insurer and out of province truck.

MS. CANDACE EVERARD: Now, what about the cost of any bodily injury to the operator of the MPI insured vehicle, in that scenario still where the trucker would be at fault?

MR. BARRY GALENZOSKI: If that's an out of Province truck then we can go after the out of Province truck for those damages also.

MS. CANDACE EVERARD: And that's on a subrogated basis as well?

MR. BARRY GALENZOSKI: Yes, and we do that.

MS. CANDACE EVERARD: So that's in respect of PIPP costs to the Corporation?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: Now, Mr. Palmer, a moment ago you said that the trucker would still be entitled to PIPP benefits for himself or herself from

MPI, if they are a Manitoba resident; is that correct?

MR. DONALD PALMER: That's correct. Again, generally they would be -- could also be eligible for Workers' Compensation benefits, in which case, again, they would make an election between Manitoba Public Insurance benefits or Workers' Comp, if they had the Workers' Comp coverage.

MS. CANDACE EVERARD: If there was no Workers' Compensation coverage and that wasn't an issue or an option, what would the net cost of the benefit to the Corporation be for benefits paid?

MR. DONALD PALMER: Well, are you talking in -- in aggregate, or are you talking for an individual claim?

MS. CANDACE EVERARD: In the aggregate.

MR. DONALD PALMER: It seems to me it's in the neighbourhood of about a million and a half per year, but I will take that as an undertaking to confirm that.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 11: MPI to provide Board with the net cost of the benefit to the Corporation would be for benefits paid.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: So is this structure in any way a subsidy in favour of the trucker -- truckers?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: To the extent that there are some Manitobans eligible to claim benefits under PIPP that do not pay contributions into the fund, that would be true.

These truckers, though, do hold driver licences and they pay a driver licence premium, so they contribute to the fund that way.

The -- this issue that we have and what -- the change that was made to the regulations under the MPIC Act to exempt these particular vehicles from payment of AutoPac premiums is because of the national and becoming international nature of long haul trucking.

You can have Manitobans driving vehicles plated outside Manitoba and prime -- most of that -- most of their miles may actually happen inside Manitoba.

You can have non Manitobans inside Manitoba plated trucks who virtually never come to

Manitoba.

So if you have a premium associated with a plate, there's no real relationship to the risk. You can have some trucking companies plating in Manitoba and paying an amount of premium that they may very well not have any drivers who are legitimately eligible to collect benefits.

You can have other people that, by virtue of their driver's primary residency in Manitoba, they can collect benefits that they don't contribute to.

It's a real anomaly in what we understand here in terms of our Manitoba insurance environment. To charge premiums on those vehicles was considered when the decision was made by Order and Council that to continue to charge premiums on those vehicles was creating an unfair disadvantage to the trucking organizations who chose to plate here in Manitoba.

So, yes, there are some Manitobans, some of them who are truckers, who are eligible to collect benefits who don't pay a direct premium, other than what they would on their driver licence.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. The next

topic that I want to get into is the pay as you drive vehicle insurance concept and I understand that the Corporation is familiar, at least, with the concept?

MS. MARILYN MCLAREN: Yes, that's true.

MS. CANDACE EVERARD: And perhaps you can advise of what your general understanding of the concept is?

MR. DON PALMER: Pay as you drive would add, as one of the classification variables, an amount of mileage driven per year to the classification criteria.

Essentially, the more miles that you drive, or more kilometres drive in a year, would mean that you would pay a higher premium.

MS. CANDACE EVERARD: Referencing for a moment one of the Information Requests posed by the Board in the Second Round and that is number 22, it would appear by the response, and in particular the response to sub (d) of the Information Request, that the Corporation to this point has not gained any information on the results or detail of the rating methodologies or done any research on an implemented paid, pay as you drive scheme.

Is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: It's my understanding that this is a concept, though, that has been implemented in some jurisdictions?

MR. DON PALMER: On a very limited basis there have been a few pilots. We have talked about those pilots within our response. There was -- Progressive (phonetic) did -- did a pilot in Texas, Aviva (phonetic) has done a pilot.

There's been a pilot, I think, in the UK jurisdiction but, to our knowledge, they're all pretty limited in scope and I think, generally, they were launched for those companies to get an increased market segmentation to essentially help with their own market advantage.

I think we're pretty satisfied with our market share in Manitoba.

MS. CANDACE EVERARD: Was the Corporation aware that the concept has actually been implemented, my understanding, on a permanent basis in Holland and in Israel?

MR. DON PALMER: I was not aware of that.

MS. CANDACE EVERARD: So is this a concept, then, that the Corporation rejects for future consideration and -- down the road?

MR. DONALD PALMER: Never say never. I think there is just too many obstacles right now. There's huge administrative difficulties with implementing such a program. The -- the key part of that is measurement of -- and two (2) ways of doing that.

You can either do it with some sort of self-reporting mechanism. Again, we don't have any of that built into our systems. You know, it wouldn't be as easy as people phoning in their odometer reading every -- every month because we just don't have the ability to -- to check that, nor police it.

The other way that you could do it, some of these pilots have done, is through some sort of mechanical means through GPS, for instance. Again, I think there's some major cost implications of that.

Certainly, that would be policing. I'm not sure that the population of Manitoba is ready for a government Crown Corporation to know where they are at all times and how they got there.

I think that there are just many, many barriers at this point in time.

MS. CANDACE EVERARD: Would you agree, though, that, at least theoretically, this is a concept that can benefit motorists -- or would benefit motorists who drive less than average?

MR. DONALD PALMER: One of the classification principles is to try to eliminate anti-selection. If -- and I think the suggestion was made within the Information Request that, Would you consider doing this on a voluntary basis.

And there's a clear cut example of you may get some anti-selection. Certainly the people that drive less would -- would select it and -- but that, of course, means that people who don't select it, the cost would drive them out for that and -- and increase those costs. You know, we're -- we're running a zero sum game.

So, again, I'm not sure that there's a point that there's real public acceptability for that.

MS. CANDACE EVERARD: Okay. The Corporation has acknowledged that it is subject to the Sustainable Development Act in Manitoba and we're aware that the Corporation has filed their policy in response to Information Request number 26 in the second round.

Looking at the paid concept from a sustainable development standpoint, do you have any additional comments and would the Corporation consider there to be any benefit to be derived out of paid from that standpoint?

MS. MARILYN MCLAREN: Yeah. I think we're certainly well aware of and committed to achieving or living up to our responsibilities under that act. I think we do. My understanding of that legislation that there's certainly nothing in there that specific that would drive a decision on the part of the Corporation.

The Corporation is -- is certainly committed to sustainability principles, absolutely. And I think when it comes to Manitoba Public Insurance, when we make decisions with respect to our classification system, Manitobans really truly need to believe that it's legitimate; that it's substantive.

That we can, you know, Mr. Palmer uses words like "policing," but Manitobans really expect that if we introduce something we have to have some credible way to ascertain whether it is being taken advantage of or being adhered to by policyholders. So that's really a consideration.

I think emerging technology is giving us all kinds of opportunities to do things in this regard that we haven't been able to do. The other thing that we need to keep in mind, though, that when it comes to Autopac it is a net sum game.

So what we're talking about is potentially differentiating amongst individuals but not likely lowering the entire cost of insurance for the province.

So I think, you know, there's considerations there. And -- and matching public expectations to do things that are legitimate and viable and sustainable with their expectations of -- of what that might mean to their Autopac rates, I think is something we always keep track of.

And I think this is not something I would see in the short term, i.e. the next two (2) or three (3) years, but certainly, as we said in our response to the Interrogatory Information Request, that it -- it is, it's an emerging area, you know, we -- we're watching it, we're paying attention.

And you've given us information about Holland and Israel we didn't have before, we'll follow up on that too.

MS. CANDACE EVERARD: Thank you. I just have one (1) followup question relating back to the Interprovincial trucking issue. Ms. McLaren, you issued the Order in Council relating to that structure.

Would the Corporation be able to provide the Order in Council number and the year that it issued, and if there's a regulation that relates to that, if that could be provided as well?

MS. MARILYN MCLAREN: Sure. And really all it was was a change to the Manitoba Public Insurance Corporation Act rate regulation that eliminated the premium for that class. But in terms of when that change was made, I believe it was 2001.

But we'll get that for you.

MS. CANDACE EVERARD: Thank you.

THE CHAIRPERSON: If at the same time, a supplementary, if you like, if you had anything that explains the implications of the regulation and the Order in Council, that would be helpful too. The implications for MPI.

--- UNDERTAKING NO. 12: MPI provide Board with, concerning the Interprovincial trucking issue, the Order in Council number and the year that it issued, and if there's a regulation that relates to that as well as anything that explains the implications of the regulation and the Order in Council.

MS. MARILYN MCLAREN: And I'll double check what we've provided in this forum before, I thought we gave some rationale and we talked about sort of the implications to the trucking industry and so on. But I'll follow up and see what we've done before and if there's anything else we can provide.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Sorry, Ms. McLaren, just one (1) additional question back to the sustainable development policy of the Corporation that's been provided.

On reading the policy it appears to relate to the Corporation's internal operations, but does the Corporation believe that the legislation should be considered for rate setting purposes in any way other than, as you've already identified?

MS. MARILYN MCLAREN: No, I -- I believe that it does not require, or even expect the Corporation to do that. You know, for thirty (30) some odd years every Government that we've had since Manitoba Public Insurance has been in place has -- has had a very, very clear expectation that this plan needs to be run like an insurance plan, and that we wouldn't be setting rates on some basis that could not be justified from an insurance perspective.

So, I think we -- that certainly is -- continues to be the expectation that the shareholder has on MPI.

MR. LEN EVANS: I wonder if I could ask a couple of supplementary questions in this area. It's a particular area I confess I'm very interested in, and I believe you've seen the Victoria Transport Institute Document, because it was forwarded and it's been circulated, and they've done a lot of research on this particular subject, and they list various jurisdictions that have this type of insurance, and as it was just mentioned, Israel, for instance.

And -- and each of these jurisdictions have various methods of calculating the mileage or the kilometres that's been driven.

The case of Israel, they are very sophisticated and they use electronic equipment. But then you get Holland, there's the Polis Direct, which is a major Dutch insurance company, began offering their kilometre policy in November of 2004, and -- and it goes on to describe how they collect. But they, among other things, they check mileage data, and annual vehicle inspections.

In Israel there's -- in South Africa, the Ned Bank, a major South African insurer offers pay per K, per kilometre vehicle insurance. Monthly premiums are based on the distance travelled in the preceding month, and are debited monthly in arrears. Mileage is automatically recorded each time the vehicle is refuelled using a Ned Bank card.

I guess the point I'm making is there's various methods, but the point is, it's being done, you know. And I would like to think Manitoba, because we do have a monopoly situation, could be ahead of the curve, sort of thing.

And -- and there's a great enthusiasm from what I read, and I guess I'm getting to my -- I'll get to my question in a minute, but the great enthusiasm developing around the world. United States, Texas has legislation encouraging their insurers to use this type of policy.

The Vancouver City Council passed a motion asking ICBC to look into this and see if they could implement it.

The State of Washington, California, people in areas of the world where there's a lot of traffic congestion, a lot of concern about the environment, as well as other issues like social justice issues, are very keen on this.

And I'm willing to forecast that in a few years, not too many years from now, that we're going to see more and more of pay as you drive insurance and it seems to me, especially with the environmental concerns that we have, that this is something that we should take seriously.

That -- and here we have an opportunity in Manitoba to lead the world in trying to fight vehicle emissions. This was pointed out, I think, at a delegate yesterday: One-third (1/3) of our pollution are from vehicle emissions.

And this is one way -- it discourages traffic to some extent, and to that extent you are, you know, doing your part to achieve the Kyoto accord objectives.

So anyway, I guess my question then is: Would the Corporation undertake to study this seriously and see whether -- and I know nothing is simple in this world, believe me, I know after thirty (30) years in the legislature, I know nothing is easy, nothing is black and white. And the road to hell is paved with good intentions as well.

But would the Corporation consider this suggestion, this -- this new approach, seriously, and see whether it could be practically implemented, either as a pilot project -- probably as pilot project to begin with, and then take it from there?

MS. MARILYN MCLAREN: I agree it's an emerging issue and it is something that will take more of our attention and more of our -- our effort to understand through time.

I, you know, at this time with the priorities that the Corporation has, I can't commit to you that we will, you know, start a major project to figure out how we could do something like this in Manitoba.

I -- I -- there is a limit to the number of big projects we can take on, and I -- I feel unable to make this a massive priority when it is still not quite ready for prime time in most of the jurisdictions that we understand.

The places that you talked about seeing it sort of up and running, are places where one (1) of two (2) things has happened, is where insurers believe they can get a market advantage because, for the most part, people who voluntarily step forward will be people who don't think they drive as much as the average person.

Most people probably think they don't drive as much as the average person, but that's the first thing. If insurers are doing it as a competitive advantage, that doesn't help us in terms of how to -- learning very much about how to do it, because that's -- that's not the business that we're in.

The other place, though, that it happens, is when it's a major public policy decision by, you know, major stakeholders and often the legislatures of a particular jurisdiction say, This is important to us and we have to pull up every lever we have to find ways to encourage people to drive less.

And certainly, you know, that -- that would be something that we would step up and respond to, but that's not a mandate we've been given at this point.

I think it's not something that Manitoba Public Insurance should be out there, pushing the bounds on; out there on the leading edge when the Government of Manitoba has not taken a massive leadership step forward to do any of those things with respect to trying to reduce the amount that Manitobans drive, trying to get to Kyoto through our own personal transportation.

So I think we absolutely need to be part of that public policy environment and we need to be consistent with public policy in Manitoba.

I'm not sure that we should be leading the way.

But having said all of that, we certainly need to find out more about what's happening in other locations and watch it as it emerges, for sure.

MR. LEN EVANS: So therefore, as I understand, you're prepared to do some more research and --

MS. MARILYN MCLAREN: Yes.

MR. LEN EVANS: -- see what's happening?

THE CHAIRPERSON: Ms. Everard...?

MS. CANDACE EVERARD: Mr. Chairman, unless Mr. Saranchuk advises me otherwise, I don't believe Board Counsel has any other questions at this time.

THE CHAIRPERSON: Okay. We have a couple more, perhaps.

On this matter of the Sustainable Development Act and the matters that Mr. Evans was talking about, the Board is increasingly getting seized with the issue in a variety of different fields.

I think, you're undoubtedly aware under the Kyoto accord, Canada committed to reduce emissions by 6 percent below 1990 levels and according to the recent numbers, we're 24 percent above where we were when the commitments were made.

The -- Manitoba itself has endorsed it to a significant degree. I mean, it's a lot of the efforts right now with respect to the discussion of wind power and things of that nature.

At our gas hearings, we've had Professor Miller and an expert witness he brought in argue that we should price into natural gas the externality factors related to the production of it and the transportation of natural gas which would take the price higher and the potential incorporation of inverted rates where the, you know, the first block would be lower than the top block.

So, I agree, particularly with my colleague, that the attention to these matters is going to continue to increase, because the one thing that hit me in reading the stuff about the paid program, for example, is the focus isn't so much on insurance, per se. And you can see how, whatever you call it, adverse selection, or anti-selection can work and it's a zero sum game.

But the -- when you look at the transportation networks and wear and tear on the roads and all the other risks that basically go with it, you start understanding more, I think, the driving force behind a lot of these thoughts.

On the other hand, the Board appreciates the fact that the Corporation has, we've heard, innumerable different ventures that you all have going on at the same time. You know, the integration of DVL and a whole variety of different -- and we're appreciative of that too.

But it will be interesting to watch how this file develops over time. For example, we have become -- acknowledged ourselves that the Board itself is subject to the act which causes us some thought because we have to determine how we reflect that mandate, if you like, in our own regulating processes.

For example, when you look at power regulation, does that mean that you, you know, look kindly on projects that may have a higher cost than other costs because of the environment.

But, in any case, it's certainly a developing field and I think that any further time that you have in research on it would be greatly appreciated. Not so much from, necessarily, the insurance aspects but from the overall perspective of the general environment and the infrastructure that we create for motorized traffic and things of that nature.

I had one very general question, just an observation because I wasn't proposing it, but it goes back to the talk in Ms. Everard's cross-examination with respect to the Immobilizers. But in looking over the material, first is a general question. It's not a trick question. I just try to phrase it in an insurance way if you like.

Is there any reason to believe that a top 100 vehicle that has an immobilizer installed would have any different incurred cost expectations than one that isn't currently a top 10?

In other words, once you put the immobilizer in the vehicle, is there any reason that there would be any need to discriminate its behaviour from any other? In other words, does the immobilizer do the fix?

MS. MARILYN MCLAREN: Absolutely. The after market immobilized vehicles have the same theft experience as the factory installed devices which is virtually non-existent. It eliminates it, for all intents and purposes.

THE CHAIRPERSON: Okay. That was -- so associated with the top 100 isn't a particular geography or anything else? It's just straight the nature of the vehicle?

MS. MARILYN MCLAREN: Absolutely. We've looked at that by all the various communities of Winnipeg. And there are some where the 1994 Dodge Caravan is a little more likely to be stolen. But it's not significant. It's as likely to be stolen in Transcona or South St. Vital as it is in what we think of more as Elmwood or downtown Winnipeg.

THE CHAIRPERSON: Okay. That was my impression from reading the material. I just wanted to check. The other thing was, is that it appears that you've done a fair bit of research, like segregating out the top 100 versus the other vehicles.

Just on an observation, it almost looks like there's enough information there to be able to make the claim that the other vehicles are subsidizing the top 100 vehicles when it comes to insurance rates?

MS. MARILYN MCLAREN: I would have to agree. The information that's in the book of documents somewhere that we kind of just flipped past shows that pretty clearly.

THE CHAIRPERSON: Because one of the charges on the Board, of course, is to assist the Corporation in setting just and equitable rates and it would appear on the evidence, and I'm not suggesting any instantaneous move on that front, but you seem to make a case for arguing that we have a group of vehicles that are being -- basically are being subsidized by another group on a continuous basis, by the appearance of it.

Is that a fair representation?

MS. MARILYN MCLAREN: Yes, it is.

THE CHAIRPERSON: Thank you.

Mr. Saranchuk, perhaps you could help us in the order of affairs at this point. We're at 3:37 and I believe that Mr. Williams and CAC/MSOS is up next. So let's go.

MR. WALTER SARANCHUK: Yes, sir.

THE CHAIRPERSON: Mr. Williams, do you want to start now or would you prefer to wait for an early start when we're all awake in the morning. Not to say we're asleep.

MR. BYRON WILLIAMS: That was a very subtle hint, Mr. Chairman.

THE CHAIRPERSON: Not to be too subtle, Mr. Williams.

MR. BYRON WILLIAMS: It was -- it was certainly sufficiently subtle. I'm happy to -- to start off tomorrow morning, and I -- and I guess it will allow me to refine my cross, so you'll use your time more efficiently tomorrow.

THE CHAIRPERSON: We appreciate that, thank you.

MR. BYRON WILLIAMS: Mr. Chairman, sorry to interrupt, but I did forget, both Ms. Desorcy and Ms. Hunter did -- did show up. I thought they were coming to watch me, but they want to see Ms. Everard in her cross-examination.

And to my horror I misidentified Ms. Hunter on -- on Monday, I called her Ms. Johnson, so -- and I can think of no excuse for that, only that she doesn't yell at me as much as Ms. Desorcy so I perhaps remember her name less vividly. Anyways, it is Ms. Hunter, not Ms. Johnson, I apologize to her for that.

THE CHAIRPERSON: I'm sure they'll forgive you. I'm sure you've got lots on your mind. We'll see you all tomorrow at 9:00, thank you.

(PANEL RETIRES)

--- Upon adjourning at 3:40 p.m.

Certified Correct

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Carol Wilkinson