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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE COMPANY
GENERAL RATE APPLICATION
FOR 2009/10 INSURANCE YEAR

Before Board Panel:

- Graham Lane - Board Chairman
- Eric Jorgensen - Board Member
- Alain Molgat - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 16th, 2008

Pages 1587 to 1665

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1	TABLE OF CONTENTS	
2		Page No.
3		
4	Closing Submissions by MPI	1590
5		
6		
7	Certificate of Transcript	1665
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
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1 --- Upon commencing at 9:04 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.
4 We're here to hear MPI's closing argument.

5 Mr. McCulloch...?

6

7 CLOSING SUBMISSIONS BY MPI:

8 MR. KEVIN MCCULLOCH: Good morning, Mr.
9 Chairman, Members of the Board.

10 At the outset, I want to thank the Board
11 for providing me with the time between completion of
12 closing argument last Friday from the Intervenors and
13 from Board counsel allowing me the time to prepare for
14 this closing argument. Hopefully, it's permitted me to -
15 - the time to properly respond to the submissions of the
16 Intervenors and to their counsel, and also time to check
17 out some numbers that were displayed or -- or talked
18 about in closing arguments. And by "checking numbers"
19 I'm not referring to the blood pressure of those MPI
20 witnesses who sat through closing argument.

21 Before getting down to details, there's
22 some broad higher level comments or observations that I
23 think need to be put on the level. If a total outsider,
24 say an alien from outer space, was parachuted into these
25 hearings, and particularly spent time listening to the

1 opening statements and the closing arguments from the
2 Intervenors, he might well draw the conclusion that the
3 MPI executives who gave evidence at this Hearing couldn't
4 run a peanut stand. I think that this Board knows that
5 nothing could be further from the truth and I think it's
6 worthwhile spending a few moments to put on the record
7 just what this Corporation has accomplished in the last
8 couple of years.

9 Going back to the -- the merger with DVL,
10 which involved a merger of not only the functions but
11 also the staff of DVL, that was a significant work
12 effort on the part of the Corporation and on the DVL
13 staff.

14 And when you look at improvements in
15 service for Manitobans such as the coordinated renewal
16 dates for driver licence and vehicle registration
17 renewals, and further, that at the same time the function
18 was spread out to all brokers in the city of Winnipeg, a
19 great improvement in service for Manitobans, these things
20 don't happen overnight, they don't happen by
21 happenstance; they happen by good planning, good
22 management and hard work on the part of MPI.

23 Look at the umbrella project, the Business
24 Process Review, that has been talked about over certainly
25 this year's hearing. It was in its infancy I would

1 suggest last year and it's working toward its fruition
2 for most of these projects in the year in which this
3 application deals with, the 2009/'10 insurance year.

4 Look at those projects like the PIPP
5 infrastructure, the DSR, one piece driver licence, a move
6 to multi-year driver licence, streamlined renewals of
7 your vehicle registration, and the re-negotiation of
8 broker commissions. Again, these are all functions
9 related to MPI's operations that will have a direct
10 impact on the service that the Corporation provides to
11 Manitobans, and in many instances will have a direct
12 positive impact on the Basic line in reducing costs. And
13 we'll get into more detail at a later point in the
14 submission.

15 And in addition to that, the Corporation
16 is taking on new functions. It's been charged with the
17 responsibility of issuing the provincial identity cards,
18 identification cards. This is a provision that was in
19 the Highway Traffic Act for some years, was transferred
20 to the Drivers and Vehicles Act, which MPI is the
21 administrator of, and is now being implemented.

22 And in addition to that, the Corporation
23 will be issuing enhanced identification cards and next
24 year enhanced driver licences which will allow Manitobans
25 to cross into the United States by land or water without

1 having to produce a passport.

2 Again, these things don't happen without
3 talented people working hard to make sure that they
4 succeed. And when I mentioned the enhanced driver's and
5 the enhanced identification cards, when you realize that
6 those projects involve the Federal Government in Ottawa,
7 the United States Federal Government, the Provincial
8 Government, and MPI -- it involves organizations like the
9 Manitoba Statistics -- Vital Statistics Agency -- all of
10 these organizations having to work together in a
11 coordinated effort to bring this to successful
12 completion, and as you might anticipate there's some
13 competing views and opinions among those organizations.

14 So here MPI is actively involved once
15 again in a project that will provide increased and better
16 service to Manitobans.

17 At the same time, in the same time period,
18 the Corporation took on the issue of auto theft. It took
19 it on in two (2) main ways. The first being the WATSS,
20 the Winnipeg Auto Theft Suppression Strategy, and that
21 was dealing directly with the offenders who were involved
22 in auto theft, and then secondly, in the Immobilizer
23 Program. And again, the Immobilizer Program didn't get a
24 whole lot of attention in these hearings. Yet I would
25 suggest to this Board and to all Manitobans that that

1 program was one of the most innovative forward thinking
2 programs to tackle what was becoming an outrageous
3 problem in Manitoba, but particularly in Winnipeg, the
4 auto theft issue. Outrageous not only from the point of
5 view of the cost to the insurance program but the cost to
6 society of auto theft.

7 And as I say it didn't -- didn't seem to -
8 - to get a whole lot of attention here in these hearings
9 and I think it's worthwhile pointing out -- and this
10 evidence comes from PUB Information Request 1-49, the
11 Response thereto -- when we look at the statistics for
12 auto theft in Winnipeg, if you take the first six (6)
13 months of 2008, auto thefts are down 42 percent from the
14 same period in 2007. And if you extend that further and
15 take the first six (6) months of 2008, thefts are down 59
16 percent in the City of Winnipeg from the same period of
17 time in 2006. That is a significant achievement on the
18 part of this organization.

19 If you look at the province-wide figures,
20 even though we recognize that Winnipeg is the -- the main
21 focus of -- of these auto thefts, but province-wide,
22 again, the first six (6) months of 2008, a 35 percent
23 decrease over 2007. And if you take it a year back, six
24 (6) -- first six (6) months of 2008 over 2006, a 57
25 percent decrease.

1 I don't know how you would define a more
2 successful project than through the numbers that the
3 Immobilizer Project has achieved.

4 And there's also the dollar savings, and
5 those are found in PUB-1-57. The cost benefit, and this
6 includes actuals from 2005/'06 through 2007/'08, forecast
7 for '08/'09, and projections through to 2010/'11, the
8 actual savings come to \$101 million, almost \$102 million.
9 And all this is accomplished by the organization at the
10 same time that it's running an insurance business --
11 running an insurance company.

12 And briefly let's look at some of those
13 statistics. In the 2007/'08 insurance year, the
14 Corporation handled two hundred and eighty thousand three
15 hundred and seventeen (280,317) claims. Seventeen
16 thousand seven hundred and eleven (17,711) of which were
17 bodily injury claims. And in the current year, the first
18 seven (7) months of 2008, a hundred and forty-two
19 thousand two hundred and one (142,201) claims submitted
20 so far, of which eight thousand seven hundred and fifty
21 (8,750) were bodily injury claims, and we still have to
22 get through the winter of 2008/'09.

23 The Corporation manages a staff as at
24 March 1st, 2008, of one thousand seven hundred and
25 seventy-six (1,776) people. And in addition, the

1 Corporation, as you know, assists the Department of
2 Finance in managing an investment portfolio of \$2.2
3 billion.

4 I think it was important to take the time
5 to put this on the record because the -- the Board should
6 not lose sight of the magnitude that is MPI in the
7 Province of Manitoba.

8 Moving to more specifics in connection
9 with the rate application that forms the basis of these
10 hearings, there's a couple of concepts that I -- I want
11 to address before getting into actual details.

12 The first has to deal with the concept of
13 proof, the onus that MPI has in connection with this
14 application, and the onus on the Corporation to prove
15 that its rates are fair and reasonable. This is
16 something that has always been acknowledged by the
17 Corporation, usually in the first two (2) or three (3)
18 questions put to it by Board counsel. But this year, it
19 seems to have attracted more comment from the
20 Intervenors, and from counsel who are representing
21 particular Intervenors at this hearing.

22 And I think we have to look at what
23 constitutes proof. The pure and simple answer to that
24 question is evidence. Proof equals evidence, evidence
25 equals proof. And what is the evidence that has been put

1 before this Board? Well, we start with the application,
2 and the supporting materials, six (6), seven (7) binders
3 of documents, that set out in complete and full detail
4 the basis on which the Corporation has calculated the
5 rates for which it is applying.

6 In addition to the initial application and
7 supporting materials, we have the responses to
8 Information Requests. Again, three (3), four (4) binders
9 of -- of responses there. We have the pre-filed
10 testimony. We have the exhibits that were introduced in
11 the course of the hearing. We have responses to the
12 undertakings that were given in the course of these
13 hearings. And we have the responses of the MPI panel to
14 questions put to them in cross-examination. And in
15 addition at this hearing, we had expert evidence of
16 Jeremy Bell, which was brought forward at the request of
17 -- of the Board, the Aon representative.

18 All of this constitutes the evidence that
19 the Corporation, that the Applicant brings to the Board
20 in support of its rates as applied for.

21 And it's interesting to note that in
22 previous years a lot of this information attracted a fair
23 bit of discussion, and to some extent I am personally a
24 little disappointed that we didn't get into any real
25 discussion of TI.2. That used to be one of my

1 favourites, where we go through, line by line, the --
2 based on the financial forecasting method, the required
3 rate changes for each major classification.

4 Now TI.2 is still in evidence, it's before
5 this Board, and the fact that no one challenged any of
6 the information in TI.2 doesn't make it any less
7 evidence; it doesn't reduce the element of proof that
8 this document carries. And here, as I say, we have a
9 complete and full disclosure of how these rates are being
10 calculated, what the full credited required change is, we
11 get into weighted credibilities, all of items that were,
12 in the past, subject to question and response by the --
13 the MPI Board -- by the MPI Panel, rather, and this year
14 nothing specifically on these.

15 It's my position that legally acquiescence
16 constitutes acceptance. And while it's not the
17 Intervenor's obligation to disprove anything if they
18 don't challenge the evidence of the Corporation then that
19 evidence goes in unchallenged.

20 The other TI exhibit that I would refer to
21 is TI.19 and that's a lengthy exhibit that contains a
22 whole lot of technical information dealing with
23 forecasting, rate calculation. And if we just look at
24 the table of contents, what does this exhibit -- what
25 does this evidence include?

1 Number 1. Overall overview of the
2 methodology. So it sets out the methodology that the
3 Corporation applied in coming to these requested rates.
4 It talks about the various approaches: the pure premium
5 approach, the relativity approach. It sets out the
6 determination of the overall required rate.

7 Again, much more detail than what appears
8 in the summary of TI.2 but it's all in there. It talks
9 about cost; how those are forecast and calculated. It
10 talks about cost offsets, other income sources:
11 calculation of the overall required rate, calculation of
12 overall required rate change, major classification rates,
13 territory and insurance use rates.

14 And again I think it's important from the
15 Applicant's point of view to stress that that is where
16 the evidence lies and if it's not challenged, if it's not
17 questioned, then the Board has every right to accept it
18 as proven, and the applicant has every right to expect
19 the Board will accept it as proven.

20 So on that point of proof, just to
21 reiterate, again, it's -- it's the applicant's position
22 that the Board should accept the evidence as being true,
23 should accept the onus and burden as having been met.

24 Now, part of the reaction of -- of
25 Intervenor and I've -- I've talked about this in -- in

1 previous closing submissions, is that Intervenors seem to
2 take the approach that if they can focus on one (1)
3 minute factor, and -- and some might call it nitpicking,
4 and raise some questions about this minute factor, that
5 that can be translated into the Corporation failing to
6 meet its burden of proof. And that's just not the case.

7 And I think a good example was, and I'll
8 give you a couple, one (1) good example was Mr. Dawson's
9 questioning of Mr. Keith on call centre operations and he
10 dwelt on the issue of restrictive lenses. What questions
11 does the call centre operator or ask when someone calls
12 in to report a claim? Do they explain first why they're
13 asking the question so that if the driver's licence on
14 the screen indicates restrictive lenses do they first
15 say, I'm now going to ask you a question about whether or
16 not you were wearing your glasses at the time of the
17 accident. And he also asked Mr. Keith, Well, do you then
18 tell the claimant that their -- their answer may impact
19 the claim?

20 And the answer to that is no, they don't
21 go through lengthy explanations. It's a simple question.
22 It's on the -- the driver's abstract. They ask the
23 question, they record it. These people are -- in -- in
24 the -- in the call centre are information gatherers to
25 assist people in bringing a claim forward. And Mr.

1 Dawson would then use that exchange with Mr. Keith to
2 argue that the Corporation has failed not only in its
3 burden of proof, but it's failed to show that we are
4 properly administering and delivering benefits to a
5 claimant, benefits to which they are entitled.

6 I think that is just too far and too great
7 a stretch to make and I'm going to talk about that more
8 when I get into detail as -- as to some of the other
9 positions taken by Mr. Dawson.

10 The other example is one that we had from
11 Mr. Oakes. And -- and Mr. Oakes, in cross-examination,
12 asked some questions of Mr. -- I think Mr. Palmer
13 responded to them -- with respect to how SGI handles
14 wildlife claims for motorcycles. So a motorcyclist
15 collides with wildlife in Saskatchewan, how is that claim
16 handled?

17 In his final argument, and rather than
18 calling it a misrepresentation, I'm willing to give him
19 the benefit of the doubt and -- and call it a
20 misunderstanding, Mr. Oakes improperly reflected the true
21 position of how SGI handles this sort of claim.

22 And based on this misconception, he then
23 requested that the Board, and I'm quoting:

24 "Order MPI to remove these costs from
25 each specific class and instead

1 allocate costs on equal amounts across
2 the board to each class."

3 So based on misinformation, he's asking
4 the Board to pool an expense that is properly charged to
5 the vehicle class involved in the accident. And that was
6 the evidence given by Mr. Palmer, confirming that SGI and
7 MPI handle the allocations of those expenses in the same
8 manner. Yes, they're listed at no-fault claims for the
9 purposes of surcharge. You don't surcharge an individual
10 for hitting a moose or hitting a deer, but you do charge
11 those claims expenses to that vehicle class, whether it's
12 a motorcycle or a private passenger vehicle.

13 And I think that's again an example where
14 the evidence just doesn't support the action requested by
15 the Intervenor.

16 The other element, broader element, that I
17 want to talk about is rate making and forecasting. As
18 Mr. Palmer constantly reminds me, you can't have one
19 without the other. They're bound together and over the
20 years, MPI has on numerous occasions explained the multi-
21 disciplinary approach that it takes to both claims
22 forecasting and to revenue forecasting. These procedures
23 are still in place, they haven't changed, and they're set
24 out in the information. The results are set out in the
25 information that's been filed as evidence before this

1 Board.

2 Now, Mr. Williams raised some issues with
3 MPI's forecasting, and in particular, at page 00001 of
4 his book of documents, he shows the claims incurred
5 forecasts over the last four (4) fiscal years. By the
6 way, I want to ask the Board to keep that number four (4)
7 in mind; it'll come into play at a later discussion. But
8 he takes four (4) years of claims-incurred results and
9 suggests that because there are discrepancies between the
10 forecast and the actuals, and in fact in each of those
11 four (4) years and they -- they cover the -- the most
12 recent four (4) years, the actuals fell short of the
13 forecast. And he uses that as an example in his argument
14 that MPI's forecasting of claims incurred can't be
15 trusted.

16 Well, the full study and the full
17 Information is set out in PUB-1-21. And if you look at
18 that Information in PUB-1-21 and rather than looking at
19 the last four (4) years go four (4) more years back. And
20 in the four (4) years prior to those chosen by Mr.
21 Williams, then in those years the actuals exceeded the
22 forecast in each of those four (4) years. So you --
23 you've got something of a balance here. And was it just
24 a coincidence that Mr. Williams took the four (4) years
25 where actuals were less than forecast? I doubt it. I --

1 I -- he had the full information in front of him.

2 And as a matter of fact, if you go back
3 over the entire period that is set out in PUB-1-21 which
4 takes us from 1994 the introduction of PIPP up to the
5 present year, those figures show that in that fourteen
6 (14) year time frame the actuals exceeded forecast by
7 0.22 percent. By any test, I would suggest, that
8 indicates extremely accurate forecasting over a longer
9 term. And that is exactly what forecasting does. It
10 looks at trends, it looks at experiences over a long
11 term.

12 Now Mr. Williams would argue that the four
13 (4) years which he has chosen is a demonstration that the
14 forecasting process at MPI is inaccurate and not to be
15 trusted and that the Board shouldn't accept it. That is
16 a conclusion I would suggest that is not borne by the
17 evidence.

18 And taking it a step further, Mr. Palmer
19 gave evidence that, yes, he was aware that in the last
20 four (4) years actuals fell short of the forecast. And
21 he indicated that this is something that would have to be
22 examined to determine whether in fact this was a trend
23 that could be identified and could be reflected in future
24 applications.

25 And what that answer demonstrates is that

1 the forecasting process at MPI is always under review;
2 adjustments are made to reflect emerging trends, emerging
3 experience. However, you don't operate on the short
4 term.

5 This sort of argument of operating on the
6 short term or -- or suggestion that that would be a more
7 appropriate approach takes us back to the years when John
8 Todd appeared as an expert witness before this Board
9 called by CAC/MSOS. And in many ways Mr. Todd's approach
10 was, well MPI has a taxing authority they can -- they can
11 set rates whatever they can convince the -- the PUB to --
12 to permit. So what if they lose money one year; they can
13 always catch up at the next year when they -- when they
14 go for the new rates.

15 But that flies in the face of the rate
16 stability that has been a cornerstone of this
17 Corporation's application to this Board in the whole
18 twenty (20) years that we've been coming here. The
19 purpose of forecasting is or one (1) of the main purposes
20 is to provide some rate stability and to avoid the swings
21 and fluctuations that a year by year approach would bring
22 on Manitobans.

23 Now Mr. Williams also made a significant
24 issue about MPI budgeting for a loss. And he stated
25 quite openly that on instructions from his client, he was

1 not going to be supporting the 1 percent revenue decrease
2 that is part of the application because you should not be
3 budgeting for a loss.

4 Now the response to that is found at
5 TI.15A. And it's the Corporation's position that looking
6 at that exhibit you will note that you're not budgeting
7 for a loss. It's true that in '09/'10 the projection is a
8 four million two hundred and fourteen thousand dollar
9 (\$4,214,000) loss. But in the following year, 2010,
10 there's a \$6.5 million gain and it was the Corporation's
11 evidence through Mr. Palmer that you have to net those
12 two (2) out.

13 Mr. Williams' response was, Well this
14 isn't a multi-year application; it's a one (1) year
15 application. Absolutely right.

16 Absolutely right. But what Mr. Williams
17 and his client should both know is that due to
18 staggering, the rates that you approve for 2009/'10 will
19 be earned over that application year, and 2010/'11.
20 Premiums are earned over the lifetime of the policy, and
21 individuals who review -- who renew, for example, in
22 January 2010 will pay the rates approved by the Board for
23 the 2009/'10 year, but much of those premiums will be
24 earned in the following fiscal year. All of the premiums
25 from March 2010 to December 2010 are earned not in the

1 application year, but in the next, or projected, year.

2 So looking at TI.15A, I would suggest that
3 it's entirely appropriate to look at those two (2) bottom
4 lines together, because the 6.5 million will occur not
5 from anything that happens in 2010. If all things remain
6 the same, no changes, the rates that you approve for the
7 2009/'10 application year will result in \$6.5 million
8 profit in the following year, or income. Profit I'm told
9 is a word that I should stay away from. But it's an
10 income that will be a natural result of the rates that
11 are approved for the '09/'10 year.

12 And what's more, these forecasts that show
13 that 6.5 million income are a result of applying the
14 actuarial indicator, the appropriate actuarial indicator
15 for the application year. And in the one (1) year, not
16 that I want to go back in history, where the Corporation
17 failed to come forward with an application that applied
18 the actuarial indicator, and instead said, Well the
19 actuarial indicator says we need a 4.5 percent increase,
20 but we want to smooth it so we're only act -- applying
21 for a 2.5, this Board made it very clear that that wasn't
22 the appropriate approach, that the -- the actuarial
23 indicator was to be applied. And in following those
24 directions, these are the results you get; they're show
25 in -- in TI.15A.

1 In his presentation, and I don't plan on
2 spending a lot of time on this, Mr. Williams, in his
3 cross-examination, spent a lot of time on some analogies.
4 We talked about eggs in a basket. We talked about rain
5 coats and sunglasses. And it's my respectful submission
6 that this is a total oversimplification. It has no
7 application to MPI's investment policies, past or future,
8 and it has no application to the experience of the MPI
9 portfolio.

10 Over time, this Board has seen the
11 investment portfolio develop from solely concentrated in
12 bonds to a movement towards equities. It has seen two
13 (2) asset liability modelling reviews: One (1) done in
14 the early 2000 years, and one (1) done this year, in
15 2008, the Aon study that was -- that was produced as
16 evidence. The -- the Corporation, I would suggest,
17 doesn't need oversimplification, and -- to get the
18 message that you shouldn't put all your eggs in one
19 basket.

20 I think looking, since I've mentioned the
21 Aon study, that there's also a need to understand the
22 parameters of an asset liability modelling study. And it
23 seemed obvious to me, and to the MPI panel, from
24 questions that were put by the Intervenors, and comments
25 made in their closing arguments, that there may be a -- a

1 real lack of understanding as to what you are trying to
2 do when you request an asset liability modelling study.

3 Put simply, the purpose of such a study is
4 to examine the Corporation's liabilities on a going-
5 forward basis and to determine what asset mix in its
6 investment portfolio will best enable the Corporation to
7 meet those liabilities.

8 Now, Mr. Bell, Jeremy Bell, the witness
9 from Aon, was established as an expert. He was
10 established as an individual who has his CFA designation
11 and his actuarial designation, two (2) elements that I
12 would suggest to this Board make him uniquely suited to
13 the task at hand, to be able to look at liabilities --
14 present and future, to look at investment assets that are
15 available, and to come up with recommendations as to what
16 the best mix would be for that asset/liability matching.

17 Mr. Bell told you that he had done twenty
18 (20) such studies in the years in which he was employed
19 at Aon, and that study came forward with a number of
20 portfolio mixes on the efficient frontier. You'll recall
21 that exhibit at page 70 in the Aon report.

22 So the -- the result of the modelling was
23 to identify a number of asset mixes that would provide
24 optimal return. And the range gave you a choice between
25 increasing risk, increasing return, decreasing risk,

1 perhaps decreasing return, and a selection was made by
2 Aon, or a recommendation was made by Aon. They came
3 forward and said they recommended asset mixes number 5
4 and number 10.

5 Now, we know from, not only Mr. Bell's
6 evidence, but from Mr. Palmer's and -- and other members
7 of the MPI panel, that MPI did not accept the
8 recommendation holus bolus of going with number 5 or
9 number 10. In fact MPI looked at mix number 11, and with
10 some modifications felt that that was the appropriate
11 asset mix that it was willing to commit to at this point
12 in time.

13 The important thing from Mr. Bell's
14 evidence was, Number 1, he had no trouble at all
15 supporting the fact that the client should have the right
16 to select an alternative from that which was recommended
17 in the Aon study. He fully supported that, and what's
18 more, he fully supported the selection of modified number
19 11.

20 He, as did the MPI witnesses, confirmed
21 that modified number 11 was not right on the efficient
22 frontier, but in his view, he used the word "close," and
23 you recall Mr. Bell responded to one (1) of Mr. Dawson's
24 questions that he, Mr. Bell, responds precisely, but he
25 still was able to use the word that it was close to the

1 efficient frontier and he could accept it as being a
2 reasonable choice for the Corporation.

3 Now, the other issue that arose in Mr.
4 Bell's report, or the Aon report, and caused a fair bit
5 of discussion both in the Hum and Simpson report and in
6 their evidence of Drs. Hum and Dr. Simpson, was that the
7 modelling study came up with a recommendation that there
8 be a movement away from Real Return Bonds. MPI's
9 existing portfolio has an allocation of 12.5 percent for
10 Real Return Bonds. The recommendation from Aon and the
11 mix modified number 11 adopted by the Corporation has no
12 allocation for Real Return Bonds. And the discussion
13 centred on what do Real Return Bonds achieve.

14 And it was conceded that Real Return Bonds
15 provide a hedge against inflation and it is perfectly
16 correlated so that it's a -- probably Real Return Bonds
17 could be described as -- as the best hedge you could have
18 against inflation. However, it was also acknowledged
19 that there's an additional cost to purchasing Real Return
20 Bonds. So what you make in the hedge against inflation,
21 you give up in the added cost in -- in purchasing the
22 bonds.

23 And there was considerable discussion as
24 to whether inflation as it had been handled by Aon in --
25 in their report had been handled appropriately. But I

1 think it's also important to note that the modified
2 portfolio does include two (2) other asset classes that
3 provide a hedge against inflation, that being real estate
4 and infrastructure. Perhaps not perfectly correlated,
5 but there's a 15 percent allocation to those two (2)
6 asset classes and they provide a hedge against inflation.

7 So it's not a black and white open and
8 shut case that you must have Real Return Bonds, it's the
9 only way you can provide a -- a hedge against inflation.

10 The other issue that was raised in the Aon
11 report was that with the exception of US equities, the
12 Aon study recommended against foreign markets, EAFE,
13 BRIC, we heard all the acronyms. There was nothing in
14 the proposed Aon asset mixes that allowed for investment
15 in foreign markets other than US equities. And once
16 again, the portfolio selected by MPI allows a 3 percent,
17 I believe it was, investment in foreign equities other
18 than US equities.

19 So the reason -- and initially Drs. Hum
20 and Simpson were of the view that -- that the Aon study
21 had just ignored foreign equities; had constrained them
22 out of the result. The answer, and it was later conceded
23 by both Dr. Hum and Dr. Simpson, was that in fact they --
24 the Aon study did model EAFE but that the modelling found
25 that the inclusion of EAFE didn't meet the efficient

1 frontier and for that reason EAFE or foreign equities
2 other than US equities, were not included in the asset
3 mixes recommended by Aon.

4 I think at this point we should also move
5 to a discussion and -- and handling of the Hum and
6 Simpson report. And quite frankly Mr. Williams has
7 overstated my reaction or the Corporation's reaction to
8 the Hum and Simpson report. He suggests in -- in final
9 argument that really what we're out to do is to attack
10 the credibility of Doctors Hum and Simpson and asked this
11 Board to ignore anything contained in their report.
12 That's not the approach that the Corporation took once it
13 received and -- and had a chance to study the Hum and
14 Simpson report.

15 Hum and Simpson didn't run any models.
16 What they did was they reviewed the results that came out
17 of the Aon study and commented on them. They commented
18 on the Aon recommendation. I think it was a key
19 indicator that Drs. Hum and Simpson hadn't checked the
20 MPIC Act to determine what constraints the Corporation
21 was under in handling its investment portfolio. And
22 we'll deal with this throughout a number of -- of
23 portions of -- of this presentation.

24 But up front and quite clearly since the
25 inception of MPIC, Section 12 of the MPIC Act has

1 mandated that monies available for investment are to be
2 paid over to the Department of Finance for investment
3 purposes.

4 It goes further in Section 12 Sub 2 where
5 it says that the Minister of Finance has to invest those
6 funds in accordance with the provisions of the Financial
7 Administration Act, two (2) significant constraints on
8 how MPI's investment portfolio is handled.

9 And I think at this point it -- it's also
10 worthwhile to talk about the relationship between the
11 Department of Finance and the Corporation, and it colours
12 a number of points throughout the presentation. There's
13 no doubt that on a strict statutory basis full authority
14 rests with the Department of Finance. There's also no
15 doubt that over the years the MPI Board, in conjunction
16 with the Department of Finance and MPI management, has
17 indicated an interest in achieving a cooperative working
18 relationship with the Department of Finance. And that's
19 what exists to this day.

20 And we've heard about the fact that the
21 Board has an investment committee specifically dealing
22 with investments. We know that between the Department of
23 Finance and the Corporation, with the concurrence of the
24 Investment Committee of the Board, an investment
25 committee working group has been established that has

1 representatives from the Department of Finance and from
2 the Corporation who meet on a regular basis to deal with
3 issues relating to the portfolio.

4 We know that MPI in the last number of
5 years has hired professional financial experts to run an
6 investment department that continues to check and to
7 monitor the Corporation's investment portfolio and to
8 participate in the meetings with the Investment Committee
9 Working Group.

10 Having said all that, you can't lose sight
11 of the fact that in the final analysis authority rests
12 with the Department of Finance with the Minister of
13 Finance. And if, as the Corporation moves towards this
14 new investment portfolio, the Department of Finance
15 decides that the movement is too quick or there's an
16 asset that there's too much emphasis placed on a -- on a
17 particular asset the Department of Finance has the
18 authority and no doubt will make whatever changes and
19 whatever alterations it feels appropriate.

20 Now, that doesn't mean to say that the
21 Corporation has abandoned the investment portfolio,
22 pushed it over and said, Okay, do what you want and at
23 the end of the year we'll gladly accept whatever the
24 returns are. That in no way detracts from the fact that
25 there -- there will be an ongoing cooperation and

1 cooperative effort between the Corporation and the
2 Department of Finance.

3 But it also raises the point that at the
4 end of the day I'm not even sure that this Board could
5 make any direction to the Department of Finance as to
6 what should or shouldn't be included in the investment
7 portfolio of MPI. It can express opinions, certainly,
8 but there's no authority in this Board to direct one (1)
9 portfolio mix over another.

10 The other thing that I found interesting
11 in -- in the Hum and Simpson report and in Mr. Williams'
12 treatment of the Hum and Simpson report versus the Aon
13 study was that a big issue was made of the fact that Mr.
14 Bell's inflation assumptions were based on ten (10) years
15 of experience. And Drs. Hum and Simpson said, Oh, no,
16 no, that's way too short a period of time; ten (10) years
17 isn't sufficient to draw conclusions that inflation will
18 stay between the 1 to 3 percent range established by the
19 Bank of Canada. They acknowledged that the Bank of
20 Canada has a role and -- and in the past has been
21 successful in providing some control on inflation in --
22 in Canada but you can't possibly look at ten (10) years
23 and jump to the conclusion that -- that inflation will
24 always be in that range.

25 If ten (10) years was too short of a

1 period of time to judge inflation why would Mr. Williams
2 suggest that four (4) years was a sufficient period of
3 time to denigrate the Corporation's forecasting ability.
4 And that's what he did. He took four (4) years of claims
5 incurred, and said, That proves that they don't know how
6 to forecast. Sauce for the goose is sauce for the
7 gander.

8 And clearly, we would support the position
9 that four (4) years is too short. And perhaps Mr. Bell
10 was too reliant on the -- the Bank of Canada being able
11 to provide infla -- or to control inflation, but in any
12 event at least his time frame was something longer than
13 the one that Mr. Williams would apply to the forecasting
14 issue.

15 The other reason that the Corporation
16 doesn't take significant issue with the Hum and Simpson
17 report, and we're not out to attack the credibility of
18 Drs. Hum and Simpson, is that their overall finding at
19 the end of the day, at the end of their study, they agree
20 that modified portfolio number 11 is an improvement over
21 the existing portfolio. They take issues with the Real
22 Return Bonds, and the foreign market allocation.

23 They also commented that, You know, we
24 really don't know what's going to be composed in the
25 infrastructure and the real estate buckets, I think is

1 the phrase that -- that Dr. Hum used. We don't know what
2 -- what real estate investments are -- are going to be
3 made, and we don't know what infrastructure investments
4 might be made, so -- so we really can't comment on that.

5 Well, I don't think anybody can comment on
6 that, and no one was trying to comment on that. We're
7 just saying, These are assets classes that have been
8 identified as being part of the new portfolio, and as the
9 movement proceeds to that portfolio, we'll have a better
10 idea as to what type of real estate pooled funds may form
11 a portion of the portfolio; what infrastructure, if any,
12 is available to be included in the portfolio.

13 So MPI doesn't agree with -- or doesn't
14 disagree rather with -- with Dr. Hum's comment that
15 nobody knows, because we haven't moved to that portfolio
16 as yet.

17 One (1) other interesting point, and --
18 and it doesn't go to credibility, but it -- it certainly
19 may go to weight, I found it a rather open admission by
20 Dr. Hum that having served on the University of Manitoba
21 investment board for a number of years, he withdrew from
22 that Board because, according to his answer, they didn't
23 seem to be following his wishes, or his direction. Just
24 an indicator that perhaps not everybody accepts Dr. Hum
25 as -- as an expert on how a portfolio should be built, or

1 how a portfolio should be managed. And that was an
2 admission that came from -- from the man himself, nothing
3 that was dragged out of him in -- in cross-examination.

4 So the final point that the Corporation
5 would like the Board to take on -- on this portfolio
6 change is to acknowledge that it is an improvement,
7 acknowledge that it should produce greater return, and
8 involves a somewhat greater risk than the current
9 portfolio, but it's something that will need time to
10 judge whether in fact it is optimal, or close to optimal,
11 as far as MPI is concerned. It's not something that
12 anyone can guarantee one (1) way or another that either -
13 - or any of these suggested portfolios would
14 automatically produce the amount, or -- or the -- the
15 increased revenue that is -- that is sought.

16 But I think you have to give it time, you
17 have to give it an opportunity to prove itself, and
18 particularly in -- in these current economic
19 circumstances, it might even bode for a much slower
20 movement towards a riskier portfolio until there's some
21 clearer indication as to where the current financial
22 state is going to end up.

23 Mr. Williams spoke about increase in
24 operating expenses. And in particular in the transcript
25 at -- transcript rather at page 654 from Wednesday,

1 September 24th, Mr. Williams was questioning Mr. Palmer
2 about increases in operating costs over what had been
3 presented to the PUB in the previous years rate
4 application. And the increases if -- if you look at the
5 -- at the transcript and follow the evidence, increases
6 show that the original estimate in the application last
7 year was \$140 million for operating expenses and the --
8 the actual budget came in at \$156 million.

9 And Mr. Palmer agreed, yes, there had been
10 that increase and in his answer at page 654, Mr. Palmer
11 said:

12 "And the reasons for those increases
13 are set out in CAC-1-34."

14 That's on the record, that's on the
15 transcript.

16 Now Mr. Williams' response to that was and
17 I'm quoting directly:

18 "Yeah, and we -- we want to stay with
19 forecasts, we'll get to reasons on --
20 on Monday."

21 Well it seems Monday never came. And Mr.
22 Williams did not ask a further question of Mr. Palmer as
23 to the reasons and that increase of \$16 million between
24 the estimated budget and the actual. But it was on the
25 record. The reasons, the reference to -- or to PU --

1 sorry, CAC-1-34, that was on the record and it's
2 worthwhile looking at that particular Information
3 Response.

4 And in that Response, the Corporation
5 gives a detailed breakdown as to each and every element
6 that brought the operating budget from one forty (140) to
7 one fifty-six (156). It's not a generic, Oh, we were
8 involved in a lot of projects, we hired some more people
9 and the budget came out higher than we had initially
10 anticipated. Absolutely not. It goes in line by line.
11 Three million nine hundred eighty nine thousand
12 (3,989,000) increase in compensation mainly due to the
13 various business process review initiatives that impact
14 Basic. Nine hundred and thirty-seven thousand (937,000)
15 increase in building expenses due to major renovations at
16 the physical damage centre and the renewal of the six (6)
17 year fire services agreement and expenses relating to the
18 ELAB (phonetic) initiative.

19 Right through to point number 7, or 6
20 rather. There's six (6) specific explanations as to how
21 the -- they budget increased over that period of time.

22 And I would suggest to the Board that
23 having been presented with those -- the rationale for the
24 increases and not having been questioned, no one came to
25 the Board and said, Justify why you paid nine hundred and

1 thirty-seven thousand dollars (\$937,000) in additional
2 building expenses. Those have to be accepted as
3 reasonable. They're certainly on the record, they're
4 certainly in the evidence. And you can't draw any
5 conclusion that either the Corporation doesn't know how
6 to budget or the Corporation was fudging numbers before
7 the PUB when it put forward one hundred and forty
8 thousand (140,000). There's a clear and -- and definite
9 explanation as to how that growth occurred.

10 There's another issue with an
11 interpretation of evidence that Mr. Williams put in his
12 closing argument and that has to do -- or it's found
13 rather -- the transcript at page 1535, and that dealt
14 with increases in compensation costs.

15 And responding to questions put by Mr.
16 Williams, Mr. Kramer admitted that there had been a 10.2
17 percent increase in compensation costs, but the important
18 element is over what time. And when you look at the --
19 the transcript, actually 1535 is the transcript where he
20 dealt with it in argument, but the -- the answer or the
21 response from Mr. Williams is found at page 701 of the
22 transcript.

23 And in that response he indicates that the
24 10.2 percent is over a two (2) year period, fiscal
25 2007/'08 to the end of fiscal 2009/'10. It's a two (2)

1 year period. Yet in his argument at page 1535, Mr.
2 Williams identifies this as a one (1) year increase in
3 compensation of 10.2 percent. That's simply not correct.

4 And even if you look at Mr. Williams' book
5 of documents at page 16 where he has excerpt --
6 excerpted, I'm having trouble with that word, the -- the
7 increases in compensation, it shows that in fact the
8 increase from 2009/'10 to 2010/'11 is 1.7 percent.

9 Turning now to some smaller items that are
10 -- are dealt with in Mr. Williams' outline of his
11 argument and -- and he pretty well followed it along --
12 the transcript shows that -- that he fold the -- the
13 outline pretty closely and there's just a few areas that
14 haven't already been dealt with. The -- the first one
15 that -- that I want to comment on is found at -- at
16 page 19 of -- of the outline.

17 And he's talking about the Corporation's
18 evidence with respect to claims costs savings, and in
19 particular talks about the agreement between the MMDA
20 (phonetic) and the ATA and costs that the -- the
21 Corporation has put this forward as one of the means in
22 which it controls costs. And Mr. Williams makes much of
23 the point that over the three (3) year agreement which
24 expired in January 2008 there were paint cost increases
25 of about 19.1 percent and shop material increases of

1 5.8 percent, and that's correct. But those increases were
2 identified at the start of the contract and that contract
3 information was provided to this Board three (3) -- for
4 three and a half (3 1/2) years ago when the contract was
5 entered into.

6 So these increases should have come as no
7 surprise to -- to Mr. -- to Mr. Williams or to his
8 client, and the -- they were the result of the negotiated
9 increases between the industry and the Corporation back
10 over three (3) years ago when that contract was entered
11 into.

12 He also points out that there's a
13 12 percent increase in the new contract, which is an --
14 only a nineteen (19) month contract, a 12 percent
15 increase in frame labour, and again that is a result of
16 negotiations with the industry and quite frankly the
17 position taken by the industry was that up to that point
18 they had been under-compensated for frame labour and that
19 a 12 percent increase was required and that was the --
20 the -- the end result of those negotiations. But he also
21 points out that the Corporation proudly noted no increase
22 in paint and material over the nineteen (19) month
23 agreement. Again, it's all part of the negotiated trade-
24 off.

25 So for the nineteen (19) months that this

1 agreement will be in existence there will be no increase
2 in paint and material costs over that time period.

3 So really all this comment is, is
4 reflecting the realities of the negotiated agreement.
5 It's like pointing out that compensation went up a
6 certain percentage. Well, compensation goes up because
7 that's the negotiated agreement between MPI and the MGEU
8 that represent its workers.

9 One (1) of the comments that -- that Mr.
10 Williams made dealt with the Exhibit TI.5, the relative
11 comparison of ICBC, SGI, and MPI using that base year of
12 -- of 2001. And it's interesting that Mr. Williams
13 concedes that this is an imperfect tool and it's the
14 Corporation's position that the tool is so imperfect that
15 if Intervenors are going to insist on using it to support
16 information or positions that are unsupportable, it
17 should probably be discontinued.

18 The evidence of the Corporation has been
19 there are so many variables in how ICBC reports certain
20 aspects of his in -- its income, and how SGI reports
21 certain aspects of its income and its claim handling,
22 that really unless you're using this as a very broad, to
23 use Mr. Dawson's term, a broad brush approach to a
24 comparison, it shouldn't be put forward, and it certainly
25 should not be used as a direct indication that these

1 other two (2) organizations are able to control their
2 costs while MPI is not. And until it is an apples to
3 apples comparison, I would seriously question the value
4 of that particular information.

5 The other thing that carries a fair bit of
6 weight in -- in Mr. Williams' argument is that he talks
7 about that there's a central element of the regulatory
8 process to get beyond the corporate numbers at a macro
9 level, and to be able to drill down to a finer level of
10 detail, whether by division, type of position, or
11 otherwise. And this is real -- in relation to requests
12 about the MPI workforce, and how many people work for
13 Basic, and -- and is Susie a basic employee, is George
14 working for DVL, and he complains that that central
15 element of the regulatory process is unavailable. And
16 that's correct.

17 The Corporation stated in its evidence
18 that the detailed information cannot be produced for
19 Basic at that level of detail, the level of detail that
20 was requested, due to the fact that Basic operations
21 aren't integrated throughout the Corporation along with
22 the other lines of business.

23 But the fact is that that tool has never
24 been available. The Corporation has never been advised
25 in pervious hearings that this was a serious deficiency

1 in its application, and that it ought to do something to
2 correct it. And if in fact that is the direction of the
3 Board at this stage, twenty (20) years after we've been
4 appearing at PUB hearings, if the Board feels that this
5 sort of information is essential to the regulatory
6 process, all it needs to do is -- is direct the
7 Corporation to start providing that information, and the
8 Corporation will meet that direction if it can.

9 But you certainly can't come forward at
10 this point and suggest that it's such an essential tool,
11 you've never done it, and now there should be some
12 ramifications to the Corporation for not being able to do
13 it.

14 At this point, Mr. Chairman, I wonder if
15 we might take a -- a break.

16 THE CHAIRPERSON: Very good, Mr.
17 McCulloch. We will come back in -- is ten (10) minutes
18 okay for you, or fifteen (15)?

19 MR. KEVIN MCCULLOCH: Ten (10) would be
20 fine.

21 THE CHAIRPERSON: Very good. Mr.
22 McCulloch, how much more time do you think you will
23 require?

24 MR. KEVIN MCCULLOCH: I -- I would hope
25 that another hour should do it.

1 THE CHAIRPERSON: Thank you.

2

3 --- Upon recessing at 10:11 a.m.

4 --- Upon resuming at 10:28 a.m.

5

6 THE CHAIRPERSON: Mr. McCulloch...?

7

8 CONTINUED BY MR. KEVIN MCCULLOCH:

9 MR. KEVIN MCCULLOCH: Thank you, Mr.
10 Chairman. Many -- I want to spend sufficient time
11 addressing the issues that were raised by yourself on
12 behalf of the Board at the -- at the end of the conclus -
13 - or at the end of the -- the hearings, and I have every
14 intention of doing that. And much of my remaining
15 comments on some of Mr. Williams' recommendations can be
16 dealt with at -- at that portion.

17 One (1) area that I think I do want to
18 comment on before moving on, was Mr. Williams' suggestion
19 that for transparency pur -- purposes, MPI should
20 separately manage and track pension assets from the rest
21 of the portfolio.

22 And as I recall, even Dr. Hum and Dr.
23 Simpson in their evidence indicated that in a direct
24 benefit plan the type of pension plan that MPI's
25 employees are involved in that there is no need to

1 operate separate funds; that if it were a defined --
2 sorry, defined benefit as opposed to direct, if it were a
3 defined benefit or contribution plan there may be a need
4 for segregation of the -- of the assets but not with a
5 defined benefit plan.

6 Moving on to a couple of items that I have
7 to comment on from the presentation from Mr. Oakes on
8 behalf of CMMG, the first one appears at page 1464 of the
9 transcript where Mr. Oakes talks about this Board having
10 jurisdiction over coverage. And he specifically talks
11 about the time when PIPP was introduced and how at that
12 hearing issues of coverage were put before the Board and
13 were supposedly within the jurisdiction of the Board.
14 Well, I -- I think it's pretty clear that coverage issues
15 have never ever been considered as part of this Board's
16 jurisdiction and, quite frankly, I'm not sure where Mr.
17 Oakes was coming from on that comment.

18 I dealt with the SGI motorcycle issue.
19 Again, one (1) of the proposals that Mr. Oakes makes is
20 that because there are questions raised about the
21 adequacy of forecasting that this Board should impose
22 inflation targets for expenses and reduce rates downward.
23 Again, that recommendation is made without dealing with
24 the Corporation's explanation as to why expenses were up,
25 why expenses had increased, not dealing with issues of

1 program delivery and, therefore, the recommendation
2 clearly is not supported by any evidence.

3 Mr. Oakes raised issues with respect to
4 PFADs and -- and seems to suggest that these are just
5 padding reserves on the -- on the part of the
6 Corporation. But Mr. Palmer clearly pointed out that
7 actuarial standards require the application of PFADs.
8 And yes, the determination of the appropriate PFAD is to
9 some extent left to management and to the internal
10 actuary, but the external actuary in his report has to be
11 satisfied that the appropriate PFADs are being applied.

12 And a good example of this is the
13 discussion that we had with respect to the PFAD on
14 reinsurance. Prior to this year, the Corporation had a
15 reserve for uncollectible reinsurance. And in the
16 actuaries review, the external actuary would note that
17 MPI didn't have a PFAD for uncollectible reinsurance, but
18 since it had this reserve, it met the requirement that at
19 least that eventuality or possibility be recognized.

20 And Mr. Palmer gave evidence that this
21 year the reserve for un-collectable reinsurance amounts
22 has been replaced by a PFAD and that in fact that had the
23 impact of reducing the amount that the Corporation had
24 set aside for uncollectible -- uncollectible reinsurance
25 accounts. So rather than the Corporation increasing its

1 reserves, this was a decrease that -- that was prompted
2 by the application of the actuarially acceptable PFAD.

3 Now Mr. Oakes in his argument asked the
4 Board to make a lot of assumptions about whether or not
5 previous rates were potentially reflective of the true
6 risk, whether or not sport bike issues had been correctly
7 handled, but again...

8

9 (BRIEF PAUSE)

10

11 MR. KEVIN MCCULLOCH: I shouldn't have
12 taken the break, Mr. Chairman. It seems to have driven
13 things down the wrong track.

14 In any event, I -- I would ask the Board
15 to -- to once again apply the evidence test, and before
16 following any of the recommendations from any of the
17 Intervenors, apply that test. And in our view, the
18 application will prove that the recommendation have -- or
19 the recommendations don't have any foundation.

20 Interesting that Mr. Oakes went back in
21 his final presentation to the NAMS (phonetic) report that
22 had been filed last year on -- on the issue of -- of road
23 safety for motorcycles. And the Corporations response to
24 the NAMS report last year was very clear and
25 straightforward. Issues identified in that report,

1 safety equipment standards, licencing standards, road
2 design, infrastructure, signage, law enforcement, vehicle
3 standards, and health issues, are issues of government.
4 They are not issues of MPI.

5 And it's obviously from the NAMS report
6 itself that the writers of that report were looking to
7 the various state governments and authorities to respond
8 to these issues. So it's entirely inappropriate for Mr.
9 Oakes to suggest that these items should fall within
10 MPI's jurisdiction. However, the Corporation -- the
11 Corporation does accept its responsibility for safety
12 issues, and these are reflected in the safety services
13 Manitoba motorcycle training that the Corporation
14 supports, high school drivers ed that deals as well with
15 motorcycle issues, and the motorist awareness campaigns,
16 which again deal with motorists being aware of
17 motorcycles being on the road, and sharing the road with
18 motorcycles.

19 The last issue that Mr. Oakes spoke about
20 was adding comprehensive coverage to the Basic plan. And
21 that was identified as an issue that had been addressed
22 in meetings between MPI and the CMMG, discussed with the
23 CMMG, but the confusing thing from the Corporation's
24 point of view was that the coalition of motorcycle groups
25 seem to be making the sug -- suggestion that

1 comprehension coverage should be included in Basic, but
2 it should be optional. And that just doesn't fit with
3 the Basic program. You can't have optional coverages
4 being part of a universal compulsory automobile insurance
5 scheme.

6 So until CMMG can come up with a
7 coordinated representation and position on comprehensive
8 coverage, the -- the Corporation isn't able to address
9 that issue at the current time. It is still available,
10 obviously, through Extension.

11 Moving to the presentation by -- or on
12 behalf of CAA. And again interesting that Ms. Wankling
13 started her presentation with the premise that thinks are
14 so much the same between last year and this year that she
15 may as well just, in a large extent, start with reading
16 from her last year's presentation. And the Corporation
17 just doesn't accept that.

18 One (1) of her -- her statements was that
19 claims, vandalism, and attempt theft were increasing as
20 significantly as car thefts are declining. And that's a
21 direct statement that she made in her presentation. And
22 that's just not true.

23 And if you look at the response to CMMG-1-
24 19, Schedule 1, for private passenger vehicles, the facts
25 are as follows:

1 From 2006/2007 to 2007/2008 attempted
2 thefts decreased, partial thefts decreased, total thefts
3 decreased, vandalism decreased. So it's not correct to
4 say that these other types of claims are increasing, and
5 certainly not -- not only are they not increasing but
6 they're not increasing significantly as car thefts
7 decline.

8 Next Ms. Wankling moved on to forecasting
9 accuracy and she makes a comment that in CAA's opinion
10 the issues with forecasting accuracy at MPI can only be
11 attributed, and I quote,

12 "to a bias in the forecasting or the
13 forecast methodology."

14 So where does this opinion come from? Was
15 it established in the withering cross-examination of the
16 MPI panel by representatives from CAA? I checked the
17 transcript; I don't think so. Did it come from the
18 experts called to testify on forecasting methodology?
19 Again, I didn't see anything in the transcript and we
20 know full well that no such evidence was presented.

21 I don't think it's appropriate to make
22 unsupported allegations, unsupported suggestions of bias,
23 and the Corporation is certainly not willing to let those
24 go unnoticed.

25 On the Cost Allocation Study the

1 Corporation has committed to filing at the next general
2 rate application a cost allocation study, and that's
3 clearly on the record and there's no doubt that the
4 Corporation intends to -- to proceed with that. Now, the
5 problem I have with Ms. Wankling's final submission or
6 argument, is that she states that the delay in producing
7 this study had to do with, quotes,

8 "so many things on their plate."

9 Well, that's not the explanation that was
10 provided by the Corporation. The Corporation has stated
11 that changes currently being implemented will have a
12 direct impact on corporate business and on how the
13 Corporation functions. And we're talking about those
14 projects that were identified as part of the BPR:
15 streamlined renewals, one (1) piece driver licence, DSR,
16 there's no need to -- to PIPP infrastructure. There's no
17 need to -- to repeat those. That's the explanation that
18 the Corporation gave for not being able to file a cost
19 allocation study as directed by the Board.

20 As a matter of fact it would make no sense
21 to do a cost allocation review while you're in the
22 process of changing your business model. That would be a
23 complete waste of time and money. What's more, I believe
24 the Board has accepted the Corporation's commission --
25 commitment rather, to file the cost allocation with the

1 next GRA.

2 Ms. Wankling talks about the \$21 million
3 payment from the Government to MPI to cover the DVL
4 merger expenses. And she points out that five hundred
5 thousand (500,000) of that was reduced, taken away by the
6 Government. In one (1) year we only -- or this last year
7 we only got twenty million five hundred thousand
8 (20,500,000). She ignores the explanation that that
9 reduction was to reflect the loss of revenue to the
10 Government when MPI merged driver licence and
11 registration renewal dates. The evidence is that that is
12 a one (1) time event and it's a direct reflection of a
13 revenue loss suffered by the Government through that
14 merger process initiated by MPI.

15 Ms. Wankling also wants to tag on another
16 \$6 million in the cost of running DVL. And this of
17 course relates to the infamous \$6 million reduction that
18 the Government imposed when they stopped paying MPI this
19 money to reflect commissions paid to brokers as part of
20 the registration of -- of vehicles.

21 The evidence before this Board in previous
22 years, and I particular remember Mr. Galenzoski giving
23 evidence on this point, was that notice of the
24 Government's intention to cease this payment came long
25 before the DVL merger. It was not tied to the DVL

1 merger. It was something that had been, I don't want to
2 say discussed, but it was something that had been
3 mentioned by the Government for a period of time prior to
4 implementing the decision, but that it clearly had
5 nothing to do with the DVL merger. And I think it's
6 inappropriate to try to make that connection years later
7 when the evidence clearly disputes that.

8 Ms. Wankling made some comments on KPMG
9 and -- and -- haven't got the direct quote, it wasn't
10 flabbergasted, but they were just totally taken aback by
11 KPMG's evidence that there was no management letter
12 provided to the Corporation in connection with last
13 year's audited financial statements. And again, she
14 provides her opinion, her personal opinion not expert
15 opinion, that no annual audit is ever delivered without a
16 management letter. And from personal experience CAA's
17 auditors have several comments each year on how to better
18 the operation of the business.

19 Well, that may say more about the state of
20 CAA's business practices than it does about KPMG's status
21 as a professional auditor. The evidence of the
22 professional auditor was that no management letter issued
23 in that year.

24 Investment portfolio. The only thing new
25 in Ms. Wankling's comments with respect to the investment

1 portfolio is the suggestion that the Government is using
2 the portfolio, again this is a quote:

3 "As a pool of capital for their own
4 interests."

5 Now I made it clear that Section 12 of the
6 MPIC Act has been in place since 1971 when the
7 Corporation was first established. Funds have always
8 been directed to the Department of Finance for
9 investment.

10 Now the same provisions apply to the
11 constraints of the Financial Administration Act. They
12 have always been in place as far as MPI's investment
13 portfolio is -- is concerned. And those provisions in
14 the Financial Administration Act place specific
15 restrictions on the type of investments that public funds
16 can be used or -- or the type of assets that can form
17 part of the public fund portfolio. Those provisions have
18 been in place for a considerable period of time.

19 And what's more Ms. Wankling's comments
20 about the Government appropriating or using funds to its
21 own purposes are clearly wrong again. There's two clear
22 sections in the MPIC Act. Section 14 Sub 2 and Section
23 44.1 of the MPIC Act, sections that have been in
24 existence since 1971, that specifically prevent the
25 Government, first of all, in 14 Sub 2, from appropriating

1 funds generated in the regulations. So that covers
2 Extension and Basic. The Government cannot appropriate
3 any funds that are generated by rates that are set out in
4 regulation. I can suggest that's an obvious good reason
5 for that, since the Government controls what goes into
6 regulation.

7 In addition, Section 44 Sub 1 places
8 significant restrictions on the Government's ability to
9 access SRE profits. So there is no situation, when you
10 combine the legislative provisions long standing, there's
11 no situation where you can say the Government is in a
12 position to direct these funds to its own resources.

13 Ms. Wankling makes comments about a lack
14 of transparency on the Extension side and the need for
15 regulation. And she goes so far as to say that Extension
16 profits are being hidden from the Board. That's not
17 true. Extension profits are disclosed in the annual
18 statements that are filed with the Board. Yes, they're
19 disclosed on a retrospected basis but the Corporation has
20 clearly put its position on the -- the record as to why
21 that happens. That happens and will continue to happen
22 because the Extension and the SRE lines are not subject
23 to the regulation.

24 Obviously Ms. Wankling and other
25 Intervenors, or CAA, Ms. Wankling speaking on their

1 behalf, and other Intervenors don't like that situation,
2 but it is what it is, and I'll deal with that in a -- at
3 another point here.

4 And one (1) final issue that I think is
5 worthy of note, Ms. Wankling, last year, and -- and again
6 this year by repeating it, raises the spectre of -- of
7 carjacking, and -- and all sorts of -- of other social
8 turmoil being the result of the fact that car thieves can
9 no longer steal automobiles. Well, in case Ms. Wankling
10 missed it, in the Winnipeg Sun on September 30th, 2008,
11 there was a report on carjackings, and that report
12 included information from the City of Winnipeg police,
13 and as a quasi-judicial body, the -- this group can take
14 judicial notice of what appears in the newspaper.

15 The -- the facts given by the City of
16 Winnipeg police was that in the year 2006, there were
17 thirty-one (31) carjackings in Winnipeg. In 2007, that
18 number dropped to twenty (20). And so far in the nine
19 (9) months of 2008, that number has dropped to eleven
20 (11). So the spectre of social unrest, and -- and
21 anarchy in -- in the streets just isn't borne out.

22 A couple of comments on Mr. Dawson's
23 presentation. Reading his comments on the Aon report,
24 one really has to wonder whether Mr. Dawson understood
25 what an asset liability modelling study was all about.

1 And I say that for a number of reasons.

2 He made a great issue that he'd asked Mr.
3 Bell in cross-examination, did he take taxation into
4 account, or did he take into account that the Corporation
5 doesn't have to pay income tax, or isn't subject to
6 taxation. The Corporation is subject to some taxation on
7 the premium tax, but certainly not income tax. And he
8 used that as a -- as a means of criticizing Mr. Bell.

9 Well, the purpose of an asset liability
10 study is to identify the liabilities of that particular
11 client. And if the Corporation doesn't have an exposure
12 to income tax, it wouldn't be a liability that Mr. Bell
13 would take into account. You don't take into account
14 phantom liabilities; you take into account the actual
15 liabilities of the Corporation.

16 The same applies to Mr. Dawson's reading
17 of -- of a response that he got from Dr. Hum. He said,
18 you know, he had the opportunity to pick Dr. Hum's brain,
19 and -- and Dr. Hum had a -- a much better view than --
20 than Mr. Bell about items that were unique to a Crown
21 Corporation that perhaps should take -- or be taken into
22 account in a asset liability mix.

23 And -- and one (1) of the ones that Dr.
24 Hum mentioned, and -- and Mr. Dawson adopts, was
25 equalization payments. I'm not aware of any evidence

1 before this Board that MPI is either the recipient of, or
2 the contributor to, equalization payments. Again, it's
3 an issue that is a non-issue as far as an asset liability
4 study is concerned.

5 The second item that was of concern to the
6 Manitoba Bar Association, and -- and to Mr. Dawson was
7 the manner in which personal injury claims are handled.
8 And he makes the suggestion that the Corporation's
9 handling of BI claims is not in compliance with its
10 statutory and contractual obligations.

11 Now apart from repeating the mantra of its
12 past president at the public presentations, no fault is
13 no good, where's the evidence? We haven't seen any
14 issues brought to this Board that would indicate MPI is
15 mishandling, or inappropriately handling BI claims. Even
16 the public presentations, which are often an opportunity
17 for disgruntled claimants to come forward and -- and
18 complain about -- about their claims handling, there
19 wasn't much, or if -- if any of that sort of presentation
20 at -- at this year's hearing on -- in the first day of
21 hearing.

22 Poor old Ms. Adams came here to complain
23 about not being able to give evidence at the Taman
24 Inquiry. It -- it didn't seem that there was much of a
25 connection between MPI's claims handling and a complaint.

1 And certainly there's no evidence of any public outcry of
2 MPI claimants being handled inappropriately.

3 Mr. Dawson did try to make the point that
4 the Corporation has lower customer service standards for
5 BI claims. Lower percentages than those that are applied
6 to physical damage claims. Now these customer service
7 standards are internal standards. They're set by the
8 organization to judge how its people are doing.

9 And I would suggest that it's very obvious
10 on the face of it that there's a significant difference
11 between personal injury claims and property damage
12 claims. Personal injury claims are more complex, they
13 require more investigation, they require input from
14 outside caregivers and they're much closer to the psyche
15 of the claimant.

16 I think it's fair to suggest that most
17 individuals are going to be less concerned about the
18 repair to their right front bumper than they are to their
19 damaged leg or arm. It's a much more personal issue that
20 you're dealing with in bodily injury claims.

21 And it would be inappropriate for the
22 Corporation to set customer service standards for two (2)
23 very different type of claims that would require the same
24 sort of -- of standard. For example, in -- in property
25 damage claims there are particularly total loss claims

1 that are customer service standards that the adjuster
2 must, within a period of time, certain period of time,
3 make an offer, a proposal, to the claimant. You couldn't
4 do that in a bodily injury claim. You couldn't say you
5 must make a personal impairment award or permanent
6 impairment award within two (2) weeks of the accident
7 because the information just wouldn't be available. And
8 you rely so much on the outside caregiver to give
9 guidance and direction as to how the injury has impacted
10 this claimant. So that is a clear and valid
11 justification for caring different internal claims
12 handling standards.

13 The other evidence before this Board is
14 that there is a high degree of customer satisfaction with
15 MPI. And those studies are conducted independently by
16 outside agencies and they report a significant, across
17 the board in both physical damage and bodily injury
18 claims, significant customer satisfaction. I think these
19 are the appropriate measures that give and should give
20 this Board the assurance that claimants are being
21 properly handled and their claims are being appropriately
22 handled at MPI.

23 And you just have to look at the numbers
24 that I spoke about earlier in this presentation, two
25 hundred and eighty thousand (280,000) claims in one (1)

1 year. And believe me, claimants would be marching in the
2 streets if they felt that they were being handled
3 inappropriately.

4 The third element is -- is perhaps a
5 little more difficult in some ways to address, and that's
6 Mr. Dawson's allegation that MPI has shown a continued
7 noncompliance with Board orders and recommendations. And
8 in fact he made the statement that the Corporation really
9 just treats this Board with polite tolerance. That flies
10 totally in the face of evidence from this and previous
11 panels that the Corporation values this process. It
12 values what this process brings not only to Manitobans
13 but to the Corporation.

14 And in previous years the evidence has
15 been clearly put on the record that it's the
16 Corporation's view that this process has strengthened the
17 rate making methodology. It has brought us to the point
18 where rates are statistically sound and actuarially
19 driven. It has made the Corporation not that the
20 Corporation was -- was unwilling to do this, but it has
21 made the Corporation examine its processes and it has
22 made the rate making methodology a much sounder process
23 that -- that it would have been without this scrutiny
24 from the PUB. That's clearly on the record and in my
25 view that doesn't amount to polite tolerance. It goes

1 far beyond that.

2 Now in particular, Mr. Dawson is concerned
3 about this benchmarking study. And I think it's
4 worthwhile reading from Order 150/07 issued by this Board
5 November 26th, 2007.

6 And in that order -- and this was an order
7 in previous years the benchmarking issue had been
8 sometimes the subject of a recommendation, sometimes the
9 -- the subject of an Order, but in last -- in last year's
10 order, the -- the Board ordered that MPI proceed with
11 development of claims incurred analyses, benchmarks, and
12 comparisons, and file a report with the Board on or
13 before February 28, 2008, as to its progress towards
14 these goals. February 28, 2008, wasn't a deadline at
15 which point these benchmarks were to be in place; the
16 organization was to file a report as to its progress.

17 On December 5th, 2007, MPI wrote to the
18 Board indicating that it would not be in a position to
19 file such a report by February 28th, 2008, but it
20 undertook to do so by April 30th. The Board did not
21 object to that amendment proposed by MPI, if you want to
22 call it that, and in fact the Corporation did file the
23 PIPP infrastructure documents by the April 30th deadline.

24 The material that was filed clearly
25 indicates that progress is being made by MPI, and it

1 clearly constitutes compliance with the Board Order that
2 progress toward these goals be reported.

3 Now it's also been placed on the evidence
4 by various members of the panel that the information to
5 properly benchmark the PIPP experience has been lacking,
6 and we talked about the fact in previous -- or the
7 witnesses talked in -- in previous applications, that
8 there just wasn't a -- an appropriate way of -- of
9 gathering the information. And the whole project, the
10 PIPP infrastructure project -- and you know about the
11 FINEOS system that has been selected and -- and is --
12 there's an impli -- implementation plan being put
13 together. The FINEOS system will provide the Corporation
14 with the information that it needs to properly respond to
15 benchmarks, and to properly provide benchmarking
16 information to the Board. And agin ,the Corporation has
17 a clear commitment to provide that information.

18 It's interesting that Mr. Dawson quoted at
19 length from an Ontario case, the Advocacy Centre for
20 Tenants Ontario and the Ontario Energy Board. And he
21 seemed to be quoting from that case first of all to talk
22 about the function of the Board, and suggests that the
23 function of -- of this Board is similar to the Ontario
24 Energy Board, and the key element of that decision is
25 that the Board is to act as a proxy in the public

1 interest for competition in situations where there is no
2 competition.

3 The Corporation agrees with that premise.
4 This is the very reason the Manitoba government gave this
5 Board jurisdiction over MPI's Basic program, the
6 compulsory universal insurance program, where, by
7 definition, there is no competition.

8 So the Corporation is fully accepting of
9 the fact that this Board does act as a proxy for
10 competition. The difference presumably between the
11 Corporation and the Manitoba Bar Association is that the
12 Corporation believes that that role is proxy for
13 competition is limited to the Basic program, which as,
14 taking the wording from the Ontario case, is the monopoly
15 -- monopoly distributor of an essential service, namely
16 automobile insurance.

17 So the Corporation not only doesn't take
18 issue with that, but it feels that in fact that that is
19 the process, and that is the role that's being played by
20 this Board.

21 I want to turn now to the responses of the
22 applicant to remarks, and -- and indications from the
23 Chair in the transcript, pages 1413 to 1419, as to items
24 that the Board would like to hear the Applicant's
25 position on.

1 The first one (1) asks:

2 "Should the Board accept proposed rates
3 including a 1 percent revenue
4 decrease?"

5 And clearly we've already made the point
6 that it's the applicant's position that yes the Board
7 should adopt the applied for rates. Apply the 1 percent
8 revenue decrease. There's no sense in -- in repeating the
9 arguments that have been put forward to support the Rate
10 Application.

11 The second had to do with the question of
12 rebate: Should there be a rebate? It's the
13 Corporation's position that currently projections show a
14 potential \$29 million excess in the Basic RSR program
15 over the currently approved PUB upper limit of that band.
16 However, it's also the Corporation's position that
17 there's no guarantee that at the end of the year those
18 funds will still be there. There are many factors that
19 can have an adverse impact and to list just a few:
20 further market deterioration, further volatility in the
21 market, bad winter impacting claims experience.

22 Basing a rebate on a mid-year financial
23 position increases risk, in the Corporation's view, and
24 it's the Corporation's position that such a rebate is not
25 warranted at this time particularly in light of the

1 economic circumstances that we're currently in. And if
2 in fact at the end of the fiscal year that surplus is
3 still there, there will be plenty of opportunity for the
4 Corpor -- or for the Board to address that at the next
5 General Rate Application.

6 The third point addresses a number of
7 Board orders and recommendations. The issue of auto
8 thefts, I think we've addressed that. Scheduling of the
9 DSR hearing currently calls for a filing in January of
10 2009 and a hearing in -- in April of 2009.

11 The third effort talks about rather MPI's
12 efforts to achieve traffic law enforcement. And the
13 Corporation's position on that is confirmed in SM-8.9.1
14 and in particular details the experience that the
15 Corporation has had with the RCMP in working on -- on
16 traffic law enforcement and the -- the increased activity
17 that had been the result of that cooperation.

18 We talked about the amended asset mix. No
19 need I don't think to -- to deal with that any further.

20 And finally, the PIPP consultant. There
21 were no questions raised at -- at this hearing that I
22 can recall in relation to this and I would suggest that
23 filing of the PIPP infrastructure materials which was
24 filed in the April 2008 time frame clearly indicates how
25 the Corporation is proceeding with the implementation of

1 the new PIPP system, and implementation plans are ongoing
2 as we speak.

3 Also the cost allocation review. Again, I
4 would just rest on the Corporation's commitment that this
5 will be filed at the next year's General Rate Application
6 and I guess this is one time when we'll have to say wait
7 and see, but it -- it will be there.

8 Next issue, the jurisdiction issue. And
9 again, the Corporation has attempted in the past to meet
10 this head-on and -- and is more than willing to do again.
11 And the Crown Corporation's Public Review and
12 Accountability Act sets out the jurisdiction of this
13 Board to consider rate bases and premiums charged, with
14 respect to compulsory driver and vehicle insurance
15 provided by the Corporation. Compulsory driver and
16 vehicle insurance.

17 And as I said, this fits entirely with the
18 comments from Mr. Dawson about the Board being a
19 substitute for competition and fits entirely with the
20 findings from the Ontario decision. The Corporation has
21 not changed its position, the Corporation still believes
22 that the jurisdiction should be applied as it appears in
23 the statute. And it's arguable that in the eyes of the
24 Legislature there is value to Manitobans in the current
25 structure.

1 And it's a principle of statutory
2 interpretation that when the Legislature passes a
3 statute, it means what it says. They created an existing
4 governance structure. They created an existing
5 governance structure that limits the jurisdiction of this
6 Board to the Basic program. Until the Government
7 determines that there is some need to change that, the
8 Corporation is not in a position to either support, or
9 certainly not in a position to support the request by the
10 Board, if one is made, by this Board, that its
11 jurisdiction be increased.

12 We can always argue, and it has been
13 argued, that, you know, in effect MPI has a monopoly in
14 Extension. That -- that word has been tossed around.
15 It's true, competition in ex -- in Extension and SRE
16 comes and goes, and may change from year to year, but
17 what is important to note that it's only Basic that has a
18 legislated monopoly. It's only Basic that provides
19 compulsory coverage universal to all Manitobans, and
20 that's the type of program that warrants regulation by
21 this Board.

22 At this point, the Corp -- been asked --
23 I've been asked to -- to make a comment as well about the
24 position taken by the Board that the overall health of
25 the organization should play a role in the Board's

1 deliberations, and -- and jurisdictions. And the only
2 comment I would make at -- at this point is that it's
3 somewhat unclear to the applicant as to what that role
4 is. Certainly we would never expect to see a Board from
5 this order -- or sorry, an order from this Board saying,
6 Well we've decided that rates should be reduced by 5
7 percent because we see you have some excess retained
8 earnings in -- in Extension, or -- or SRE.

9 So without a clear definition of how the
10 Board intends to apply this overall health of the
11 organization, the Corporation is left with, as it did in
12 -- in response to Mr. Saranchuk's -- one (1) of Mr.
13 Saranchuk's question, admitting that yes, the Board has
14 told us that that's one (1) of the things it -- it does.
15 But I -- I think there's -- there's room perhaps there
16 for -- for some clarification, and -- and then the
17 Corporation would -- would know, or be in a position to -
18 - to take a position on that.

19 The other thing that I want to mention in
20 -- in this regard is that we want to harken back to the
21 reason the Corporation started producing audited
22 statements solely for the Basic line of business. That
23 wasn't a -- a practice that goes back to 1988 when this
24 regulation started; it was -- it was -- I -- I don't
25 know the exact date, but I do know that it was something

1 that was introduced at a later date along the way.

2 And the purpose that the Corporation had
3 in mind in producing that audited statement for the Basic
4 program, was to provide the Board significant assurance
5 that Basic is being properly managed, and to provide the
6 Board with the assurance from an audited statement that
7 says, This audited statement is a fair and reasonable
8 representation of the financial position of the Basic
9 program. And that's a considerable degree of comfort, or
10 I -- you can take a considerable degree of comfort, I
11 would suggest, from the fact that you have those audited
12 statements.

13 The next issue to be addressed was the
14 BPR, the -- the Business Process Review. And again, in
15 that regard the Corporation has identified components
16 that have a direct charge to Basic. And they are the
17 DSR, PIPP infrastructure, streamlined renewal, and that's
18 an allocated, not a -- not a 100 percent direct, and the
19 data warehouse, that's also an allocated expenses to
20 Basic.

21 As those costs unfold, they -- there will
22 be clear and transparent information provided to the
23 Board as to the impact to Basic. There's never been any
24 suggestion that somehow the information either wasn't or
25 would not be available to the Board.

1 So again, I think that the Board can take
2 comfort in the fact that as these projects unfold the
3 expenses will be fully documented, and where they're
4 allocated a full explanation as to what portion has been
5 allocated to basic.

6 Cost allocation was something that I think
7 I've already addressed. And I think it's, even though
8 we've given the commitment that this will be available at
9 the next general rate application, I think it's also
10 worthy to note that when the previous study was done,
11 back in the late '90s the information, the study, the --
12 all of the information related to it was provided to the
13 Board, and the allocation formula -- formulae were
14 disclosed to the Board. There's evidence again to the
15 Board that these formulae are being followed. And KPMG
16 did indicate that it tests for compliance.

17 And all of those, I think, should again
18 give some comfort to the Board that the allocation -- the
19 cost allocation process is not off the rails; there's no
20 evidence to indicate that it is. The Corporation
21 continues to testify that it follows the -- the formulas
22 that have been set up.

23 And cost allocation is also something that
24 you don't do every year. It's something that you want to
25 set a process in place that will stand at least a few

1 years and will stand the test of time and that's the type
2 of study that will be brought forward. I don't think
3 that at this point, since we're so close to having a new
4 cost allocation study produced, that the Board should
5 prejudge that items are currently inappropriately charged
6 to Basic. I think that the Board will clearly have a
7 full opportunity to review and comment on the new
8 application to whatever extent it wishes to, once that
9 allocation is filed.

10 Questions about staff component. And
11 again the evidence shows that the change to the Basic
12 staff component is not significant and that it clearly
13 reflects project activity, so that while some areas of
14 the Corporation may have seen a larger growth in staff
15 compliment, the allocation to Basic cannot be termed as
16 significant, based on the evidence that's been provided
17 to the Board.

18 The Board mentioned or asked for comment
19 on the deferral of operating costs and this relates to
20 the impact of IFRS, International Financial Reporting
21 Standards. Now, so far, we clearly admit the only
22 information filed before the Board is the QuickScan
23 (phonetic) that gave a high level overview of what impact
24 IFRS may have on MPI. And there's nothing in the
25 QuickScan to indicate that deferral of operating costs

1 may be a particular problem.

2 But really I think the position we have to
3 take is that there is plenty of time to address these
4 issues. As the Board knows IFRS do not need to be
5 implemented until fiscal 2011, although there is a
6 requirement to do some back-casting for the previous
7 fiscal year to show the impact of IFRS -- IFRS on that
8 previous year. In any event, we're looking for MPI, at
9 the fiscal year starting March 1, 2011, as when the
10 impact of IFRS will take place.

11 The Corporation also wants it known, and I
12 believe it's on the record, that they're on the verge of
13 hiring an IFRS implementation partner. The RFP was
14 issued, assessment of the responses have been completed,
15 and on October 22nd, at the audit committee meeting, the
16 management will be bringing forward to the audit
17 committee a recommendation for hiring an IFRS
18 implementation partner. There will be a full disclosure
19 at the upcoming GRA of any information that we may have
20 from the implementation partner as to the impact of IFRS.

21 So again, I would suggest that this is an
22 area that should not present any concern to the -- to the
23 Board. Clearly the Corporation has the issue in hand, is
24 moving to address the issue, and any results and any
25 action required will be fully disclosed to the Board.

1 The same applies to the owner's contract
2 issue. And yes, there's no doubt that the Quicksan
3 raised that as a potential issue. It's -- it's an issue
4 that has to be addressed. Any onerous contract would
5 have to be addressed under IFRS. Part of the problem at
6 this point is that the rules aren't finely drafted yet.
7 And in particular the evidence was that in -- in the
8 Quicksan that rules for insurance companies are still
9 under review and drafting.

10 So while we all need to be vigilant and
11 concerned about what the impact of IFRS will be, we have
12 to wait and act when we have the -- the information
13 that's required.

14 New contract with brokers re. commissions
15 was one of the items that the Chairman indicated he'd
16 like to hear some advice on. And again, in Ms. McLaren's
17 evidence and it didn't get a whole lot of play, but it
18 was up front, she advised this Board that under the
19 agreement that's been negotiated, completed with the
20 representatives of brokers, IBAM, basic commissions will
21 be reduced from 5 percent where they currently are to 2.5
22 percent, and that will happen on full implementation of
23 the agreement.

24 And that represents a \$20 million in
25 savings to Basic. And that is obviously a significant

1 saving to the Basic program. And that when you couple
2 the savings from the auto theft initiative, show quite
3 clearly that this organization has the best interest of
4 Basic at heart when it deals with issues such as costs,
5 claim costs, and broker costs. These are direct benefits
6 to the Basic program.

7 I've dealt with the issue of the claims
8 incurred forecasting differences. Again, refer back to
9 PUB-1-21 if you really want to take a look at what the
10 Corporation's forecasting experience is with respect to
11 claims incurred.

12 The other comment and it was aligned with
13 the issue of claims incurred, a suggestion that rebates
14 have been driven as much by unexpect -- or sorry, that
15 rebates were driven to a large extent by the differences
16 in -- experiencing claims incurred. I think that in the
17 initial years it's fair to say that the rebates were
18 driven more by unexpected gains on the investment
19 portfolio. However, it is fair to say that in the last
20 year it was a combination of the unexpected gains in the
21 investment portfolio and the positive claims experience.

22 Trucker situation, as it's been referred
23 to. Again, the Corporation's position is that the
24 legislation is what it is. The decision to allow injured
25 Manitoba resident truckers to select MPI or WCB was

1 obviously based on government policy considerations.

2 As a matter of fact prior to no fault,
3 which introduced in 1994, MPI was primary, which was a
4 divergence from other provincial systems across Canada
5 where Workers Comp that -- was primary, so that at least
6 the election process results in some of the claims going
7 to the Workers Comp, which may not have been the
8 situation prior to 1994. But again, this really is an
9 issue of -- of Government policy and -- and one would
10 have to gain direction as to why in 1994 the Government
11 felt this was an appropriate handling of the MPI/WCB
12 inter-reaction.

13 Environmental goals. The comment in the
14 transcript mentions a Board that Ms. McLaren is co-chair
15 of, and that is the -- the Vehicles Standards Advisory
16 Board.

17 And really the limitat -- or the --the
18 mandate of that Board is -- is somewhat limited. Its
19 mandate is to recommend to government emissions standards
20 for new vehicles. And this is only one (1) example of
21 the role that MPI is playing in environmental issues, but
22 it's not a Board that's going to have a significant
23 impact in environmental issues as they relate to
24 insurance issues.

25 On that second portion, MPI again is

1 committed to responding to the Centre for Sustainable
2 Transportation. The Board has been advised that there
3 was a seminar, a meeting with represen -- a large number
4 of representatives, chaired by the Centre for sustainable
5 Transportation. That meeting produced a report which
6 requires response from -- from MPI, and that is currently
7 being drafted, and that response will be shared with the
8 Public Utilities Board as the report from the -- the
9 seminar was in fact shared.

10 The final issue, one that quite frankly I
11 wasn't expecting to be spending a lot of time addressing,
12 and that is the RSR. And upfront, I can tell you that
13 MPI shares the Board's concern that continued divergent
14 opinions are not necessarily in the public interest. The
15 Corporation to some extent, feels restrained by the
16 comments that are contained in the external actuaries
17 DCAT report. That report appears at AI.18 in the
18 materials.

19 And in the cover letter, the external
20 actuary clearly states that based on Canadian Institute
21 of Actuary Standards, the future financial condition of
22 MPI Basic is not satisfactory.

23 And while highlighted in this year's GRA -
24 - sorry, while not highlighted in this year's GRA, MPI
25 does continue to do the MCT calculation. It's part of

1 the DCAT analysis. It appears at AI.18 appendix H, and
2 in looking at that appendix, the indication, or the --
3 the MCT analysis indicates a 39 percent increase in the
4 top of the range for 2009/'10 over the 2007 range.

5 Put another way, the average upper level
6 of MCT for the rating year 2009/'10, is 39 percent higher
7 than it would have been in 2007/'08. Directionally, the
8 risk continues to grow.

9 Now the Corporation fully realizes that
10 the Board has left open the door for the Corporation to
11 come back with a proposal, either in -- involving, or --
12 or based on the MCT, but in light of the recent years of
13 discussion and decision by the Board, it was felt that at
14 this point it was not appropriate. The -- the Corp --
15 that doesn't mean that the Corporation has abandoned the
16 MCT calculation, or abandoned its view that a broader
17 band of RSR is in the best interests of MPI.

18 And in that discussion of -- of the
19 broader band, it's MPI's view that the observations set
20 out at page 12 of the Aon report is helpful. The report
21 identifies the fact that a narrow RSR band makes it
22 difficult to maintain stability in the revenue we require
23 for Manitobans.

24 The report points out that acceptable
25 levels of volatility in investment returns are in no

1 small way dependent on the size of the band. So the
2 narrower the band, the narrower the acceptable level of
3 volatility. But it's also dependent on the upper limit
4 of the RSR band itself. Aon -- the Aon study suggests
5 that with a higher upper level of RSR, the Corporation
6 could sustain higher levels of annual volatility in
7 investment income.

8 And in looking at this issue, we also
9 can't lose sight of the fact that at the end of the day
10 no matter who manages MPI's investment portfolio, MPI, as
11 a Crown Corporation, is by law included in the
12 consolidated financial statements of the province. The
13 Government has a direct interest in any fluctuation in
14 MPI's total comprehensive income as increased risk and
15 volatility create fluctuations in the Province of
16 Manitoba's financial statements. You can't lose sight of
17 the fact that these issues are linked and it's obviously
18 a consideration that must be taken into account.

19 That concludes my comments on closing
20 argument, Mr. Chairman. I want to thank the Board for
21 its attention today, and to repeat, we're looking forward
22 to an order adopting the Rate Application put forward by
23 the Applicant.

24 THE CHAIRPERSON: Thank you, Mr.
25 McCulloch. This brings to an end the public phase of the

1 proceeding, notwithstanding the occasion adversarial
2 elements of the proceeding, hearings intended in a large
3 part to assist the Board in concluding appropriately on
4 MPI's application in the public's interest. Hopefully
5 this proceeding will achieve that goal in this regard.

6 Mr. McCulloch's closing statement on
7 behalf of MPI has helpfully, particularly in his
8 introduction, and in the sections of his remarks
9 pertaining to significant actions and perspectives of the
10 Corporation, reminded the Board of MPI's progress,
11 rationale, and its position in an importance to
12 Manitoba's ratepayers, the Government, and society.

13 Again, we thank all those who have
14 participated in and/or supported this process. The Board
15 understands and appreciates in particular the commitment
16 of MPI to the proceedings as evidenced by the direct
17 participation of its senior management.

18 The Board's decision will follow in due
19 course. Hopefully, well ahead of the time in which MPI
20 needs it for processing.

21 So we stand adjourned. Thank you.

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23 --- Upon adjourning at 11:31 a.m.

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1 Certified correct,

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7 Cheryl Lavigne, Ms.

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