

## MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)  
GENERAL RATE APPLICATION FOR  
2015-2016 INSURANCE YEAR

Before Board Panel:

Karen Botting	- Board Chairman
Regis Gosselin	- Board Member
Anita Neville	- Board Member
Susan Proven	- Board Member
Allan Morin	- Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
October 24, 2014  
Pages 405 to 739



“When You Talk - We Listen!”



1 APPEARANCES

2 Candace Grammond ) Board Counsel

3

4 Kathy Kalinowsky ) Manitoba Public

5 ) Insurance

6

7 Byron Williams ) CAC (Manitoba)

8 Meghan Menzies (np) )

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10 Raymond Oakes ) CMMG

11

12 Angele Young ) CAA (Manitoba)

13 Mike Mager (np)

14

15 Irvin Frost ) ARM

16

17 Christian Monnin ) Bike Winnipeg

18 Jason Carter )

19 Charles Feaver )

20

21 Dave Schioler (np) ) IBAM

22

23

24

25

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1 --- Upon commencing at 9:01 a.m.

2

3 THE CHAIRPERSON: Good morning.

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: Welcome back to the  
8 GRA hearings of the MPI. We will begin this morning  
9 with our cross-examinations by Intervenors. And we're  
10 going to begin with Ms. Young, from CAA, if she has  
11 some comments.

12 MS. ANGELE YOUNG: We have no questions  
13 at this time.

14 THE CHAIRPERSON: Okay. Thank you.  
15 Okay. Then I'll go on to ask Mr. Frost, from ARM,  
16 Automotive Recyclers of Manitoba, to begin his cross-  
17 exam. Thank you.

18 MR. IRVIN FROST: Thank you, just going  
19 to start.

20 Just for information's sake, my plan is  
21 to leave this -- good start. Okay. Just for  
22 information's sake, my plan is to leave this on,  
23 because there is no chance I'm going to be able to hit  
24 this off and on as we move forward. I -- I understood  
25 -- I understood that worked for Mr. Oakes, and thank

1 God. I hope it works for me. If --

2 THE COURT REPORTER: Do you want to tip  
3 it down, please?

4 MR. IRVIN FROST: I will. Are we good  
5 to go, madam? Thank you.

6

7 MPI PANEL 1 CONTINUED:

8 DAN GUIMOND, Previously Sworn

9

10 CROSS-EXAMINATION BY MR. IRVIN FROST:

11 MR. IRVIN FROST: Okay. Again, I just  
12 want to introduce myself to Mr. Guimond. My name is  
13 Izzy Frost, sir. I am counsel to the ARM, Automotive  
14 Recyclers of Manitoba, and I propose to ask you a  
15 number of questions this morning, primarily based on  
16 your conversation or discussion with Ms. Susan Proven,  
17 which, thankfully and as a result of technology, will  
18 be on the screen. So we will be able to -- I'll look  
19 at the passages that I am referring you to, sir.

20 And, also, by way of introduction I want  
21 to introduce as Exhibit 4 -- is that correct?

22 MS. JENNIFER DUBOIS: Exhibit 3.

23 MR. IRVIN FROST: Exhibit 3, a document  
24 entitled, "MPI's Recycled Parts Program Participants."  
25 And I want to -- I am hoping that's going to go on the

1 screen momentarily so I can discuss that with Mr.  
2 Guimond. Is that going to work?

3 MR. DAN GUIMOND: Super.

4

5 --- EXHIBIT NO. ARM-3: Document entitled "MPI's  
6 Recycled Parts Program  
7 Participants"

8

9 CONTINUED BY MR. IRVIN FROST:

10 MR. IRVIN FROST: Thank you so much.

11 Anyway, thank you, sir. Now, just by way of  
12 introduction, members of the panel, I would like to  
13 discuss with Mr. Guimond who my clients actually are,  
14 because that's not clear. They've been referred to as  
15 two (2) or three (3) disgruntled repairers, I think.  
16 Not words -- not my words.

17 And, Mr. Guimond, you have before you a  
18 document entitled "MPI's Received Parts Program  
19 Participants." This is a document, sir, that's been  
20 provided to me by my client. And I further understand  
21 this document itself has been generated by MPI,  
22 correct?

23 Do you have any information on that,  
24 sir?

25 MR. DAN GUIMOND: Subject to check, I -

1 - I remember seeing something like that.

2 MR. IRVIN FROST: Thank you, sir. And  
3 I want to review this with you for a moment if I might,  
4 please. And basically what we have here, and by my  
5 calculations -- excuse me -- by my calculations we have  
6 thirteen (13) recyclers identified as part of the --  
7 well, MPI prog -- MPI Recycled Parts Program  
8 participants. If my math is right, you walk down all  
9 the individ -- individual recyclers and you have  
10 thirteen (13) in number.

11 MR. DAN GUIMOND: That's correct, and  
12 we currently have more recyclers and that that we deal  
13 with today.

14 MR. IRVIN FROST: Okay. So you're  
15 telling me this -- this document is not current.

16 Is that your position, sir?

17 MR. DAN GUIMOND: It's my understanding  
18 we've signed up with more recyclers now, yes.

19 MR. IRVIN FROST: I'm sorry. You're  
20 going to have to -- my hearing isn't the best and  
21 you're speaking rather quickly.

22 MR. DAN GUIMOND: Okay. My apologies.  
23 We have signed up more recyclers since that list was  
24 created.

25 MR. IRVIN FROST: Okay. So what I

1 would like to have from you is an undertaking in terms  
2 of who the additional recyclers are in Manitoba,  
3 because as you can see and as I've said these are  
4 thirteen (13). You, in your evidence in the last few  
5 days, have referenced sixteen (16).

6 MR. DAN GUIMOND: Yes, I believe the  
7 current number's at sixteen (16).

8 MR. IRVIN FROST: Okay. So again, I  
9 have your undertaking to tell me who the three (3)  
10 additional recyclers are, correct?

11 MR. DAN GUIMOND: Yes.

12 MR. IRVIN FROST: Thank you.

13

14 --- UNDERTAKING NO. 10: MPI to provide the names of  
15 the three (3) additional  
16 recyclers

17

18 CONTINUED BY MR. IRVIN FROST:

19 MR. IRVIN FROST: Now, I'd like to walk  
20 through with you, sir, the actual participants that are  
21 with ARM. And if you disagree or have information to  
22 the contrary, please share that. The current members  
23 of ARM, to the best of my information, is Aime's Auto  
24 Parts, Direct Auto Parts, Gill's Auto Parts, Kildonan  
25 Auto and Truck Parts, LKO (sic) Auction Recyclers and

1 Auto Parts, Progressive Auto Parts, Team -- and Team  
2 Auto Parts, Westman Salvage. My understanding is or my  
3 information is those are the people or organizations  
4 that are part of ARM currently.

5 Do you have information to the contrary?

6 MR. DAN GUIMOND: No, I do not.

7 MR. IRVIN FROST: So you are prepared  
8 to agree with that statement?

9 MR. DAN GUIMOND: Subject to check, but  
10 I -- I mean, I -- I know you know, so.

11 MR. IRVIN FROST: I have no reason to  
12 mislead you, sir, so that's not my intention. And --  
13 and I -- I'm -- unfortunately I erred here because I  
14 haven't introduced the gentleman sitting to my right.  
15 And it's Greg Lane. He is with Progressive Auto Parts.  
16 I apologize to Mr. Lane and members of the panel for  
17 that. So I want him introduced as part of this  
18 exercise. Thank you, sir. Now, my further -- Gregory  
19 Lane, L-A-N-E.

20 THE COURT REPORTER: Thank you.

21 MR. IRVIN FROST: You're welcome.

22 Okay. Now, my further understanding is that the ARM  
23 members currently provide 90 percent of the recycling  
24 business in Manitoba. That's my information shared  
25 with me by my clients.

1 Do you have any reason to -- to  
2 contradict that, sir?

3 MR. DAN GUIMOND: Subject to check, I'm  
4 okay to go on that premise.

5 MR. IRVIN FROST: I appreciate that,  
6 sir. So is it fair to say that ARM is more than two  
7 (2) or three (3) disgruntled recyclers?

8 MR. DAN GUIMOND: What I'd like to be  
9 able to say is when we dealt with all the recyclers,  
10 that a lot of them don't necessarily align with ARM  
11 policies. And what we had to do when we did the  
12 physical damage re-engineering project is that we  
13 created a committee elected by the people we deal with.  
14 There's four (4) representative. And it's very clear  
15 to me that ARM, when we talked behind the scenes, is --  
16 is not to talk on behalf of all the recyclers because  
17 there's a lot of disagreements between the groups,  
18 number 1.

19 Number 2, the two (2) or three (3)  
20 disgruntled that I talk about are the ones that behind  
21 the scenes, unknowingly to the others, is the reason  
22 why you're here today. That's the information I have.

23 MR. IRVIN FROST: Thank you, sir. I  
24 appreciate all this cloak and dagger information, but I  
25 really want to talk about what we have in front of us

1 in writing. And on paper, at least, I'm going to hope  
2 you agree with me, subject to my not misleading you,  
3 that at this point and on this paper we have eight (8)  
4 organizations, eight (8) recyclers out of thirteen (13)  
5 recyclers, that comprise 90 percent of the business in  
6 Manitoba of recycling are represented and have had  
7 Intervenor status, subject to all that cloak and dagger  
8 information.

9 MR. DAN GUIMOND: I don't think, for  
10 the purpose that you're here, that you can speak on all  
11 behalf of these recyclers. That's the point that I'm  
12 making.

13 MR. IRVIN FROST: Well, I -- I don't  
14 want to debate this with you, but sadly I have to. On  
15 paper, and I'm just going to repeat this. On paper you  
16 have thirteen (13) recyclers, and I think you've said  
17 you have -- you have three (3) more, or a couple more,  
18 your words, that are current. Your words. On paper we  
19 have -- I have identified eight (8) out of thirteen  
20 (13), and arguably a couple more. I'm not going to  
21 dispute that. I don't know that information -- I'm  
22 sorry. Are we okay? Okay.

23 On paper, sir, and I didn't appreciate  
24 this turning into a debate, and I -- I actually started  
25 that, and -- by going to the two (2) or three (3)

1 exercise. But on paper you will agree with me, I hope,  
2 that we have thirteen (13) recyclers. We have eight  
3 (8) members. Eight (8) of those recyclers are members  
4 of ARM.

5                   Would you agree with me on that?

6                   MR. DAN GUIMOND: On paper, yes.

7                   MR. IRVIN FROST: Thank you. I guess  
8 what I'd like to have, I suppose, and if you can  
9 provide it that would be excellent, do you have any  
10 documentation to support the fact that you are  
11 repudiating, or casting doubt, or a cloud, over  
12 anything that I -- that we have just discussed? I'm  
13 talking about the discussions you have had, and that  
14 I'm only representing two (2) or three (3), those  
15 words.

16                   Do you have anything on paper  
17 documenting that, sir?

18                   MR. DAN GUIMOND: I don't, but I can  
19 say if you look at MPI's pattern, in terms of dealing  
20 with associations, we deal with IBAM. We deal with  
21 MMDA. We deal with ATA. And with the recyclers we  
22 weren't able to deal with AR -- ARM, and that's why the  
23 committee was structured the way it was. So I think in  
24 terms of how we got to the structure we have, and why  
25 it varies, speaks for itself.

1 MR. IRVIN FROST: You know what, I -- I  
2 will talk to you about that committee, but just so I --  
3 I was going to put my foot into that water a little  
4 later, but you're talking about the liaison committee,  
5 correct?

6 MR. DAN GUIMOND: Correct.

7 MR. IRVIN FROST: And --

8 MR. REGIS GOSSELIN: Before we go too  
9 much further, could you --

10 MR. IRVIN FROST: I'm sorry.

11 MR. REGIS GOSSELIN: -- I'm sorry, Mr.  
12 Frost, I hate to interrupt your --

13 MR. IRVIN FROST: I -- I can't --

14 MR. REGIS GOSSELIN: -- questions but  
15 there -- there's a number of acronyms being tossed  
16 around here, and we want to know what they mean. So  
17 IBM, ATA, could you -- do you mind, Mr. Guimond?

18 MR. DAN GUIMOND: Insurance Brokers  
19 Association of Manitoba.

20 MR. REGIS GOSSELIN: Okay.

21 MR. DAN GUIMOND: Manitoba Motor Dealer  
22 Association, and the Automotive Trade Association for  
23 ATA.

24 MS. SUSAN PROVEN: And just so I'm  
25 clear, the liaison committee, which we're going to get

1 to, is that the four (4) people, Mr. Guimond, who you  
2 have regular contact with?

3 MR. DAN GUIMOND: That's correct.  
4 They're the four (4) people that were elected by the  
5 sixteen (16) recyclers.

6 MS. SUSAN PROVEN: Right. Thanks.

7

8 CONTINUED BY MR. IRVIN FROST:

9 MR. IRVIN FROST: Out of those four  
10 (4), sir, my understanding they represent the recyclers  
11 as well as MPI, so what you have in that liaison  
12 committee is three (3) recyclers, one (1)  
13 representative from MPI, correct?

14 MR. DAN GUIMOND: We'll double check.

15 MR. IRVIN FROST: Sorry?

16 MR. DAN GUIMOND: We'll double check  
17 because I was under the impression it was four (4)  
18 people that were elected from the committee. So we'll  
19 just double check that.

20 MR. IRVIN FROST: My understanding is  
21 somewhat different. My understanding is MPI actually  
22 had a hand in putting this committee together, rather  
23 than it being picked.

24 MR. DAN GUIMOND: I can categorically  
25 say no to that.

1 MR. IRVIN FROST: My further  
2 understanding is, within those -- see we're getting --  
3 we're getting off topic, but that's fine. My further  
4 understanding is that liaison committee included an ARM  
5 representative.

6 Is that correct?

7 MR. DAN GUIMOND: That's correct.

8 MR. IRVIN FROST: I just want to leave  
9 that for the time being. So I want you -- I'm sorry,  
10 go ahead, please.

11 MR. DAN GUIMOND: I just to need to  
12 clarify that they are ARM member, not necessarily  
13 representing ARM.

14 MR. IRVIN FROST: I'm struggling with  
15 that distinction. If they are an ARM representative,  
16 they are part of the organization and, as such, will be  
17 covered with the ARM perspective.

18 Am I missing something, sir?

19 MR. DAN GUIMOND: People that are part  
20 of ARM don't necessarily all agree what ARM is doing.  
21 And that's how we got to the structure of the  
22 committee. That's the challenge we had to -- we had to  
23 do.

24 MR. IRVIN FROST: So when you get --  
25 when you deal with an organization, I'm assuming you're

1 dealing with an organization. The organization will  
2 have a structure, perhaps a president, a vice  
3 president, some management team, and then will have  
4 members, just generally speaking, fair?

5 MR. DAN GUIMOND: In terms of how  
6 you're talking an organization is structured, yes.

7 MR. IRVIN FROST: Okay. Just  
8 organization and structure. And it's not unusual for  
9 any organization, be it large or be it small, to have  
10 individuals that are not fully ad idem with the  
11 organization. That what -- what's what elections are  
12 all about?

13 MR. DAN GUIMOND: Here lies the dilemma  
14 for us, because what we deal with is -- are the  
15 recyclers. So we brought them in a room and we said,  
16 How do we go forward talking about this because we're  
17 very concerned about your business. And they said,  
18 Well, we want to create a -- we want to elect a  
19 committee to represent us.

20 And that's how we got to that. And  
21 that's why we're not dealing with ARM directly.

22 MR. IRVIN FROST: But ARM, I think  
23 you've conceded, maybe I'm wrong, ARM, I think you've  
24 conceded, is part of that liaison committee?

25 MR. DAN GUIMOND: There are people on

1 the committee that are part of ARM, but they're not  
2 there to talk on behalf of ARM.

3 MR. IRVIN FROST: Okay.

4 MR. DAN GUIMOND: They're there as the  
5 recycler.

6 MR. IRVIN FROST: So how many people in  
7 this committee of four (4) are members of ARM? Do you  
8 know that?

9 MR. DAN GUIMOND: Not off the top of my  
10 head, no.

11 MR. IRVIN FROST: Could you -- could  
12 you undertake to provide me with the names of the  
13 recyclers that are part of AIA -- part of ARM but, in  
14 your words, do not speak for ARM?

15

16 (BRIEF PAUSE)

17

18 MR. DAN GUIMOND: No, we're going to --  
19 I know -- can confirm now that there are four (4)  
20 elected members. And we'll double check if they are  
21 part of ARM or not. We'll get back to you a little bit  
22 later today.

23 MS. SUSAN PROVEN: And, Mr. Guimond,  
24 I'd be interested in knowing. You say they were ele --  
25 they were elected members, not appointed?

1 MR. DAN GUIMOND: What we ask is that  
2 when we -- when we inform them about this initiative  
3 and how concerned we were about what was happening to  
4 the recycling business, the way they wanted to interact  
5 with us is to select four (4) candidates amongst the  
6 sixteen (16) to represent them. And so they chose the  
7 four (4) people. They -- they, among them, gave us the  
8 four (4) people they wanted to represent the sixteen,  
9 so that's why I'm using the word 'elected', but they --  
10 they chose them.

11 You know, how exactly they chose them, I  
12 -- I don't know, but I just know that the sixteen (16)  
13 or whatever, how many there were back then, provided us  
14 with the four (4) names to represent them.

15 MS. SUSAN PROVEN: Thank you.

16

17 CONTINUED BY MR. IRVIN FROST:

18 MR. IRVIN FROST: I'm told, sir -- and  
19 I apologize for the delay. I'm told that MPI insisted  
20 that they have spe -- a specific individual from the  
21 recyclers organization be on that liaison committee. I  
22 can give you the name of the organization. I'm told it  
23 was Kildonan. I don't know the name of the individual  
24 for reasons that are only knowledgeable within MPI.

25 MR. DAN GUIMOND: I'll have to -- to go

1 back and -- and find out about that. I know there was  
2 a -- a member -- I know there was a -- there's a lot of  
3 stuff going on amongst the recyclers, but I -- I know  
4 there was a -- a -- one (1) that was added. That's how  
5 we got to the four (4). And I'll -- I'll just get you  
6 the details.

7 MR. IRVIN FROST: And -- okay. My  
8 under --

9 THE COURT REPORTER: Is that an  
10 undertaking?

11 MR. IRVIN FROST: I'm sorry?

12 THE COURT REPORTER: Is that an  
13 undertaking?

14 MR. IRVIN FROST: I suppose it is.

15

16 --- UNDERTAKING NO. 11: MPI to advise details of  
17 the specific member from  
18 ARM that MPI insisted be on  
19 the liaison committee

20

21 MR. DAN GUIMOND: We -- we never -- we  
22 never insisted on somebody being on the -- on the  
23 committee. It was always them that -- that agreed to  
24 who was on the committee.

25

1 CONTINUED BY MR. IRVIN FROST:

2 MR. IRVIN FROST: When you say,  
3 "agreed," sir, you're saying it was an election among  
4 the recyclers and MPI had no part in appointing members  
5 to that liaison committee.

6 Is that your evidence?

7 MR. DAN GUIMOND: I know that when the  
8 -- when the committee was selected, that there was  
9 somebody that asked to be on the committee, and we let  
10 the recyclers decide if that person could be on the  
11 committee or not. But we never insisted a particular  
12 individual be on the committee.

13 MR. IRVIN FROST: Thank you. I didn't  
14 quite want to go down that rabbit hole, but I'm going  
15 to stop at this point. Thank you for your evidence,  
16 sir. I just want to change tacks for just a minute.  
17 You've been the -- you're the CEO, obviously, and have  
18 been so since February of this year, if my memory  
19 serves.

20 Am I right on that?

21 MR. DAN GUIMOND: Since February, yes.

22 MR. IRVIN FROST: Thank you, sir. And  
23 again, if my memory is good, which I doubt, you have  
24 been with MPI since 1990, correct?

25 MR. DAN GUIMOND: Correct.

1 MR. IRVIN FROST: And you've been  
2 involved with MPI, and you've basically been in the  
3 public sector, if I can use MPI in that frame, for your  
4 entire career.

5 Am I correct on that?

6 MR. DAN GUIMOND: The lion's share of  
7 my career, but I've also been in the Canadian Armed  
8 Forces. I worked for Great West Life, and also worked  
9 in the defence business in the commercial environment.

10 MR. IRVIN FROST: In the defence  
11 business? Okay.

12 So for the great -- I'm going to accept  
13 that as for the greater part of your career, you were  
14 in the public sector, I calculate quickly, some twenty-  
15 four (24) years, correct?

16 MR. DAN GUIMOND: Yes.

17 MR. IRVIN FROST: Okay. Now, I also  
18 want to discuss with you, and Mr. Williams had a quick  
19 discussion with you about this. I want to get a better  
20 understanding, perhaps, of your background with MPI.  
21 Mr. Williams categorized you as the special services  
22 and IT guy, very informal. I am suspecting there are  
23 more formal designations for your title. I'm not even  
24 sure you agreed with those two (2) references.

25 Could you help me on that, please?

1 MR. DAN GUIMOND: Historically, with  
2 the Corporation, the role that I've played has always  
3 been managing the lines of -- the strategic planning  
4 aspect of the Corporation, managing our lines of  
5 business, and transforming the Corporation to achieve  
6 our objectives.

7 MR. IRVIN FROST: And what has been  
8 your title prior to CEO, if that's been your job  
9 responsibilities, if I can use that reference? Would  
10 you mind sharing with me your job title going back,  
11 say, a decade? If -- if that's a large exercise I'm --

12 MR. DAN GUIMOND: I'll try. I was a  
13 manager on the service side of the business, like the  
14 product area and the delivery side. Then I was a  
15 director of -- of both the product, the services,  
16 started to have more of IT. And then I became a vice  
17 president in 2004, vice president of Operations. And -  
18 - and I was -- this is when I -- I was formally  
19 assigned all the strategic files, legislation, the  
20 lines of business in terms of their performance from a  
21 P&L perspective.

22 And then grew with more responsibilities  
23 in preparing the organization for all the succession  
24 planning we had, so transforming the organization,  
25 helping Marilyn to achieve her vision of how she wanted

1 to have the organization structured. And then I also  
2 became the CIO in addition to that, in -- I can't  
3 remember exactly when, but it -- it just -- it's sort  
4 of incremental responsibilities.

5 MR. IRVIN FROST: Thank you for that,  
6 sir. I thought I heard you say in the -- your job  
7 responsibilities, you had some oversight or  
8 responsibilities for the IT side of MPIC, correct?

9 MR. DAN GUIMOND: Yeah. It always had  
10 to do with transforming the organization to achieve  
11 strategic objectives. And I was also the one that was  
12 part of teams at MPI to -- to sort of create the  
13 blueprint if you -- if you wish, of the strategic  
14 direction.

15 MR. IRVIN FROST: You, yourself, do you  
16 have any IT designation in terms of academic  
17 qualifications, or do you have, I'll use the word,  
18 'expertise' in the IT area, or did you have staff in  
19 that regards?

20 MR. DAN GUIMOND: I -- I don't have a -  
21 - like a computer science degree, if that's what you're  
22 asking.

23 MR. IRVIN FROST: I think you --

24 MR. DAN GUIMOND: Okay. So my -- my  
25 expertise is mostly business, and --

1 MR. IRVIN FROST: Economics.

2 MR. DAN GUIMOND: -- economics, and  
3 also I work for -- when I was in the defence business  
4 in the private sector, worked in an engineering  
5 department for several years.

6 MR. IRVIN FROST: Just to carry that a  
7 wee bit further, sir, the E-GLASS program, which has  
8 been some of the discussions and in the IRs, that was,  
9 I'll use the words, 'your baby'.

10 That was prepared and implemented under  
11 your watch?

12 MR. DAN GUIMOND: Yes.

13 MR. IRVIN FROST: And the claims  
14 response system, which is another computer system, that  
15 computer system -- and that's the access and -- and how  
16 the recycled parts are driven through the system in --  
17 on a system called the claim -- claims response system.

18 Are you familiar with that system, sir?

19 MR. DAN GUIMOND: Yes, I am.

20 MR. IRVIN FROST: Thank you. And that  
21 -- the claims response system is primarily the system -  
22 - the computer system that delivers, if I can, recycled  
23 parts into the repair shops, and through the repair  
24 shops into the public sector, correct?

25 MR. DAN GUIMOND: Yeah, this is the

1 system that repair shops will use when they want to  
2 purchase parts from recyclers, and they -- they  
3 transmit what they're trying --

4 MR. IRVIN FROST: And -- and --

5 MR. DAN GUIMOND: -- what they're  
6 looking for.

7 MR. IRVIN FROST: Thank you. And this  
8 claims repair system is the access point as between the  
9 recyclers and the repair shops in terms of the actual  
10 claims that are made, and the opportunity for the  
11 recyclers to bid on those claims, correct?

12 MR. DAN GUIMOND: That's correct.

13 MR. IRVIN FROST: Okay. My  
14 understanding is this claims repair system has been in  
15 place, I'm told, for decades.

16 MR. DAN GUIMOND: I don't -- I -- I  
17 don't know if it's decades, because we inherited that  
18 when we got the RCO. But I -- I do believe it's been  
19 around for a long time, if that's the point you want to  
20 make.

21 MR. IRVIN FROST: Thank you, yes, I --  
22 I do. I appreciate that. And that claim -- and that  
23 claims response system has -- over the years has gone  
24 through upgrades, software upgrades, rollouts, and  
25 various revisions to keep it current, in terms of

1 operation in terms of the software, correct?

2 MR. DAN GUIMOND: It's still  
3 functioning, but it's a very weak system --

4 MR. IRVIN FROST: Yes. That's actually  
5 --

6 MR. DAN GUIMOND: -- a very weak  
7 system, and --

8 MR. IRVIN FROST: -- that's actually  
9 where I was going with it.

10 MR. DAN GUIMOND: -- it requires a  
11 significant overhaul.

12 MR. IRVIN FROST: Thank you. I  
13 appreciate that observation, because that's generally a  
14 concern that has been identified by the recyclers. The  
15 claims response system is one that has originally been  
16 implemented and developed by MPI.

17 It is currently the system that drives  
18 the access to and delivery of recycled parts, correct?

19 MR. DAN GUIMOND: When the system was  
20 created, and there -- there used to be an RCO office,  
21 and the -- the -- before we -- we took that over. So  
22 it was -- it was based on requirements from their  
23 perspective how the system functioned. I told you  
24 before, the Corporation is very concerned about long-  
25 term viability of the recyclers.

1                   We need to be able to help them to adapt  
2 to the new environment, and that system -- and -- and  
3 it's one of the reasons why we -- we took over the --  
4 the RCO, is that we need to be able to bring everything  
5 up to speed to be able to make sure that they're able  
6 to -- to be able to do the things that maybe we need  
7 them to do to help us out.

8                   MR. IRVIN FROST:   My understanding is  
9 that the RCO system was taken over by MPI on or about  
10 May 2012.

11                  MR. DAN GUIMOND:   That's correct.

12                  MR. IRVIN FROST:   And since that date,  
13 the RCO has been solely within the control and  
14 management of MPI. I -- I understand they are kind of  
15 the parts police? That's the colloquialism that I  
16 heard.

17                  MR. DAN GUIMOND:   Well, it -- as we  
18 move forward with the physical damage re-engineering,  
19 it's important that we -- you know, with the committee  
20 that's been elected, we've now redone the  
21 accreditations with them. They agreed to the language  
22 in the accreditations. We've made some significant  
23 changes in terms of process in terms of how that system  
24 works and what point the shops ask for -- for parts.

25                                   And now we're at the point that we're

1 going to have to make some changes to -- to the system  
2 as we move forward. So it's important to understand  
3 that the way we're progressing is with the input of the  
4 -- of that committee.

5 MR. IRVIN FROST: And so my  
6 understanding is -- I'm going back to the liaison  
7 committee -- my understanding is -- okay, let me put it  
8 a different way. The liaison committee is the active  
9 organization, if you will, in the industry that is  
10 moving this exercise forward, if I've heard your  
11 evidence, correct?

12 MR. DAN GUIMOND: They're working with  
13 us to move it forward, yes.

14 MR. IRVIN FROST: I need to get a  
15 little bit more definition, if you will. This liaison  
16 committee, in terms of members, in terms of minutes, in  
17 terms of meetings, I would like you to provide me with  
18 an undertaking as to how this organization works. I  
19 would like you to provide me with an undertaking as to  
20 who is currently a member of that organization. I  
21 would like you to provide me with an undertaking as to  
22 the minutes of that organization, because, frankly, Mr.  
23 Guimond, my understanding of everything you've just  
24 said is not the same as yours, and I don't think it's  
25 productive to go back and forth at it.

1                   So if we can get some paper in place,  
2 I'm happy to concede anything you've said, or we'll  
3 have a conversation around everything you've said.  
4 Would you -- would you be amenable to that, sir?

5                   MR. DAN GUIMOND:    I'd be amenable to  
6 provide the terms of reference. I'd be amenable to  
7 share the decisions that were done. And maybe for the  
8 -- for the Board here, we agreed to keep the Manitoba  
9 first policy. We agreed to keep it at 60 percent of  
10 OEM. It's very important. That means we guarantee  
11 recyclers 60 percent of the price -- of OEM price.

12                   It's very important that the industry is  
13 55 to 57 percent, so we're giving them an extra -- up  
14 to an extra 5 percent. It's important to understand  
15 that of the recyclers we had, seven (7) are on car  
16 parts. And we agreed not to force all the recyclers to  
17 go on car parts, because we know they're selling these  
18 parts to other jurisdictions at a lower price than we  
19 buy them. If we force everybody to go to car parts, we  
20 could squeeze them even more.

21                   And it's also important to know that --  
22 I think it's important for the Board to know that 14  
23 percent of our salvage is purchased by the recyclers,  
24 okay? And --

25                   MR. IRVIN FROST:    Fourteen (14) or

1 forty (40)? I'm sorry.

2 MR. DAN GUIMOND: Fourteen (14)

3 percent.

4 MR. IRVIN FROST: Thank you.

5 MR. DAN GUIMOND: We sell \$30 million  
6 of salvage a year. Fourteen (14) percent of our  
7 salvage is going to recyclers, which means that we buy  
8 more parts from the recyclers than they buy from us,  
9 and it's important to know that the other parts are  
10 coming from other jurisdictions.

11 And one (1) of the policies that we're  
12 talking about right now, to give you an idea of what's  
13 going on, is because they import parts from the US, now  
14 they're after us to try and see if we can help them  
15 with the exchange. So, like, those are the kinds of  
16 things that are going on at -- at the committee, sir.

17 MR. IRVIN FROST: I would like -- I --  
18 thank you.

19 THE COURT REPORTER: Excuse me. Sorry.

20 MR. IRVIN FROST: I'm --

21 THE COURT REPORTER: I need to get that  
22 undertaking clarified, please. You said a lot, and I  
23 need to know what exactly it is.

24 MR. IRVIN FROST: Absolutely. Thank  
25 you, madam. I -- I need you to give me an undertaking

1 you -- can I just roll back for a minute before I go  
2 there? Are you -- okay. Are you good, sir?

3                   You've just give me a whole whack of  
4 information, which I thank you for. And I'm going to  
5 presume a lot of that information that you shared with  
6 me is recorded in minutes or some documentation?

7                   MR. DAN GUIMOND: Not with the  
8 committee.

9                   MR. IRVIN FROST: Okay. I'm going to  
10 suppose that a lot of that information you shared with  
11 me is recorded somewhere within the four (4) corners of  
12 MPIC?

13                   MR. DAN GUIMOND: Absolutely, and I'm  
14 walking between a fine line with having a good  
15 relationship with our recyclers and dealing with this  
16 issue here. And I don't -- I wanted to send a powerful  
17 message today, but I don't want to use -- I want to use  
18 that information in -- in a way to make points, and --  
19 but at the same time, convey our supports for the  
20 recycling business. So it's a bit of a fine line when  
21 somebody comes here doing what you're doing when you  
22 want to support the industry. But then you've got a  
23 couple of people doing what they're doing. So I'm --

24                   MR. IRVIN FROST: So the -- the  
25 difficulty --

1 MR. DAN GUIMOND: -- I'm trying to walk  
2 that fine line.

3 MR. IRVIN FROST: Thank you. I still -  
4 - just one (1) moment. I still want to do this. Okay.  
5 Thank you.

6 THE COURT REPORTER: Is there an  
7 undertaking?

8 MR. IRVIN FROST: Wait a minute. I'm  
9 just letting him finish having a conversation with his  
10 counsel.

11 MR. REGIS GOSSELIN: Okay. I -- I  
12 think the court reporter is waiting for an undertaking  
13 to express what MPI is prepared to deliver.

14 MS. KATHY KALINOWSKY: We can undertake  
15 to provide the terms of reference of the MPI/recyclers  
16 liaison committee, and we can also provide the policy  
17 decisions that have come out from that committee.

18 MR. IRVIN FROST: And I also wish to  
19 per -- have an undertaking in terms of the minutes of  
20 all the meetings that the liaison committee has had.

21

22 (BRIEF PAUSE)

23

24 MR. DAN GUIMOND: Okay.

25

1 --- UNDERTAKING NO. 12: MPI to provide the terms of  
2 reference of the  
3 MPI/recyclers liaison  
4 committee, the policy  
5 decisions that have come  
6 out from that committee,  
7 and the minutes of all  
8 meetings of the liaison  
9 committee from its  
10 formation, 2013, and 2014  
11

12 CONTINUED BY MR. IRVIN FROST:

13 MR. IRVIN FROST: I'm also told that  
14 this liaison committee did not meet at all in 2013.

15 Do you have any information on that?

16 MR. DAN GUIMOND: No.

17 MR. IRVIN FROST: And I'm also told  
18 that in 2014, there were only -- I don't want to say a  
19 number -- few meetings with that liaison committee to  
20 date.

21 Do you have any information on that?

22 MR. DAN GUIMOND: No, but I -- I know  
23 that the meetings that take place is aligned with  
24 particular deliverables of the physical damage re-  
25 engineering. And so depending on when it's time to

1 make decisions, that that's when the committee is  
2 invoked. It's not a set -- set frequency of meetings.

3 MR. IRVIN FROST: Okay. So they're  
4 irregular, at the call of the chair?

5 MR. DAN GUIMOND: It's based on the  
6 deliverables in terms of when we need to make decisions  
7 on physical damage engineering. For example, when we  
8 changed the timing of when the shops ask for parts.

9 MR. IRVIN FROST: Okay. So I'm going  
10 to repeat that for the purpose of the court reporter.  
11 I -- I'm going to -- I'm asking for minutes of all the  
12 meetings of this liaison committee for 2014, 2013, back  
13 to when it was formed.

14 MR. DAN GUIMOND: Agreed.

15 MR. IRVIN FROST: And I'm also asking  
16 for attendance records of that committee. I'm -- I  
17 don't know if the minutes reflect that. I'm assuming  
18 they do. But if the minutes don't reflect the actual  
19 attendance of the members of the liaison committee that  
20 were there during those meetings, I would like that,  
21 too. If it's part of the minutes, that's fine.

22 MR. DAN GUIMOND: Okay.

23 MR. IRVIN FROST: Thank you.

24

25 --- UNDERTAKING NO. 13: MPI to provide a list of

1 attendees of the liaison  
2 committee meetings, unless  
3 this is included in the  
4 committee minutes

5  
6 MR. REGIS GOSSELIN: M. Guimond, I  
7 wonder if you could educate me a little bit about  
8 what's going on in terms of recycling parts, because  
9 you mentioned a number of things which -- which kind of  
10 took me off-track a little bit. You indicated that  
11 they buy -- you -- you sell more parts to the -- to the  
12 recyclers than -- than they buy from you.

13 And I -- could you explain that? Like,  
14 not -- not what I expected to hear.

15 MR. DAN GUIMOND: Our recyclers -- I'm  
16 just going to -- our recyclers purchase 14 percent of  
17 our salvage. We sell about thirty (30) -- we sold --  
18 we sell about \$33.6 million a year in recycle, like --  
19 like through our auction. The recyclers buy 14 percent  
20 of that. So -- and it goes to maybe Ms. Proven comment  
21 about recyclers. We buy more recycled parts from the  
22 recyclers than they buy it through our salvage. That's  
23 the point I'm trying to make. And they get these parts  
24 from other parts of the different -- either from Canada  
25 or from the US.

1                   And one (1) of the things that we're  
2 going to be talking to them now -- I've just been  
3 recently informed, like, for example, because they buy  
4 some of these parts from the US, they want protection  
5 for the US dollar. So those are the kinds of things  
6 that are going on at the liaison committee.

7                   MR. REGIS GOSSELIN:    And I guess the  
8 other thing you said, you mentioned something about 60  
9 percent of OEM parts.

10                   So you're actually sourcing OEM parts  
11 from the recyclers?

12                   MR. DAN GUIMOND:    Well, let's say a  
13 part is worth a hundred dollars. And let -- an OEM  
14 part is worth a hundred dollars. Then we guarantee to  
15 the recyclers, if they have that part, 60 percent of  
16 the OEM price. But in terms of what's going on the  
17 marketplace, it actually goes down between 50 -- 55  
18 percent to 57 percent, so we give them an extra up to 5  
19 percent bump to help them out.

20                   And we also don't make them compete on  
21 car parts because they didn't want us to do that  
22 because they wanted to make sure they got the 60  
23 percent of OEM. And in addition to that, we -- I'm  
24 just looking here. I'll leave it that for now. I  
25 don't want to -- don't want to go too far.

1 MR. REGIS GOSSELIN: Now, you did also  
2 say that one (1) of the reasons you took over the RCO  
3 was to address the software you felt needed to be  
4 amended. Were -- were there other reasons that  
5 motivated your takeover of the MCO -- RCO?

6 MR. DAN GUIMOND: Yeah. Like, for  
7 example, when a re -- when a repair shop sends the  
8 information for -- for parts, the -- the -- it's at the  
9 part level where they order, right. Like, let's say  
10 when they -- they look at the card they order at a  
11 particular part level which could be, like, a handle on  
12 a door. Like, it could be an assembly, like, a door.

13 So it's very difficult for recyclers  
14 because they store their inventory at the assembly  
15 level most of the time. So when you emit a part  
16 number, there's a couple things that need to happen  
17 compared to the OEMs. You have to say, as a recycler:  
18 Okay, do -- okay, they're asking for a door that's on a  
19 part. Do I have the door and is this part -- that part  
20 there on the door?

21 And then I have to make a business  
22 decision, am I going to take that handle off the door  
23 or am I going to wait until I can sell the whole door.  
24 So there's a lot of business discussion -- business  
25 decisions that a recycler has to make.

1                   So -- so it'd be -- it'd be nice if we  
2 could find a way from a technology perspective when we  
3 emit, that all of this work would be done from a  
4 technological perspective so that you would be able to  
5 -- to make faster decisions and be able to -- be able  
6 to provide the parts maybe a little bit faster, and  
7 also be able to -- that we hold people to -- to be more  
8 competitive a little bit on the long run.

9

10   (BRIEF PAUSE)

11

12                   MR. DAN GUIMOND:    So also to your  
13 point, Mr. Gosselin, as to why we took over the RCO,  
14 between 2008 and 2011, eight (8) recyclers withdrew  
15 from membership from the RCO and expressed concern over  
16 its governance and internal management.   So that was  
17 one (1) of the reasons.

18                   Like, there's a lot of -- this is a  
19 group where there's a lot of difference of opinions.

20

21 CONTINUED BY MR. IRVIN FROST:

22                   MR. IRVIN FROST:    Can you -- a couple  
23 things.   Are you done, Mr. Gosselin?   Thank you.   A  
24 couple things.   You've indicated that a number of the  
25 recyclers withdrew.

1                   Is that right?

2                   MR. DAN GUIMOND:     That's correct.

3                   MR. IRVIN FROST:     Could you identify

4 which recyclers withdrew?

5                   MR. DAN GUIMOND:     We prob -- we both --

6 we'll get the -- the information for you, yes.

7                   MR. IRVIN FROST:     I'm sorry, sir?

8                   MR. DAN GUIMOND:     Yes, we will get that

9 information for you.

10                  MR. IRVIN FROST:     You'll tell me -- I -

11 - I --

12                  MR. DAN GUIMOND:     Whi -- which ones.

13                  MR. IRVIN FROST:     I think you said

14 eight (8), I thought?

15                  MR. DAN GUIMOND:     Yeah.

16                  MR. IRVIN FROST:     And you'll get me the

17 names of those?

18                  MR. DAN GUIMOND:     Yes.

19                  MR. IRVIN FROST:     Thank you.

20                  THE COURT REPORTER:   Is that an

21 undertaking?

22                  MR. IRVIN FROST:     Yes.

23                  THE COURT REPORTER:   Can you word it

24 specifically for me, please?

25                  MR. IRVIN FROST:     Mr. Gosselin (sic)

1 has undertaken to give me the name -- the names of  
2 those recyclers that have withdrawn. And he said there  
3 were eight (8) in number. I'm sorry, I said Mr.  
4 Gosselin, my apologies. Too many 'G's, as somebody  
5 else said. That's where I'm going to go with this, but  
6 it's going to be tough. That's -- there was a method  
7 to that. I'm sorry, I meant Mr. Guimond. My  
8 apologies, sir.

9                   So that -- that's an undertaking from  
10 Mr. Guimond. Correct?

11                   MR. DAN GUIMOND: Yes.

12                   MR. IRVIN FROST: Thank you, sir.

13

14 --- UNDERTAKING NO. 14: MPI to provide the names of  
15                                   the recyclers that have  
16                                   withdrawn

17

18 CONTINUED BY MR. IRVIN FROST:

19                   MR. IRVIN FROST: And then --

20                   MR. DAN GUIMOND: That's correct.

21                   MR. IRVIN FROST: -- just to follow up  
22 on Mr. Gosselin's comments -- it's going to be hard,  
23 but I'm going to try. In a letter that I have just  
24 received -- it's an MPI letter talking about the  
25 takeover minutes:

1 "Manitoba Public Insurance recently  
2 completed a detailed analysis of our  
3 Recycled Parts Program. The  
4 objective (sic) were to identify  
5 opportunities to increase the use of  
6 recycled parts, improve the Recycled  
7 Parts Program, and address the issues  
8 that were raised by the repair  
9 industry in the collision repair --  
10 I'm sorry -- in the collision repair  
11 industry study."

12 That's a letter from Ted Hlynsky. I  
13 don't know the -- I'm assume -- I'm assuming you do.  
14 Have -- have you seen this letter, or are familiar with  
15 it?

16 MR. DAN GUIMOND: No, I have not.

17 MR. IRVIN FROST: So you're going to --  
18 would -- I'm hoping you're going to adopt these  
19 comments in terms of the objectives of the takeover, so  
20 to speak.

21 MR. DAN GUIMOND: I'll have to look at  
22 the letter first.

23 MR. IRVIN FROST: Absolutely.  
24 Absolutely, thank you. And second -- and also, there's  
25 a reference here, Mr. Gosselin (sic), to the collision

1 repair industry study. I'm assuming that's a document  
2 in the possession of MPI? Oh, God.

3 MR. DAN GUIMOND: There's -- the -- the  
4 labelling of that document, do you mean the -- the  
5 study was made to help the industry --

6 MR. IRVIN FROST: Okay. Can -- can I -  
7 - can I -- I'm going to -- I think I called you  
8 'Gosselin' again, and I'm going to have to apologize.

9 MR. DAN GUIMOND: That's fine.

10 MR. IRVIN FROST: I'm going to have  
11 this introduced. I've just received it. I -- my  
12 apologies. Can I have this scanned in to a --

13 THE COURT REPORTER: Sorry, could you  
14 go by a mic?

15 MR. IRVIN FROST: I'm going to -- I'm  
16 going to have this scanned in as an exhibit, madam  
17 reporter. And it's Exhibit -- what mic is it -- it's  
18 Exhibit 4.

19

20 --- EXHIBIT NO. ARM-4: Letter from Ted Hlynsky

21

22 MR. IRVIN FROST: Madam Chair, she's  
23 scanning in the letter into the system, and I have to  
24 admit that I -- I gave her the wrong letter, so she's  
25 flipping it to the letter that I referred to. My

1 apologies.

2

3

(BRIEF PAUSE)

4

5

MR. IRVIN FROST: Perhaps this would be

6 a...

7

8

(BRIEF PAUSE)

9

10 CONTINUED BY MR. IRVIN FROST:

11

MR. IRVIN FROST: Thank you. I think

12 my mic is on. Sir, I'm going to stay with 'sir'. This

13 is the letter I was referring to dated May 16th, 2012.

14 Again, my apologies for the late delivery of this. But

15 I just want to read back to you. I didn't want to -- I

16 want to make sure I didn't mislead you and you're aware

17 of that. The objectives were:

18

"To identify opportunities to

19

increase the use of recycled parts."

20

That was one (1) objective.

21

"Improve the Recycled Parts Program."

22

Laudable. And:

23

"Address issues that were raised by

24

the repair industry in the collision

25

repair industry study."

1                   Those are the objectives. And I take it  
2 you have no difficulty with those as being the  
3 objectives, seeing that they're a document from Mr.  
4 Hlynsky of -- of MPIC?

5                   MR. DAN GUIMOND:    Agreed.

6                   MR. IRVIN FROST:    Thank you. And where  
7 I stopped was, there is reference, sir, to a collision  
8 repair industry study. If you can see that at the end  
9 of page -- at the end of paragraph 1?

10                  MR. DAN GUIMOND:    Yes, I'm aware of it.

11                  MR. IRVIN FROST:    May I -- would you  
12 undertake to provide us with a copy of that document?  
13 I have to assume that's within the control and purview  
14 of MPI?

15                  MR. DAN GUIMOND:    Yes, it is. It's  
16 just going to be subject to reviewing if we can release  
17 that document in the -- in the public arena.

18                  MR. IRVIN FROST:    I'm struggling with  
19 that a little bit, Madam Chair, because if there is a  
20 debate on whether it's to be released or not, I would  
21 like to be part of that debate.

22                  MR. DAN GUIMOND:    Well, before we have  
23 the debate, how about if I just verify it? Because I  
24 know the repair industry paid for -- for part of that  
25 study, and I know there's a lot of sensitive

1 information about them in there, so I just want to  
2 double check just to make sure that we can release it.

3 MR. IRVIN FROST: I -- I rem --

4 MR. DAN GUIMOND: And -- and if -- if  
5 we can't release it, then maybe we can have the debate.  
6 Let's -- let's just find out.

7 MR. IRVIN FROST: The only thing I  
8 would remind you of is, I think one (1) of the members  
9 of the panel said there's an opportunity in the PUB  
10 process to release informations in confidence, or in  
11 camera is my terminology. But in -- under some cover  
12 of confidentiality. And I'd be prepared to participate  
13 in that if that becomes an issue, Madam Chair.

14 THE CHAIRPERSON: Okay. I think we'll  
15 accede to Mr. Guimond. He'll find out if it's  
16 confidential, and then we'll discuss that part later in  
17 the hearing. If -- when -- when we find out whether it  
18 was a confidential doc -- document or not.

19 MR. IRVIN FROST: That's fair. Thank  
20 you, Madam Chair.

21 THE COURT REPORTER: Are we still  
22 listing it as an undertaking?

23 MR. IRVIN FROST: I can't hear you,  
24 please.

25 THE COURT REPORTER: Are we still

1 listing it as an undertaking?

2 MR. IRVIN FROST: Well, it's an  
3 undertaking subject to the discretion not to provide it  
4 because of confidentiality, after which, if that  
5 decision is made, we will take it from there. But I  
6 will be adv -- the undertaking is to either release it  
7 or advise us that it's confidential, and then we'll  
8 have a conversation around the second part of that.

9 Is that clear, madam reporter?

10 MR. DAN GUIMOND: Agreed.

11 MR. IRVIN FROST: Thank you for that.

12

13 --- UNDERTAKING NO. 15: MPI to provide the  
14 collision repair industry  
15 study, pending determining  
16 confidentiality

17

18 MR. IRVIN FROST: And the May 16th  
19 letter has now been marked as an exhibit? Thank you.

20

21 (BRIEF PAUSE)

22

23 MR. REGIS GOSSELIN: What is the  
24 exhibit number, please?

25 THE CHAIRPERSON: The -- the letter is

1 Exhibit Number 4. Am I correct?

2 MR. IRVIN FROST: You are correct.

3 THE CHAIRPERSON: Thank you.

4 MR. IRVIN FROST: Perhaps, Madam Chair,  
5 I noticed that it's just a minute -- six (6) minutes to  
6 10:00. I'm going to move to a different area at this  
7 point. Perhaps this would be an opportune time to have  
8 the morning recess?

9 THE CHAIRPERSON: That would be fine.

10 Okay. Thank you.

11 MR. IRVIN FROST: Thank you, Madam  
12 Chair.

13 THE CHAIRPERSON: We'll return at ten  
14 (10) after 10:00.

15

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

17 --- Upon resuming at 10:14 a.m.

18

19 THE CHAIRPERSON: Okay, welcome back  
20 from our break. We're going to continue now with the  
21 cross-examination by Mr. Frost.

22 MR. IRVIN FROST: Thank you, Madam  
23 Chair. Thank you, Madam Chair. Ms. Kalinowsky wishes  
24 to make a comment first.

25 THE CHAIRPERSON: Yes, Ms. Kalinowsky,

1 go ahead, please.

2 MS. KATHY KALINOWSKY: Good morning.  
3 I'd like to say that, with respect to one (1) of the  
4 undertakings, we can provide it right now, and that was  
5 for the Manitoba collision repair industry study. And  
6 that was filed in the 2012 General Rate Application  
7 here at PUB Information Request 1-45.

8 MR. IRVIN FROST: Thank you for that,  
9 Ms. Kalinowsky. We will take a look at that. And,  
10 hopefully, we'll have an opportunity to discuss it with  
11 Mr. Guimond at a future point if necessary.

12

13 CONTINUED BY MR. IRVIN FROST:

14 MR. IRVIN FROST: Thank you. I -- I  
15 just wanted to -- I just want to go back a wee bit,  
16 sadly, about an exchange between Mr. Gosselin and Mr.  
17 Guimond around the US exchange rate. And if I heard  
18 Mr. Guimond, he said that the recyclers are looking for  
19 a rebate. And you had experience where the recyclers  
20 are looking for a rebate around the exchange rate  
21 because of the differential rate.

22 Did I hear that right?

23 MR. DAN GUIMOND: Yes, that's my  
24 understanding, is somebody asked, yes, to -- to look  
25 into that.

1 MR. IRVIN FROST: My understanding,  
2 sir, is a bit different. My understanding is that it  
3 may well be the case with OEM or aftermarket parts, but  
4 it is not the case with regard to the recyclers, with  
5 perhaps one (1) exception. And that exception is, and  
6 I'll identify this, LKO -- or LK --

7 MR. GREGORY LANE: 'Q'.

8

9 CONTINUED BY MR. IRVIN FROST:

10 MR. IRVIN FROST: -- 'Q', pardon me,  
11 LKQ, who I'm told has storage facilities for repair  
12 parts in the US. However, that is not the industry  
13 norm because the recyclers store all their parts on  
14 this side of the border. That's my information, sir.

15 Would you be contradicting that, and, if  
16 so, on what basis?

17 MR. DAN GUIMOND: Subject to check.

18 MR. IRVIN FROST: Thank you. So you...

19

20 (BRIEF PAUSE)

21

22 MR. IRVIN FROST: Are you going to --  
23 do I have an undertaking for you to check, sir?

24 MR. DAN GUIMOND: No. What -- what I'm  
25 -- I was briefed this morning on this issue, and

1 they're not asking -- I just want to correct the record  
2 that they're not asking for more money because of the  
3 exchange rate.

4 MR. IRVIN FROST: Okay. So that  
5 statement was not accurate, and of -- your first  
6 statement, I mean?

7 MR. DAN GUIMOND: Yeah, that's correct.  
8 They -- they -- they're -- they pointed it out to us in  
9 terms of price pressure, but they did not formally ask  
10 that we pay them for the exchange rate.

11 MR. IRVIN FROST: So as you -- as we  
12 sit and speak this morning, it has not been part of the  
13 landscape -- or the financial landscape as far as the  
14 recyclers are concerned, vis-a-vis MPI?

15 MR. DAN GUIMOND: Not at this time.

16 MR. IRVIN FROST: Thank you.

17 MR. REGIS GOSSELIN: Could you clarify  
18 -- clarify for me, Mr. Guimond. I'm -- I'm con --  
19 still confused about when we -- when you deal with a  
20 recycler, when MPI deals with a recycler, are they  
21 sourcing both recycled parts and OEM parts, or for OEM  
22 parts, are you dealing with somebody else?

23 MR. DAN GUIMOND: The -- when it comes  
24 to recyclers, we only deal with recycled parts.

25

1 CONTINUED BY MR. IRVIN FROST:

2 MR. IRVIN FROST: Can I help, Mr.  
3 Gosselin? I'm sorry. There are three (3) separate  
4 sourcing for these parts. And I -- I was actually  
5 going to go here in a minute. Maybe this will help  
6 you.

7 There are three (3) separate individual  
8 sourcing for parts. There's the recyclers. There's  
9 the OEM. And there's the after-market. Those are  
10 three (3) sources for parts. And all of those three  
11 (3) are separate pockets and separate suppliers of  
12 parts, correct?

13 MR. DAN GUIMOND: That's correct.

14 MR. IRVIN FROST: Does that help you,  
15 sir?

16 MR. REGIS GOSSELIN: It does. Thank  
17 you very much. And -- and I guess the other question I  
18 have is: Explain for me the -- the significance of the  
19 exchange rate. What's -- what's going on that would  
20 cause you to examine that?

21 MR. DAN GUIMOND: As the dollar goes  
22 down, it -- it's more expensive to bring the parts in.  
23 Accordingly, their profit margin goes down.

24

25 CONTINUED BY MR. IRVIN FROST:

1 MR. IRVIN FROST: And that's with  
2 respect to OE -- maybe the answer is -- I'm sorry.  
3 Maybe the answer is, That may be relevant when you're  
4 talking after market and OEM, but it's not relevant in  
5 the conversation about recyclers.

6 Is that a fair statement?

7 MR. DAN GUIMOND: It's been identified  
8 by one (1) of the recyclers, but they're not asking for  
9 financial compensation at this point in time.

10 MR. IRVIN FROST: I just wonder, sir,  
11 if your -- in -- in this conversation that Mr. Gosselin  
12 started, is there a confusion around the rate diff --  
13 the dollar differential when you're dealing with OEM,  
14 which could be either worldwide or in the States, or it  
15 could be in after-market which either worldwide or in  
16 the States.

17 And the issue around the dollar  
18 differential is relevant in those pockets, or with  
19 respect to those resources but not relevant with  
20 respect to the local recycling market?

21 That's all I'm getting at.

22 MR. DAN GUIMOND: If they're local,  
23 correct.

24 MR. IRVIN FROST: So my statement is  
25 correct?

1 MR. DAN GUIMOND: It's correct for  
2 local, yes.

3 MR. IRVIN FROST: But is it correct for  
4 OEM and after-market, as well?

5 MR. DAN GUIMOND: I -- I believe so,  
6 based on what I heard, yes.

7 MR. IRVIN FROST: Thank you. Okay.  
8 I'm hoping that's a bit clearer, Mr. Gosselin.

9 Now, I just want to take us back to  
10 Exhibit 4, sir, if I might, which is the letter dated  
11 May -- thank you. And I want to point you specifically  
12 to the third line, and I won't go through the letter.

13 The objectives -- objectives were to  
14 identify opportunities, and the words that I'm really  
15 interested is, "increase the use of recycled part" --  
16 "of recycled parts." So my question glibly, and I'll  
17 get into the details is: How is that working out?  
18 Broad question.

19 Specific question, the E-GLASS market  
20 has basically eliminated recyclers from the landscape  
21 as it's currently being implemented. Is that right?

22 MR. DAN GUIMOND: Yes.

23 MR. IRVIN FROST: And the actual use of  
24 recycled parts, and I'm actually going to PUB/MPI I-54  
25 response. The actual use of cycled -- I thought it

1 would be on -- have I not given the correct -- could we  
2 get that on the monitor, if possible? Oh, I'm sorry.  
3 It's so quick for other people I thought. I'm just  
4 getting used to it.

5

6 (BRIEF PAUSE)

7

8 MR. IRVIN FROST: Okay. If you'll  
9 scroll down, please? Okay. If you'll go from 2008 at  
10 11 percent, go down to 2013, I guess that's the most  
11 recent figure MPI has, down to 7 percent.

12 So the way I -- my terrible calculation  
13 tells me the reduction in used parts -- or recycled  
14 parts from 2008 to 2013 has been roughly 4 percent, if  
15 my math is right.

16 MR. DAN GUIMOND: Yes. And this is one  
17 of the reasons why we struck the committee to help them  
18 out because we foresaw that in 2012, and that's why  
19 we're working with them to try to find a way to -- to  
20 work with them so that it doesn't even get worse than  
21 what that is.

22 MR. IRVIN FROST: So basically, sir,  
23 the point that we're addressing, and perhaps we are  
24 rolling in the same direction at the end of the day,  
25 and I hope that to be true, that we are both looking at

1 increasing the market share for the use of recycled  
2 parts in accordance with the terms of the committee.

3 That's a fundamental objective of MPI,  
4 fair?

5 MR. DAN GUIMOND: If we can find a way  
6 to do that, yes. That -- that's our objective, to try  
7 and help them to be able to -- to stay in business.

8 MR. IRVIN FROST: And you're doing so  
9 because that's part of your mandate. Part of your  
10 mandate in a general sense is include -- is to maintain  
11 efficiencies where available in the supply of rec -- of  
12 -- of parts, correct?

13 MR. DAN GUIMOND: Dema -- when if -- if  
14 you tie it to the mandate, it gets a bit complicated,  
15 and let me give you an example. I said a little bit  
16 earlier that we buy more recycled parts from the  
17 industry than they purchase through auction, number 1.  
18 So now, as a Manitoba company trying to keep all the  
19 money inside of Manitoba, I know that a repair facility  
20 who can price match on OEM, if they -- if they buy the  
21 -- the OEM part, now they're able to make more money on  
22 that part through volume discounts, and also at the  
23 price -- at the -- at the component level.

24 So now we're talking about MPI  
25 interfering in the marketplace that reduces the profit

1 margin of -- of the repair industry, which might put  
2 pressure on rates, because they'll want to get the  
3 profit back to subsidize an industry that's buying  
4 parts from outside Manitoba. So it -- it gets a little  
5 bit more complicated than -- than what you're saying  
6 there from a mandate perspective.

7 MR. IRVIN FROST: Okay. I'm -- I'm  
8 going to withdraw the mandate part. But the  
9 fundamental business of this entire exercise is to  
10 increase efficiencies and to ensure that costs are kept  
11 in a reasonable, rational, defensible, transparent  
12 exercise.

13 Is that a fair statement?

14 MR. DAN GUIMOND: Yes.

15 MR. IRVIN FROST: And part of that  
16 exercise would be to, in terms of the recyclers, would  
17 be to increase the use of recycled parts. That's part  
18 of the Exhibit 4.

19 Is that a fair statement?

20 MR. DAN GUIMOND: That is our goal.

21 MR. IRVIN FROST: Just --

22 MR. DAN GUIMOND: And -- yeah, that's  
23 our goal.

24 MR. IRVIN FROST: Thank you.

25

1 (BRIEF PAUSE)

2

3 MR. IRVIN FROST: I just want to change  
4 directions, Madam Chair, and refer to an exchange  
5 between Ms. Proven -- Proven, pardon me, and Mr.  
6 Guimond. I have it printed. I -- sadly, I'm not -- I  
7 believe it is now -- I'm hoping it's now on -- in the  
8 scr -- on the screen. I provided it to -- could we  
9 have it on the screen, please? Thank you. I  
10 appreciate it. Thanks.

11 I received this from madam reporter, and  
12 so I thought maybe I'd share it with Mr. Guimond, and I  
13 want -- so just to be fair to him in terms of his own  
14 words. Ms. Proven said:

15 "But this morning, we heard also  
16 prior to the break about the offshore  
17 parts, opportunities where you were  
18 get -- on where -- where you were  
19 getting after-market parts."

20 So as I understand Ms. Proven's  
21 question, it's with respect to after-market parts.

22 Would you agree with me? Yeah, I'm just  
23 asking you -- I think it's pretty obvious, but --

24 MR. DAN GUIMOND: Yeah.

25 MR. IRVIN FROST: Oh, thank you. And

1 then your answer, at least to me, is somewhat  
2 confusing, because when you're answering Ms. Proven,  
3 you're not talking about after-market parts. You seem  
4 to be talking -- so it's really -- and I'm talking  
5 about line 21. No, let me start with line 12:

6                   "Manufacturers -- manufacturers,  
7                   Manitobans buy vehicles from all  
8                   over. They are manufactured from all  
9                   over the world. So it's really the  
10                  manufacturer that provides those  
11                  parts, and they build them all over  
12                  the world."

13                 So my comment is, perhaps there's some  
14                 confusion or I'm confused. The question that Ms.  
15                 Proven asked was related to after-market parts. The  
16                 answer that you gave was related to original equipment  
17                 manufacturers' parts.

18                 Have I missed something?

19                 MR. DAN GUIMOND:    The -- the answer --  
20                 yeah, I -- I was talking about OEM. But after-market  
21                 parts --

22                 MR. IRVIN FROST:    Just -- I'm not --

23                 MR. DAN GUIMOND:    -- too, are -- are  
24                 manufactured all over the place.

25                 MR. IRVIN FROST:    Okay. But I'm not --

1 I'm not trying to -- I just want to make sure I didn't  
2 miss it. So the question -- the answer didn't really  
3 meet the question.

4 Is that a -- is that a fair statement?

5 MR. DAN GUIMOND: I used OEM instead of  
6 after-market parts.

7

8 (BRIEF PAUSE)

9

10 MR. IRVIN FROST: I can't hear you,  
11 madam reporter.

12 THE COURT REPORTER: What page of the  
13 transcript is this?

14 MR. IRVIN FROST: Page -- page 1. Page  
15 1. I have it -- see there's a difficulty, Madam Chair.  
16 I have it as individual pages, not -- I have it sent to  
17 us by email. And it's -- I'm told it's 105. And I --  
18 sadly, I don't have the pages that you have that are in  
19 the official transcript. This is all that I was  
20 provided.

21 Oh, well. I'm still going to probably  
22 need some help on this.

23 MR. REGIS GOSSELIN: Well, what date of  
24 the transcript are we talking about?

25 MR. IRVIN FROST: Day 1.

1 (BRIEF PAUSE)

2

3 MR. IRVIN FROST: I'm going to go to...

4

5 MS. SUSAN PROVEN: While you're  
6 struggling to get where you're going, there is a  
7 question that I would like to Mr. Guimond just on this  
8 topic. And that is, you know, years back -- I've  
9 always driven a Japanese car. And I would go to the  
10 wreckers to get the Japanese parts. And often, the  
11 wreckers would tell me, and I went to a few different  
12 ones, We only work with American cars. There were many  
13 that said, We're only wreck -- you know, we're tearing  
14 apart the American cars.

15 They gave me a few names, but very few,  
16 of people who were dealing with the Japanese parts. So  
17 I'd like to know, Mr. Guimond, has that changed? And  
18 here I am talking about recycled, not after-market and  
19 not OEM, the recycled parts.

20 How are the wreckers doing with the  
21 Japanese recycled parts?

22 MR. DAN GUIMOND: I don't know at the  
23 tip of my fingers the breakdown of -- of the parts that  
24 we purchase for certain, in terms of whether they're  
25 North American or -- or foreign, but we can find that  
out for you. We'll take that as an underca -- taking,

1 to break down the -- the parts -- the recycled parts  
2 that we purchase by the dif -- where they -- the  
3 different kind of makes and models.

4

5 --- UNDERTAKING NO. 16: MPI to provide a breakdown  
6 of the recycled parts  
7 purchased by the different  
8 kind of makes and models

9

10 CONTINUED BY MR. IRVIN FROST:

11 MR. IRVIN FROST: Thank you. I want to  
12 go to page 106, please. The question from Ms. Proven  
13 was:

14 "I'm wondering though when they spoke  
15 about this morning and just now,  
16 although you haven't got it, but this  
17 business of ARM saying that you know  
18 there's a huge cost when you don't  
19 use glass on the -- on some of these  
20 parts that could be available locally  
21 from the recyclers you've chosen not  
22 to use."

23 And the answer, to me, is somewhat  
24 confusing. And I -- you'll have to excuse me, sir.  
25 The answer that you're giving is with respect to the

1 physical damage project initiative. And then the  
2 answer that I see is not with respect to the glass  
3 component of parts, but it's with the actual hard,  
4 physical aspect other than glass.

5 So the question is related to glass.  
6 The answer seems to be related to the -- the --  
7 everything -- anything other than glass.

8 Have I misunderstood that?

9

10 (BRIEF PAUSE)

11

12 MR. DAN GUIMOND: Yes, I -- I thought  
13 the question was about glass and parts.

14 MR. IRVIN FROST: So the ans -- so it's  
15 not me, it is a di -- I'm not asking for the correct  
16 answer. I just want to make sure I haven't messed -- I  
17 haven't messed it up.

18 So the answer was not -- the response  
19 was not responsive to the question, correct?

20 MR. DAN GUIMOND: I thought it was.

21 MS. SUSAN PROVEN: Well, you know, I --  
22 my question was pretty simple: Can you take a good  
23 windshield out if it didn't have any damage and put it  
24 in another car? And I guess I was wondering about why  
25 glass sort of went off the -- you know, off -- it was

1 not used anymore. Like, you'd changed your glass use.

2 MR. DAN GUIMOND: Yes, it can be,  
3 that's for sure. And the -- it was for -- for purely  
4 cost savings -- purely cost savings. Purely cost  
5 savings, the decision was made, and as we continue to  
6 work with the committee, you know, we might have to  
7 rethink what happened there. But at the end of the  
8 day, it was a -- a cost decision.

9 MS. SUSAN PROVEN: And -- and would  
10 that be true because a windshield is a big thing that  
11 would have to be packaged up, and there's a lot of  
12 transport, and -- you know, I'm just thinking of why it  
13 would be so costly to take an old windshield that was  
14 in good shape, and then get it to where it had to go to  
15 pop it into a car? Is it just purely the cost of the  
16 whole thing? The transport, the...

17 MR. DAN GUIMOND: It was a combination  
18 of -- we were getting some complaints about the glass  
19 not being clear like -- like a new one. It -- it was  
20 like -- it was scratched. The other thing is, they're  
21 getting more and more complicated. Like the -- the  
22 windshields themselves have all kinds of antennas, all  
23 kinds of different things in them. Some of it wouldn't  
24 work, some of it would work.

25 So there's a -- there's a combination of

1 things where at the end of the day, it was just a  
2 bottom line decision. And it's important that, from a  
3 rate-setting perspective, everything we're talking  
4 about in here is not about reducing the rates, but  
5 increasing the rates. So in -- in essence, it's --  
6 it's subsidizing a -- a -- an industry.

7 MR. IRVIN FROST: Just --

8 MR. REGIS GOSSELIN: But -- but to that  
9 point, I just want to -- I just want to -- I want to  
10 make sure I understand what you just said. I -- I  
11 understand that part from a short-term perspective, but  
12 what I understood you to say is that you're concerned  
13 longer term that by -- by -- if we lose the recycling  
14 industry, then you are vulnerable to OEM sellers, and  
15 you're vulnerable to those who are more market -- more  
16 market power. Is that -- that's what I understood from  
17 your conversation.

18 MR. DAN GUIMOND: Yeah, that's right.  
19 And it might very well be to our advantage to come here  
20 and say, Hey, we want to subsidize this industry and  
21 here's why. Because on the long term, you might be --  
22 you know, we -- we have to find a reason, right. We  
23 have to find a -- a logical rationale from a policy  
24 perspective, a -- a combination of -- of being green, a  
25 combination of -- of business, and somehow to put a

1 business case forward for you as to why Manitobans  
2 should pay more.

3

4 CONTINUED BY MR. IRVIN FROST:

5 MR. IRVIN FROST: I'm flipping madly,  
6 and I -- and -- and you'll agree with me though, I  
7 believe, with respect to glass claims. The increase in  
8 cost of glass claims, and I think this came as a reply  
9 from MPI, has been 136 percent over the course of the  
10 last -- I can't remember -- five (5) to seven (7)  
11 years, I believe.

12 MR. DAN GUIMOND: Sorry, I -- I'm not  
13 sure what -- what you're referring to, sir.

14

15 (BRIEF PAUSE)

16

17 MR. IRVIN FROST: Your -- I'm going to  
18 defer to that, Madam Chair, because there is a chart  
19 that shows that there has been an increase in the costs  
20 of glass parts at approximately 136 percent, and I will  
21 just find that. It was kind of out of sync for me, but  
22 I'll just leave it alone for the moment. Thank you.

23 To carry you further into the -- into  
24 this exchange with Ms. Proven, you've said at the last  
25 line, which I find somewhat confusing, given all the

1 conversations we've had about ARM over the -- this  
2 morning, the Corporation has never dealt directly with  
3 ARM. You've certainly dealt with ARM in this liaison  
4 committee.

5 Am I right on that?

6 MR. DAN GUIMOND: The context is that  
7 as we have -- working with MMDA and ADA and IBAM,  
8 that's -- that's the difference in terms of -- of who  
9 we deal with in the sense that we're formally dealing  
10 with the association. In this one, we're not formally  
11 dealing with the association.

12 MR. IRVIN FROST: Okay, that's fair,  
13 sir. In terms of formally dealing with the  
14 association, in a corporate sense or in a contractual -  
15 - on a contractual basis, I want to point out to an  
16 agreement made the first day of November 2001 between  
17 the Manitoba Public Insurance Recyclers Central Office,  
18 which I'm hoping will find its way on the screen.

19

20 (BRIEF PAUSE)

21

22 MR. IRVIN FROST: It's Exhibit 5. It's  
23 an agreement made between the MPI and the Recyclers  
24 Central of our office. It's the one underneath that.  
25 And I'll read in -- I -- I'll read it for you:

1 "And whereas MPI and RCO have based  
2 their previous agreements on a 1979  
3 memorandum of understanding between  
4 the Automotive Recyclers of Manitoba  
5 (ARM), and MPI, and incorporating  
6 those agreements into subsequent  
7 agreements, the parties now wish to  
8 recognize the RCO, a corporation  
9 associated with ARM as a contractual  
10 party to this agreement."

11 So I didn't present the entire  
12 agreement. My only point, sir, was that MPI has dealt  
13 with ARM, or the Automotive Recyclers of Manitoba, over  
14 the course of the last number of decades through  
15 various agreements related at the very least to the  
16 Recyclers Central Office. So my only point, and I'm  
17 sorry to belabour this, you've certainly heard of ARM.  
18 Going back to your statements, I'm led to the  
19 conclusion that the Corporation has never dealt with  
20 ARM based on your -- directly with ARM based on your  
21 words. But based, at least, on this preamble, there  
22 has been some direct dealings with ARM with respect to  
23 the RCO office.

24 Is that -- have I missed something?

25 MR. DAN GUIMOND: The --

1 MR. IRVIN FROST: I'm not trying to  
2 trap you, sir. I'm just trying to understand it,  
3 honestly.

4 MR. DAN GUIMOND: Well, the -- the only  
5 thing I can say is that when we approached the  
6 recyclers, they wanted us to deal with the  
7 representatives that they put in place and not with ARM  
8 directly. So that's -- that's all I can say.

9 MR. IRVIN FROST: Okay.

10 MR. DAN GUIMOND: There's not much more  
11 that I can say than that, sir.

12 MR. IRVIN FROST: But I -- I'm just  
13 trying to stay with the words on the page. And the  
14 words on the page are wri -- I -- and I'm not -- don't  
15 want to debate it with you. I thought it's fairly  
16 obvious. The Corporation has never directly -- has  
17 never dealt directly with ARM. And I'm trying to show  
18 you, at least in a contractual sense, that the MPI --  
19 and maybe you just weren't aware of it, which is fine.  
20 And -- and I just want the record to be clear that ARM  
21 has been around since 1979. That's all.

22 MR. DAN GUIMOND: Okay.

23 MR. IRVIN FROST: That's all.

24

25 (BRIEF PAUSE)

1 MR. IRVIN FROST: Okay. I want to go  
2 to page 107, please. I'm -- I think I've got the right  
3 numbers now, thanks to Mr. Williams. Now, thank you,  
4 madam reporter. "Because" -- and it's just line 8,  
5 sir:

6 "Because when we did the math, we  
7 quickly realized that with the change  
8 in technology and parts procurement  
9 and supply chain, the recyclers would  
10 not survive, and they would go --  
11 they're -- they're going to be gone  
12 by the dodo -- by the dodo bird."

13 I haven't heard that in a long time. It  
14 ages you a little bit. But in any event, I'm  
15 struggling with that just a little bit, please, because  
16 my information is somewhat different. My information  
17 is firstly, the recycling business is a viable  
18 industry. My information is that -- and you've said it  
19 yourself, you've not been -- you've been involved in  
20 the public sector, so you don't have the hands-on  
21 knowledge within the recycle industry. And I think --  
22 you didn't use those words, but you did say for the  
23 greater part of your career, you've been in the public  
24 sector.

25 So you said you did the math. I'm going

1 to start there. Can you help me with -- is -- is there  
2 some document out there that tells us what tho -- what  
3 you did, what the math was? Is that some formal  
4 document that we haven't access to or the PUB hasn't  
5 seen?

6 Because my information is, despite the  
7 reduction in use, as I've showed you in 1-4, the  
8 recyclers are still a viable industry.

9 MR. DAN GUIMOND: I -- I think your  
10 exhibit showed how we're buying less and less parts.

11 MR. IRVIN FROST: Yes.

12 MR. DAN GUIMOND: We saw that for --  
13 coming. And I think that's why you're here today,  
14 trying to find a way to force us to buy more parts.

15 MR. IRVIN FROST: Well, I'm not --

16 MR. DAN GUIMOND: And so I'll leave it  
17 at that, sir.

18 MR. IRVIN FROST: Well, I quarrel with  
19 your -- your statement that we are trying to force you  
20 to buy more parts. We're trying to -- I -- I want to  
21 tell you what I am here for and what the recyclers are  
22 here for. They're here to see that costs and cost  
23 savings are realized in the public interest.

24 It does collide with the interest of the  
25 recyclers. Obviously, the more use to them, the

1 greater their -- the -- the greater their viability, or  
2 the better their viability. But at the end of the day,  
3 the recyclers are rolling in the same direction as MPI.

4                   Their position is, and I don't -- I want  
5 this clearly on the record, sir. Their position is,  
6 the greater use of recycled parts is in the public  
7 interests because the redu -- because the costs  
8 relative to part sourcing from the OEM, the after-  
9 market, and the recycle brings the recycled costs down  
10 or the usage of those parts down in terms of the cost  
11 to Manitobans.

12                   Would you disagree with anything I've  
13 said?

14                   MR. DAN GUIMOND:    Yes, sir.

15                   MR. IRVIN FROST:    You agree with me?

16                   MR. DAN GUIMOND:    I do not agree with  
17 you. I disagree with you.

18                   MR. IRVIN FROST:    Tell me where you  
19 disagree, please.

20                   MR. DAN GUIMOND:    The reason we're  
21 buying less parts is because there's the price  
22 matching, number 1. Number 2, they get the parts  
23 faster. Number 3, they -- they get volume discounts  
24 from OEMs on -- on parts. The car gets fixed for the  
25 same price. The -- the customer gets the car faster.

1 It helps us to alleviate pressure from the repair  
2 collision on having to pay for more -- more OEM parts,  
3 right, because they get a volume discount?

4 And in addition to that, the -- the  
5 customer gets the car faster. We pay less loss of use  
6 because they get the car faster. And I get a bump on  
7 customer service because the windshield's not  
8 scratched, it's not greyed out, and people love OEM  
9 parts.

10 MR. IRVIN FROST: Let's talk about OEM  
11 parts for a moment. I want you to go -- you said the  
12 costs are greater to use recycled parts rather than OEM  
13 parts.

14 Is that what you said?

15 MR. DAN GUIMOND: No. There's price  
16 matching.

17 MR. IRVIN FROST: Okay. It actually --

18 MR. DAN GUIMOND: See, that's why we  
19 guarantee 60 percent of the OEM parts. That -- that's  
20 very important.

21 MR. IRVIN FROST: I have a different  
22 perspective on that. My understanding, it's not price  
23 matching, but rather benchmarking. My understanding is  
24 that a part is placed on the screen and you -- for use  
25 in terms of a claim on the -- on the software -- or on

1 the computer.

2                   What happens is that part is bid on. If  
3 it is bid on by a recycler, they then benchmark that  
4 price at a certain amount. My further understanding is  
5 that once that benchmark is established, you cannot buy  
6 -- MPI will not -- or cannot buy that price at a higher  
7 level.

8                   Have I got that right? Okay, that's my  
9 understanding. I -- I -- perhaps I'm wrong. Maybe you  
10 can help me.

11                   MR. DAN GUIMOND: My understanding is  
12 that they send the information off for the parts. We  
13 guarantee 60 percent of OEM on recycled parts. Then,  
14 depending on the negotiation that goes on between --  
15 depending on -- on quality, depending on shipment dates  
16 and all that stuff, they can go to the other computer  
17 and put the same part, and see if the OEM will match  
18 the price.

19                   If the price is matched, then they'll --  
20 they -- they can buy the OEM parts if they are able to  
21 save money in terms of fixing that car -- getting the  
22 part faster, fixing the car fast -- faster, saving us  
23 money on loss of use, and getting better customer  
24 satisfaction.

25                   So each time we don't use a recycled

1 part, it's not because it's costing us more money.

2 That's -- that's very important to understand.

3 MR. IRVIN FROST: Okay. That makes  
4 sense. Basically --

5 MR. DAN GUIMOND: We're actually saving  
6 money.

7 MR. IRVIN FROST: You are -- okay.

8 MR. REGIS GOSSELIN: Mr. Guimond, that  
9 decision --

10 MR. IRVIN FROST: Can I --

11 MR. REGIS GOSSELIN: -- what you just  
12 described, that's the decision that's taken by the --  
13 the parts office within MPI, right? I mean -- or is it  
14 -- is it the -- the repair shop that's making that  
15 call?

16 MR. DAN GUIMOND: It's the -- we --  
17 right now it's the repair shop. The only thing that's  
18 important to us is that we don't have to pay more for  
19 that part. So if they can find the part, price match,  
20 and they can get it faster, reduce our cost on loss of  
21 use, get a benefaction, we're leaving that discretion  
22 to the -- to the repair shop.

23 MR. IRVIN FROST: Mr. -- Mr. Gosselin,  
24 I have that graphically in -- in an example, if -- and  
25 I -- if you can pull the -- if you -- I -- I -- just --

1 it's one -- it's a working example of what, I think,  
2 we're talking about, I hope. And it's the inventory  
3 tick -- ticket reference with attachments. And perhaps  
4 we could look at that together. And I think we're on  
5 the same page on that, but I want to make sure.

6 MS. SUSAN PROVEN: So the only question  
7 I have, Mr. Guimond, is if I'm the body shop -- and I  
8 know these are the requirements, these are the things  
9 you're looking for and they sound reasonable to me  
10 because I'm sure consumers like what you have just  
11 said. But what's to stop me from -- like do I have any  
12 -- are there any MPI checks on the system to make sure  
13 that I'm not choosing this route because the final  
14 price will be higher and I'll make more money in the  
15 end? Like as a body shop repair person, I'll make more  
16 money because I chose, you know, the more expensive  
17 route, albeit the faster route. It was faster, and it  
18 was more -- you know, it was efficient and all that.

19 Like how do you check and monitor all  
20 these body shops as -- as to whether they're actually  
21 doing -- or are they making mon -- more money? Like do  
22 you -- you know what I'm saying.

23 MR. DAN GUIMOND: Yeah. We've recently  
24 introduced some of these changes in -- in terms of when  
25 the body shop sends for information. And so we have

1 received some feedback from the recyclers that some of  
2 these shops are taking advantage of the situation, and  
3 they should be buying more recycled parts than OEM  
4 parts. And we're doing some work to find ways to maybe  
5 better audit.

6                   And we are also -- we have some pretty  
7 good analytics on the back and at the shop level,  
8 what's going on, so we'll be able to see if there's  
9 patterns there and people to find them. And then when  
10 we find them, it'll be important that we work with the  
11 -- the steering committee that we have with the MMDA  
12 and ATA to see like what kind of message we want to  
13 send, because we have their support now to be pretty  
14 strict on people that -- that play games.

15                   MR. IRVIN FROST: Ms. Proven, I -- you  
16 actually got there a wee bit before I did, but thank  
17 you anyway. I just want to catch us back a little bit.

18                   We have on the graph -- I -- I just  
19 have a working model of exactly how this thing operates  
20 in a particular environment. It's with respect to a  
21 part that's irrelevant. If -- if you go on the -- on  
22 the screen, I'm not sure -- it's Exhibit 5 -- it's  
23 Exhibit 6. I'm making it as Exhibit 6 (sic). And it  
24 references the OEM part at two hundred (200) -- this is  
25 just numbers. They're accurate in terms of inventory,

1 but it -- they are just numbers. It's just a working  
2 example, sir.

3

4 --- EXHIBIT NO. ARM-5: Working graph

5

6 CONTINUED BY MR. IRVIN FROST:

7 MR. IRVIN FROST: The OEM part, you can  
8 see, is costed out at two hundred (200) -- two thousand  
9 sixteen (2,016). The MP -- the used, the recycled part  
10 for that same part is one thousand, one seventy-nine  
11 (1,179). Then there's a discount to the shop. And  
12 their shop profit, and that's basically where you were  
13 going, Ms. Proven, is two hundred and ninety-four  
14 (294).

15 However, if you go below the line, if  
16 the repair facility rejects the recycled part, then  
17 what you have is exactly, Ms. Proven, what you've just  
18 indicated and disused with Mr. Guimond. If they go to  
19 the OEM part, removing the recyclers from the exercise,  
20 the shop profit jumps from two ninety-four (294) to six  
21 fifty-four (654). And I believe these to be actual  
22 numbers, ma'am.

23 Is that basically what you were talking  
24 about, sir?

25 MR. DAN GUIMOND: First time I see

1 this, but conceptually, it's true -- it's true that  
2 shops always make more money using an OEM parts than  
3 the recycled parts from --

4 MR. IRVIN FROST: And that's all I'm  
5 doing.

6 MR. DAN GUIMOND: Yeah.

7 MR. IRVIN FROST: I have no -- I'm not  
8 -- there's no guarantee. I have -- my clients have  
9 given me these numbers. I have no reason not to  
10 believe them, but it's one (1) example in an entire  
11 flood of examples.

12 MR. DAN GUIMOND: Yeah, there's no  
13 question that they make more money, and that's why the  
14 price matching is so important. But it also give us on  
15 -- on the -- on the other side of the equation, an  
16 ability to -- to negotiate price on a -- on a much  
17 larger volume of parts. That's to the advantage of the  
18 ratepayer.

19 MR. REGIS GOSSELIN: Yeah, I'm missing  
20 something here, Mr. Guimond. Could you educate me? So  
21 we talked about 60 percent costs. But this is  
22 obviously more than -- the OEM part here is -- is  
23 obviously not -- I'm sorry, the -- the used part is not  
24 60 percent of the OEM price here.

25 MR. DAN GUIMOND: Yeah, Mr. Gosselin, I

1 -- I've never seen this before, so I'm just -- I -- I'm  
2 just agreeing with the gentleman from an abstract  
3 perspective that it's true that a repair facility makes  
4 more money with a -- a OEM part than a recycled part,  
5 from a profit perspective. That's -- that's all I'm  
6 agreeing to here.

7 MR. IRVIN FROST: Mr. Gosselin, I am  
8 told by my -- Mr. Lane to the right that this is --  
9 this example is ten (10) years -- and this -- it's 45  
10 percent because it's an example ten (10) years back.  
11 That's all. Just to answer your question.

12 But I agree that this is in principle,  
13 and I -- I was not trying to verify actual numbers and  
14 details, and I didn't want to mislead anybody on that  
15 front. I was just trying to articulate a principle  
16 which I think was discussed with Ms. Proven and Mr.  
17 Guimond, nothing more.

18 MR. REGIS GOSSELIN: But I -- I want to  
19 understand it. That's where Mr. Guimond comes in.

20

21 (BRIEF PAUSE)

22

23 MR. REGIS GOSSELIN: Mr. Guimond, so --  
24 so the -- say, for example, the recyclers can deliver  
25 that door for eleven-seventy-nine (1,179). You're --

1 you're telling us that the OEM has to match the price  
2 of that door in order to be able to sell the part?

3 MR. DAN GUIMOND: From -- from an  
4 abstract perspective, we guarantee recyclers 60 percent  
5 of the OEM price. So if a door is worth a hundred  
6 dollars (\$100), just for discussion purposes, we'll  
7 guarantee them sixty dollars (\$60). When they go to  
8 the other computer and they price match, so in other  
9 words, they'll -- the OEM will send them the car for  
10 sixty dollars (\$60) or fifty-nine dollars (\$59), the  
11 profit margin in that six hundred (600) -- that --  
12 that's sixty dollars (\$60) higher than if they started  
13 with the OEM than if they get it from the recycles. So  
14 they -- so they make more money, even though it's a  
15 price match. That -- that's the point I'm trying to  
16 make, because they get breaks on volume.

17 MR. REGIS GOSSELIN: So they get more  
18 than 25 percent on volume?

19 MR. DAN GUIMOND: Sorry, I -- I --

20 MR. REGIS GOSSELIN: Yeah, they -- they  
21 -- when they use the OEM part, even though it's the same  
22 price, they're getting more than 25 percent of that  
23 sixty dollars (\$60) --

24 MR. DAN GUIMOND: The --

25 MR. REGIS GOSSELIN: -- in volume.

1 MR. DAN GUIMOND: -- the profit is the  
2 profit that they'll make. It will be higher than from  
3 -- and I -- I don't know the exact numbers, but I do  
4 know that from an abst -- you know, from a -- from a  
5 discussion purposes, they'll make more money, more  
6 profit, on OEM part. This is -- I -- I -- this is an  
7 old example, so I wouldn't -- that's why I answered it  
8 that way.

9 MR. REGIS GOSSELIN: And -- and the  
10 risk -- I'm trying to understand the risks that you'd  
11 mentioned with respect to the -- the behaviour of the  
12 repair shop.

13 The con -- the -- the risk here is what?  
14 Is that -- where's the game that could be played here  
15 by the repair shop?

16 MR. DAN GUIMOND: Well, what's  
17 important is -- is that if we go back to wanting to,  
18 from a green perspective, reusing recycled parts where  
19 it makes sense, and also to -- to get down to 60  
20 percent of the OEM part. It's -- it's important to --  
21 to make sure that the shops are not intentionally  
22 finding excuses for not to buy a -- a recycled parts.

23 Like, for example, there's a lot of  
24 times where, you know, the shops will say, Well, the  
25 part was damaged. And they returned it and they bought

1 an OEM part. You know, those are the things we've got  
2 to dig into and find out and audit and so on to the  
3 point that the gentleman's making.

4 MR. IRVIN FROST: Mr. Gosselin, I just  
5 want to correct the record, because I may have misled  
6 you, and I did -- don't want to do that. This is a  
7 recent claim, but the part itself is ten (10) years  
8 old. I -- and I -- I don't think I deli --

9 MS. SUSAN PROVEN: And then the other  
10 issue on a larger -- and this is really a policy issue,  
11 is that there might be a difference if -- if the  
12 customer themselves were making all these decisions.  
13 But I don't know how much the customer actually gets  
14 involved in this. I mean, the body shop makes all  
15 these decisions, right, about where these parts are  
16 going to come from?

17 And I doubt that it's like when you go  
18 to your mechanics and they say, you know, This is what  
19 I'm going to do to your car. Sign the contract if you  
20 agree with what we're doing. The customer probably  
21 doesn't get involved that much. And, sure, they're  
22 happy to have new parts, or after-market parts, or OEM  
23 parts rather than recycled, but do they ever realize  
24 the -- these cost differences, and do they even car?  
25 Because if it's public insurance and it's no-fault,

1 really. it's -- you know, it's probably not something  
2 they even worry about.

3                   Do you understand what I'm saying? So  
4 in a pri -- purely private profit-driven world, the  
5 customer would probably be trying to be saving every  
6 cent on the repair. In this world of MPI and public  
7 insurance and no-fault, maybe they don't care. And  
8 maybe they're happy that it's fixed with a clear  
9 windshield, you know, pristine and new, so, you know,  
10 maybe this is irrelevant. But it's still -- your  
11 mandate was to save every penny you could to try to  
12 keep the recycled parts in the play, and -- and I know  
13 it's hard.

14                   MR. DAN GUIMOND: Yes, I understand  
15 your point.

16

17 CONTINUED BY MR. IRVIN FROST:

18                   MR. IRVIN FROST: Sir, as far as your  
19 comment, because when we did the math, as I see it,  
20 simply put, doing the math tells me that it's cheaper -  
21 - and only the math -- it's cheaper to use a recycled  
22 part than an OEM part.

23                   Would you agree with me, for the most  
24 part?

25                   MR. DAN GUIMOND: Not always, no.

1 MR. IRVIN FROST: No, not -- I -- I'm  
2 sorry. That's why I added, sadly too late maybe, but  
3 for the most part.

4 MR. DAN GUIMOND: Could you just repeat  
5 the question, please --

6 MR. IRVIN FROST: Sure.

7 MR. DAN GUIMOND: -- just to make sure  
8 I got it right?

9 MR. IRVIN FROST: I'm just suggesting  
10 to you, based on my example and your exchange in  
11 conversations with the panel this morning, that it is  
12 not always, but generally, cheaper to use a recycled  
13 part than, and I'll expand it now, an OEM part or an  
14 after-market part?

15 MR. DAN GUIMOND: No, I don't agree  
16 with that, and the reason being is because we have to  
17 look at the total cost to claim. So even if the --  
18 well, we insist on price matching. But because we save  
19 so -- so much money on the loss of use and getting the  
20 -- the -- that car faster to the customer and  
21 efficiencies in the shop, it -- that's not always the  
22 case.

23 MR. IRVIN FROST: So you're expanding  
24 the question to loss of use and matters ancillary to  
25 the actual hardware, which is fine. I -- I'm not

1 challenging that. But in terms of the -- and I'm not -  
2 - and I want to talk a little bit -- I want to talk for  
3 the moment and to keep as narrow focussed as we can,  
4 recognizing that the number down the road, because of  
5 loss of use and other exigencies, may -- may mushroom,  
6 but in terms of the part itself, nothing more, nothing  
7 less, not the loss of use, and not the general  
8 inconvenience, and the bumps that you were talking  
9 about, and the part procurement and supply chain that  
10 you talked about, but just with regard to the part and  
11 nothing else, maybe that's just my fantasy.

12 But I just want to talk about the parts  
13 for a moment. I want you to at least agree with me to  
14 that extent, if you can.

15 MR. DAN GUIMOND: If you can't get a  
16 price match, I agree.

17

18 (BRIEF PAUSE)

19

20 MR. IRVIN FROST: Okay. So basically,  
21 what you're saying, if you can get a price match or a  
22 benchmark from the recycler, the price is cheaper. If  
23 you can't get a benchmark or a match from the recycler,  
24 the price goes up. That's, I think, what you said?

25 MR. DAN GUIMOND: The -- the claim

1 costs will go up, yes.

2 MR. IRVIN FROST: Thank you. Now, you  
3 talked about other pieces of this cost picture, and one  
4 (1) of the costs is the change in technology, which  
5 increases -- which drives the price up, or the costs  
6 up. I have -- I'm struggling with that little bit  
7 because the technology, that would be one (1) of the  
8 things that will drive the recyclers out of the market,  
9 and they're going to be gone as the dodo bird.

10 So the -- the struggle I have, sir, is  
11 when you're dealing with technology -- and this is me  
12 being simplistic. The technology is the claims  
13 response system and the inventory. That's one tech --  
14 piece of technology between MPI and the recycler and  
15 the body shop all having interface. And the other  
16 piece of technology is the technology of inventory  
17 control within the recycle -- within each individual  
18 recy -- recycling shop, or recycler.

19 So let's start with the claims recycling  
20 (sic) system. That has been the driving system, or the  
21 driving technology in the recycling business, has it  
22 not?

23 MR. DAN GUIMOND: Yes.

24 MR. IRVIN FROST: Okay. So I just --  
25 and I -- again I'm going to -- I -- I just need to

1 understand and -- where is that change in technology if  
2 it's been a functional system for... Sorry -- I'm --  
3 I'm saying the system itself was paper driven for a  
4 large period of time, but in the last five (5) years.  
5 And so I -- I misled you improperly there.

6 For the last five (5) years, the claims  
7 response system has been up and running. And so that  
8 technology is currently the driving force in the  
9 system. And I think I said decades, and I apologize.

10 MR. DAN GUIMOND: That software will --  
11 we'll update it and tweak it and so on, but that's not  
12 the risk that the recyclers are -- are facing from a  
13 technology perspective.

14 MR. IRVIN FROST: Can you help me with  
15 that, please?

16 MR. DAN GUIMOND: The new cars that are  
17 coming in, the way they're -- the unibody car is going  
18 away, and the new cars that are coming in, the -- the  
19 parts, the way they're welded and the way they're put  
20 together, they -- it'll be much more difficult for  
21 recyclers to -- to be able to handle those kinds of  
22 cars. So it'll be very important to work with them,  
23 and to work with the OEMs to understand these cars.

24 Like can they even be recycled? And how  
25 should they be recycled? And what does a recycler have

1 to do to make sure that when they provide a part that  
2 it actually can be used? So those are a lot of things  
3 that we have to work with the industry over the next  
4 five (5) years to help them prepare for that.

5 MR. IRVIN FROST: My advice, sir, is  
6 the technological change is -- certainly cars are  
7 becoming more computer -- computer, and more  
8 complicated in that area. I'll share that -- I'll  
9 certainly agree -- we'll all agree with that. My  
10 information is, that has not been a problem up to now  
11 in terms of the recyclers supplying parts.

12 Would you have anything to tell me that  
13 would -- that would disagree with that?

14 MR. DAN GUIMOND: Yeah. It -- it --  
15 yes, I'm sorry, I -- I was reading the transcript. I  
16 keep saying, "yeah." I don't like that. I would say,  
17 yes. Take for example a -- the Dart on -- on the  
18 vehicle, has boron steel in there. If you hit the  
19 boron steel you cannot -- that's not something you can  
20 recycle. In fact, most of these cars, if they take a  
21 hit on the boron steel we have to write them off.

22 So when -- if that car was purchased at  
23 auction and it was recycled, anything around where the  
24 boron steel is and how it's tied together, you got to  
25 be really careful which parts you put back into -- into

1 the -- the repair system. So it's already starting,  
2 and it's going to get worse.

3                   And so to me, this is a good example of  
4 proactivity on our part to work with an industry to try  
5 and help them out. And you can see the numbers, how  
6 they're going down, and I -- I think you're almost  
7 making the case for us in terms of -- you can see the  
8 numbers going down. You can see the price pressure  
9 happening in the marketplace. You -- so -- so that's  
10 all -- that's all I'm going to say.

11                   MR. IRVIN FROST: My understanding is a  
12 bit different than that. My understanding is because  
13 of the E-GLASS that has basically removed the recyclers  
14 from that in -- busin -- part of the business, because  
15 of the claims response system, which itself has  
16 inherent problems in terms of inventory, in terms of  
17 incorrect serial numbers, in terms of incorrect parts  
18 numbers, is causing the recyclers more problems than  
19 you've identified. That is really the nuts and bolts  
20 of their concern. The way this -- MPI is currently  
21 managing the recycling program.

22                   MR. DAN GUIMOND: It's a bit like you  
23 said previously, sir. That -- that software has been  
24 used for almost eight (8) years, ten (10) years, I  
25 think you were mentioning. It's the same software,

1 sir. So I -- I don't see how all these problems are  
2 starting to -- to come up. I mean, we will have to  
3 change that software. We will have to -- to modify as  
4 we move forward with the physical damage re-  
5 engineering. But I'm trying to understand your point  
6 as to why ten (10) years ago it was working just fine,  
7 and all of a sudden, it's a big problem.

8 MR. IRVIN FROST: It's -- firstly, I --  
9 I misled you. It's been in place for five (5) years.  
10 So let's get -- that's -- that was my question. That  
11 was my information.

12 MR. DAN GUIMOND: Okay. It's -- it's  
13 not mine. We can check that.

14 MR. IRVIN FROST: Okay.

15 THE COURT REPORTER: Is that an  
16 undertaking?

17 MR. DAN GUIMOND: Yes, to find out how  
18 long the RCO software has been in -- well, what used to  
19 be the RCO software has been in place in the -- that  
20 has been used.

21 THE COURT REPORTER: Okay. Thank you.

22

23 --- UNDERTAKING NO. 17: MPI to determine the length  
24 of time the RCO software  
25 has been in use

1 CONTINUED BY MR. IRVIN FROST:

2 MR. IRVIN FROST: My further  
3 understanding is that since the RCO has been taken over  
4 by MPI, as opposed to when it was formally in the hands  
5 of ARM or its successor, the RCO office has been  
6 detrimental in terms of actually the supply of recycled  
7 parts to the public. detrimental in the -- in the  
8 context of costs, efficiency, and management.

9 MR. DAN GUIMOND: Not from our  
10 perspective. Glass -- I mean, that was a bottom line  
11 decision. We're well ahead with that -- with those  
12 decisions from a bottom line perspective. So I'm --  
13 I'm sorry, but I -- I can't agree with you. And the  
14 fact that all the evidence you've provided this morning  
15 showing how the parts are -- the number of parts are  
16 going down and so on, I -- I believe you're just making  
17 the case as to why MPI was really concerned, and why it  
18 struck the committee, and why we're trying to find a  
19 way how to help that industry.

20 MR. IRVIN FROST: My understanding is,  
21 again, that the RCO was, at a time prior to MPI taking  
22 it over -- RCO, the recyclers, at a time prior, it was  
23 in the hands of the recyclers or the RCO Office being  
24 the successor. My understanding is it was working  
25 effectively and efficiently for those years.

1                   Would you agree or disagree?

2                   MR. DAN GUIMOND:   MPI identified a  
3 concern about the repair industry staying healthy over  
4 time. It started in 2011. We're almost in 2015. And  
5 I think you're just making the case that what we first  
6 saw is actually happening. It's going to get worse if  
7 something is not done. And that's what we're doing.  
8 We're trying to find a way to help that industry be  
9 able to -- to help us in -- in repairing vehicles.

10                   So I think you're -- you're more or less  
11 making the case for us, because as time goes by, it --  
12 it's happening. It's -- it's happening a lot more now  
13 than it was happening in 2011 or '10, and now it's  
14 going to even get -- it was going to get worse a lot  
15 faster if we -- if we don't find a way to solve this.  
16 So that's why we put the committee in place.

17                   MR. IRVIN FROST:   Thank you. My  
18 understanding is, sir, one (1) of the reasons that you  
19 said the price is increasing is parts, procurement, and  
20 supply chain, and that being in play, the recyclers  
21 would not survive. That's 107, lines 9, 10, and 11.  
22 I'm struggling with that. You -- we've talked about  
23 technology. I don't understand what the issue is  
24 around parts procurement, which is line 10. Have you  
25 got -- are you there, sir? No, page 107, line -- line

1 7 -- line 17.

2 MR. DAN GUIMOND: Yes, what I mean by  
3 that is -- is the price matching. I mean, the OEMs can  
4 match the price and send the part faster, which allows  
5 the rep -- the repair show to get that car out faster.

6 MR. IRVIN FROST: Again, I'm having  
7 trouble because we already agreed, I thought, that if  
8 you -- if the recycler benches -- benchmarks at a lower  
9 price, then the price cannot be increased, whether it's  
10 OEM or whether it's after-market. You call it price  
11 matching. I call it benchmarking.

12 MR. DAN GUIMOND: Okay, the -- the  
13 reason I use the terminology 'price matching' is  
14 because we guarantee to the recyclers 60 percent of OEM  
15 price. So if an OEM sells a part for one hundred  
16 dollars, we guarantee 60 percent, it would be sixty  
17 dollars (\$60). For a repair shop to be able to use a  
18 OEM, they can't pay more than sixty (60) unless there's  
19 a reason.

20 So what happens is that the OEM provides  
21 the price. And this is what I mean by technology  
22 change because before, they weren't able to do that.  
23 They'd just go to a computer. They say, Here's the  
24 price I have. Yeah, I'll match the price. They ship  
25 it overnight. The car gets fixed faster and you get a

1 better bump on customer service.

2 MR. IRVIN FROST: My understanding is,  
3 when you talk about parts procurement and supply chain,  
4 the recyclers are local. Their parts inventory are  
5 local. Their supply chain is basically delivery within  
6 their organization or through a separate organization  
7 within the province or within the city.

8 So the supply chain and the -- well,  
9 just talk about the supply chain. It seems to me the  
10 recyclers would have a better and faster supply chain  
11 than would be an OEM, which is outside the province,  
12 arguably, or an after-market, which is outside the  
13 province, arguably.

14 So I'm struggling with that, as well.

15 MR. DAN GUIMOND: It's a good question.  
16 To help the recyclers, we allow them up to forty-eight  
17 (48) hours to provide the part. What happens with a  
18 recycler is that they inventory their parts at the  
19 assembly level. So if I need three (3) parts, imagine  
20 yourself -- you have to make the decision, do I have  
21 that part or -- or do you order, if it's four (4) or  
22 five (5) parts that we're asking for, do you have them.  
23 Yes.

24 Okay, so I got to run to a door, rip it  
25 apart to get the part that I can sell. Then I got to

1 run to another assembly, rip it apart to put it... So  
2 today, with the supply chain, OEMs can provide the part  
3 twenty-four (24) hours; overnight it's there.

4 We are helping the industry by saying,  
5 We'll wait, you know, as long as forty-eight (48) hours  
6 to give you time to run in the yard and put it apart  
7 and make a decision if -- if you want to do that or not  
8 or -- or give it.

9 So that's what I mean by supply chain  
10 and technology, price matching overnight versus running  
11 in the yard and ripping things apart to be able to ship  
12 it.

13 MR. IRVIN FROST: Mr. Guimond,  
14 respectfully, I have -- I have one (1) of the recyclers  
15 sitting beside me, as I've introduced him. And he said  
16 that simply is not true. The access and resourcing of  
17 parts is, at least in my -- at my advice, is quicker,  
18 more efficient when it is locally obtained, as opposed  
19 to obtained outside through the after-market and OEM  
20 sourcing.

21 And what you're saying -- let me finish,  
22 please -- is that you disagree with that. Am I right  
23 on that?

24 MR. DAN GUIMOND: Yes. And if -- if  
25 I'm hearing, you want to put on the record that I can

1 go down to twenty-four (24) hours versus forty-eight  
2 (48) and go to -- to car parts and remove the 60  
3 percent and allow it go down to 55 to fif -- 57. Sure.

4 MR. IRVIN FROST: I'm -- I'm not  
5 discussing those numbers with you. I'm simply  
6 discussing your evidence in terms of sourcing and  
7 timing. And my information is that your infor -- that  
8 what you're suggesting or giving evidence with --  
9 respectfully is not the -- an accurate picture, at  
10 least from the recyclers' perspective.

11 THE CHAIRPERSON: Oh, excuse me. Mr.  
12 Frost, we seem to be going down the same line over and  
13 over, and I'm wondering if you had some new --

14 MR. IRVIN FROST: No, I'm fine. I'm --  
15 thank -- thank you, Madam Chair.

16 THE CHAIRPERSON: And if you wanted to  
17 draw your --

18 MR. IRVIN FROST: No, I -- I --

19 THE CHAIRPERSON: -- to a conclusion.

20 MR. IRVIN FROST: -- I've made my  
21 point. Thanks.

22

23 CONTINUED BY MR. IRVIN FROST:

24 MR. IRVIN FROST: You've also said in  
25 your -- also at page 107:

1 "The after-market people,  
2 manufacturers, and the OEMs are  
3 aggressively going after the whole  
4 market."

5 Those are your words.

6 "And basically through price  
7 matching, supply chain, and so on,  
8 are able to aggressively compete with  
9 the recyclers."

10 Those -- I'm just reading your words,  
11 sir.

12 MR. DAN GUIMOND: That's correct. With  
13 price matching, they're aggressively competing with  
14 recyclers and after-market parts.

15 MR. IRVIN FROST: I'm suggesting to you  
16 that the recyclers have incurred competition in their  
17 industry, I'll go back, forever with OE -- not forever  
18 in terms of OEM or after-market, but that is not a new  
19 perspective. That perspective has been a part of the  
20 landscape for years.

21 Would you disagree with me?

22 MR. DAN GUIMOND: It's been there for  
23 years, but the -- it's changing, the technology that  
24 I'm saying, and -- and I think you made the point. We  
25 said this is a game changer, and your -- you can see

1 the parts going down. So you have to recognize that --  
2 that the way the new technology is affecting the  
3 recyclers, I mean, it's negatively affecting them. So  
4 that's the only point I -- I'm making.

5 MR. IRVIN FROST: Thank you. But I'm  
6 suggesting to you the cause for market share is not as  
7 you've pointed out, but it basically comes as a result  
8 of MPI activities in terms of their dealing with the  
9 recyclers.

10 MR. DAN GUIMOND: Not at all. Not at  
11 all.

12 MR. IRVIN FROST: You don't agree with  
13 that.

14 MR. DAN GUIMOND: Absolutely not.

15 MR. IRVIN FROST: Thank you.

16

17 (BRIEF PAUSE)

18

19 MR. IRVIN FROST: I want to take you to  
20 -- sorry, the numbers are different.

21 "From a price perspective, there is  
22 no difference..."

23 And this is your evidence, sir:

24 "...between the recycled part and the  
25 OEM part."

1                   That's -- I know I'm repeating old  
2 ground, and I apologize because I'm just going through  
3 your statements. That's simply not accurate, from a --

4                   MR. DAN GUIMOND:    Can I --

5                   MR. IRVIN FROST:     -- only from a --

6                   MR. DAN GUIMOND:    Can you reference the

7 --

8                   MR. IRVIN FROST:     Yes, I can.

9                   MR. DAN GUIMOND:    -- part, please?

10                  MR. IRVIN FROST:    Just give me a moment

11 then.

12

13                                   (BRIEF PAUSE)

14

15                  MR. IRVIN FROST:    I've been given these

16 pages on a different system, so I did not realize...

17

18                                   (BRIEF PAUSE)

19

20                  MR. IRVIN FROST:    Thank you, Mr. --

21 one-o-nine (109).

22                  THE CHAIRPERSON:    Page 109 in the

23 testimony of first day.

24                  MR. IRVIN FROST:    Line 4.

25

1 CONTINUED BY MR. IRVIN FROST:

2 MR. IRVIN FROST: I'm sorry, Mr.  
3 Guimond. I'm struggling just a little bit. Page 108,  
4 line 24:

5 "From a price perspective, there is  
6 no difference..."

7 THE COURT REPORTER: I'm sorry, I can't  
8 hear you.

9 MR. IRVINE FROST: Things are  
10 deteriorating quickly. I think the wheels are coming  
11 off.

12 "From a price perspective, there is  
13 no difference between the recycled  
14 parts and the OEM parts."

15 That's 108 and 109, line 25 and 109,  
16 first line 1. And my point -- so you found it, sir?  
17 Thank you. The only comment I have is that if I  
18 understand what you've said there, that statement is  
19 just not accurate.

20 MR. DAN GUIMOND: What I mean is with  
21 the price matching, that 60 percent OEM, it doesn't  
22 matter if it's a recycled part or OEM part. It's still  
23 60 percent of the OEM price with the price matching.  
24 So they're identical. We're not paying more for a OEM  
25 part than the recycled part.

1 MR. IRVIN FROST: But the cost to the  
2 public would be -- the profit to the shop is greater in  
3 terms of the OEM part, as opposed to the recycled part.

4 MR. DAN GUIMOND: The profit is higher  
5 and the claim cost is lower.

6 MR. IRVIN FROST: And if the claim cost  
7 -- if the repair cost had less profit, would the claims  
8 cost be even lower?

9 MR. DAN GUIMOND: Yes.

10 THE CHAIRPERSON: Mr. Frost, I'm going  
11 to -- you had said you would be doing about one (1) to  
12 one and a half (1 1/2) hours, I think, or up to two  
13 (2).

14 MR. IRVIN FROST: Yes.

15 THE CHAIRPERSON: And I'm going to --  
16 because in the -- we have other presenters that would  
17 like to present. I'm wondering if you can sum up in  
18 the next little while? Thank you.

19 MR. IRVIN FROST: Just can I have a  
20 moment, please?

21

22 (BRIEF PAUSE)

23

24 MR. IRVIN FROST: Sorry, Madam Chair.

25 I indicated -- I did indicate, I admit, I did indicate

1 an hour and a half or so, but things are getting more  
2 prolonged, in part because of my wandering around in  
3 terms of the documents, and in part because maybe the  
4 answers I'm getting are causing me to ask more  
5 questions. So at the end of the day I'm going to be  
6 lon -- longer than an hour and a half, and I cannot  
7 tell you at this point how long I'm going to be. I'm  
8 just uncertain in that area. But I do wish to continue  
9 in my cross-examination without time limitation. I'm  
10 not sure that's what you're telling me. I don't think  
11 so. At least I hope not.

12 MR. REGIS GOSSELIN: I'll give you my  
13 perspective as a Board member.

14 MR. IRVIN FROST: You'll have to speak  
15 up, sir.

16 MR. REGIS GOSSELIN: I'm -- I'm giving  
17 you my perspective as a Board member. My concern is  
18 that we're -- we're going over plowed ground. You  
19 know, it's already been plowed. You're plowing the  
20 same ground over and over again. And so I guess from  
21 the standpoint of -- from my standpoint, just speaking  
22 personally, and I'm not speaking on behalf of the panel  
23 here, is -- is, you know, we have other -- we have a  
24 process to go through, and -- and new information  
25 relating to rates is what we're trying to get at.

1                   And -- and I understand your con --  
2 concern. I understand the concerns of the recyclers,  
3 but I also want to make sure that this process  
4 addresses the issues that we need to address. And now  
5 we're going over some of the same ground that you've  
6 been addressing for the last couple hours.

7                   MR. IRVIN FROST: Thank you for that,  
8 Mr. Gosselin. I -- I do want to -- I -- I appreciate  
9 what you've said. Thank you very much. And I need to  
10 review my notes a little bit. So if you'll give me a  
11 few moments, I will review my notes. Perhaps that will  
12 shorten things.

13

14   (BRIEF PAUSE)

15

16                   MR. IRVIN FROST: Mr. Gos -- Madam  
17 Chair, I know this is a bit early, but perhaps this  
18 would be a good time to take a bit of lunch to get my  
19 notes together, and that'll shorten -- we can still  
20 take our hour, of course. Would that be a problem for  
21 you?

22                   THE CHAIRPERSON: I -- I'm just going  
23 to check with Bike Winnipeg, maybe. But I believe you  
24 said your presentation was going to be about twenty  
25 (20) minutes or so, a half an hour. Is -- am I

1 correct?

2 MR. CHRISTIAN MONNIN: Yes, Madam  
3 Chair, you -- you're correct. And I pride myself on my  
4 Swiss blood. It's -- it's twenty (20) to thirty (30)  
5 minutes. I will be very punctual.

6 THE CHAIRPERSON: Then I -- I might  
7 suggest that we let Mr. Frost go through his notes and  
8 -- and, you know, figure that out. But maybe Bike  
9 Winnipeg would like to do their presentation now.  
10 Would you prefer that, or would you prefer to wait  
11 until after lunchbreak, then present and --

12 MR. CHRISTIAN MONNIN: I think it would  
13 be the benefit of the whole process if Bike Winnipeg  
14 were to jump the queue, so to speak, and we can go now,  
15 get it out of the way, and we can proceed that way.

16 THE CHAIRPERSON: Okay, I -- I think  
17 that's what we'll do, if that's okay. We'll -- we'll  
18 allow you some time while Bike Winnipeg is presenting.  
19 Is that okay, Mr. Frost, with you?

20 MR. IRVIN FROST: Yes.

21 THE CHAIRPERSON: Yes. And then --  
22 then we'll take lunch, and then after lunch you can  
23 continue.

24 MR. IRVIN FROST: Thank you.

25 THE CHAIRPERSON: Yes, Mr. Monnin.

1 MR. CHRISTIAN MONNIN: Thank you, Madam  
2 Chair. If I could just ask for five (5) minutes just  
3 to -- to move around. I don't think Mr. Guimond wants  
4 to be speaking to a pillar.

5 THE CHAIRPERSON: Okay. That would be  
6 good. Thank you.

7 MR. CHRISTIAN MONNIN: He may prefer  
8 that.

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Okay. I think we're  
13 -- are you all settled, M. Mallin -- Monnin? Yes, I  
14 think we're ready to begin with the cross-examination  
15 by Bike Winnipeg.

16

17 CROSS-EXAMINATION BY MR. CHRISTIAN MONNIN:

18 MR. CHRISTIAN MONNIN: Thank you, Madam  
19 Chair, members of the panel. M. Guimond, bon matin.

20 MR. DAN GUIMOND: Bon matin.

21 MR. CHRISTIAN MONNIN: I'd like to just  
22 ask you a few questions with respect to something that  
23 jumped out to me over the last couple days, was a  
24 discussion with respect to values and mandate and --  
25 and also mission of the Corporation. And if I could

1 ask it -- it -- I just seem to recall in your evidence  
2 you had indicated:

3 "We will not affect our ability to  
4 meet our sev -- seven (7) -- seven  
5 (7) corporate goals."

6 Do you recall saying that?

7 MR. DAN GUIMOND: Yes.

8 MR. CHRISTIAN MONNIN: I just want to  
9 explore a little bit the subject of those seven (7)  
10 corporate goals. If I could ask Diana to pull up the  
11 annual report of 2013, please? Now, I'm looking at  
12 goal number 1, and my understanding, as indicated  
13 earlier, to state the obvious, it runs from goal 1 to  
14 goal 7.

15 Are these the seven (7) corporate goal  
16 -- goals that you're referring to in your evidence  
17 earlier this week?

18 MR. DAN GUIMOND: Yes.

19 MR. CHRISTIAN MONNIN: Now, they're  
20 numbered sequentially one (1) to seven (7), but I --  
21 they're not numbered and in order of priority, are  
22 they?

23 MR. DAN GUIMOND: Not to my knowledge,  
24 no.

25 MR. CHRISTIAN MONNIN: And therefore,

1 in that regard, the Corporation would give the same  
2 weight to goal number 1 as it would to goal number 7.

3 Is that correct?

4 MR. DAN GUIMOND: Yes, we believe if we  
5 don't meet those seven (7) goals, we will not achieve  
6 our mandate.

7 MR. CHRISTIAN MONNIN: If I ask Diana  
8 to go two (2) pages down, to be page 25, I believe?

9

10 (BRIEF PAUSE)

11

12 MR. CHRISTIAN MONNIN: I'm wrong on  
13 that one. If you'd just scroll down to goal number 7,  
14 so probably a couple of pages down, please? Goal  
15 number 7, and also -- I know we can all read here, but  
16 just for the edification of the record:

17 "Manitoba Public Insurance will lead  
18 driver and vehicle safety initiatives  
19 that reduce risk and protect  
20 Manitobans on our streets and their -  
21 - in their neighbourhoods.

22 Manitobans will recognize the  
23 Corporation is living within its  
24 mission."

25 Now, my understanding when you say to

1 "Reduce the risk and protect Manitobans," the  
2 Corporation is not referring to ratepayers. It's  
3 referring to every Manitoban living in -- within the  
4 province.

5 Is that correct?

6 MR. DAN GUIMOND: Yes.

7 MR. CHRISTIAN MONNIN: Now, this annual  
8 report is under -- signed under your pen and under the  
9 pen of Mr. Jake Janzen, who is the chair of the board.

10 What -- what's your understanding, Mr.  
11 Guimond, of:

12 "Seeking to reduce the risk and  
13 protect Manitobans on our streets and  
14 in their neighbourhoods."

15 What's your understanding of what that  
16 means?

17 MR. DAN GUIMOND: From an insurance  
18 perspective, is to reduce frequency and severity of  
19 losses.

20

21 (BRIEF PAUSE)

22

23 MR. CHRISTIAN MONNIN: Does the  
24 insurance -- does the Corporation, aside from the  
25 insurance perspective, does it look at the perspective

1 of Manitobans and what they would view to be reducing  
2 the risk and protecting them on their streets and in  
3 their neighbourhoods?

4 MR. DAN GUIMOND: Reducing frequency  
5 and severity from -- from the human aspect is -- is to  
6 -- to do everything we can to prevent claims,  
7 including, like, a child, for example, who may run out  
8 of -- between two (2) cars.

9 MR. CHRISTIAN MONNIN: So if I  
10 understand your answer, Mr. Guimond, in addition to the  
11 insurance perspective, there's the human aspect to this  
12 -- this -- the seventh goal of the Corporation,  
13 correct?

14 MR. DAN GUIMOND: Yes.

15 MR. CHRISTIAN MONNIN: And -- and the  
16 second sentence of that goal is, "Manitobans" -- and  
17 again, I'm taking that not to mean ratepayers. I mean,  
18 Man -- Manitobans as a whole, "Will recognize the  
19 Corporation is living its mission." And -- and my  
20 understanding, Mr. Guimond, was that the mission of the  
21 Corporation is that:

22 "We'll strive to fulfill our mission  
23 of working with Manitobans to reduce  
24 risk on the road."

25 Is that the mission of the Corporation?

1 MR. DAN GUIMOND: Yes.

2 MR. CHRISTIAN MONNIN: And again, I  
3 don't think we need to go there, but that -- that's  
4 also found in SM-3, attachment C of the application.  
5 In fact, now that I said it, let's go there, please, if  
6 Diana can bring us there.

7

8 (BRIEF PAUSE)

9

10 MR. CHRISTIAN MONNIN: Now, this is  
11 built into the -- the Road Safety Operational Plan for  
12 2014 and 2017. And again, you have your corporate  
13 strategic goal on the left-hand side of that document:

14 "We will lead driver and vehicle  
15 safety initiatives that reduce risk  
16 and protect Manitobans, their  
17 streets, and their neighbourhoods."

18 And that's -- that's the same goal that  
19 we looked at earlier, the seven (7) goals of the  
20 Corporation, correct?

21 MR. DAN GUIMOND: Yes.

22 MR. CHRISTIAN MONNIN: Now -- now, in  
23 the last couple days I've been hearing some toing and  
24 froing between, Now we have mission, but also with  
25 mandate. And do I understand correctly that when you

1 referred to the mandate of the Corporation, you're --  
2 you're largely -- or, in fact, entirely anchoring that  
3 in Section 6 of -- of the Act. Is that correct?

4

5 (BRIEF PAUSE)

6

7 MR. CHRISTIAN MONNIN: That's 6(1) and  
8 6(2) of that.

9 MR. DAN GUIMOND: Can you repeat the  
10 question, please, just for --

11 MR. CHRISTIAN MONNIN: Absolutely.

12 MR. DAN GUIMOND: Yeah.

13 MR. CHRISTIAN MONNIN: In the last  
14 couple days in your evidence, Mr. Guimond, I've heard  
15 you refer a few times -- in fact, I can give you the  
16 page numbers of your transcripts. I won't bring you  
17 there, but 116, 117, and 118, and 119 to name a few,  
18 and that's just on the 22nd of October, and that was  
19 well-tilled soil yesterday as well.

20 You had referred on several occasions to  
21 the mandate of the Corporation, and I just want to  
22 confirm that the mandate of the Corporation is anchored  
23 in -- in Section 6(1) and 6(2).

24 MR. DAN GUIMOND: I -- I believe I was  
25 referring to Ms. Kalinowsky's closing remarks last year

1 at the hearing, and she mentioned specifically the  
2 legislation that applied to road safety. So, in terms  
3 of meeting our mandate regarding so -- road safety.  
4 That's what I meant. And the overall mandate for the  
5 Corporation is the MPIC Act and the DVA Act.

6 MR. CHRISTIAN MONNIN: Diana, if you  
7 can take us to page 5 and 6 of SM.3, road safety,  
8 please?

9

10 (BRIEF PAUSE)

11

12 MR. CHRISTIAN MONNIN: If you'd scroll  
13 down just a bit, please? And again, I know we can all  
14 read, but again just for the benefit of the -- of the  
15 transcript:

16 "The Corporate's -- Corporation's  
17 mandate with respect to road safety  
18 is also governed by legislation as  
19 more specifically addressed under  
20 6(1) and 6(2) of the MPI --  
21 the Act, for lack of a better term.]  
22 Within these established legislative  
23 parameters, the Corporation's road  
24 safety efforts continue to be  
25 focussed on, first and foremost,

1 establishing premiums that reflect  
2 individual driver risk profiles,  
3 administering regulatory safety  
4 programs under the Drivers and  
5 Vehicle Act --  
6 referring to that earlier, Mr.  
7 Guimond] -- subsidizing quality  
8 driver training for young drivers."

9 And the next paragraph is the one that's  
10 of interest to me. It's:

11 "Complementary efforts are focussed  
12 on educating Manitobans and raising  
13 awareness about key safety risks that  
14 contribute to collisions, fatigue --  
15 fatalities, and serious injuries.  
16 This is achieved throughout Manitoba  
17 through a variety of road safety  
18 programs, public advertisement,  
19 awareness campaigns, partnership with  
20 law enforcement and other  
21 stakeholders."

22 Would you agree with me that there's a  
23 difference between a Corporation's mandate and  
24 complementary efforts? Would you agree that there's a  
25 distinction there?

1 MR. DAN GUIMOND: Yes.

2 MR. CHRISTIAN MONNIN: But I seem to  
3 recall your evidence yesterday, Mr. Guimond, that after  
4 a vigorous debate with My Learned Friend Mr. Williams,  
5 I seem to recall the takeaway was that the mandate of  
6 the Corporation has changed rather significantly with  
7 the recent amendments to the Act.

8 Would you agree with that?

9 MR. DAN GUIMOND: No, not at all.

10 MR. CHRISTIAN MONNIN: With regards to  
11 those amendments, I believe it's 6(2)(h), and I'm not  
12 sure if Diana could bring that up.

13

14 (BRIEF PAUSE)

15

16 MR. CHRISTIAN MONNIN: Thank you,  
17 Diana. My understanding -- again, this might take away  
18 from the -- the exchange between yourself and My  
19 Learned Friend, Mr. Williams, yesterday -- is that  
20 6(2)(h) and (I) are the new components or the new  
21 amendments to the Act.

22 Is that correct?

23 MR. DAN GUIMOND: (h).

24 MR. CHRISTIAN MONNIN: And we also saw  
25 in the Hansard notes where the ministers were speaking

1 to these amendments. But here it says:

2 "The -- the Corporation carry out  
3 either a loan or jointly with other  
4 board, commission, corporation,  
5 department, or agency of government  
6 or any private person, agency, or  
7 association introduce, establish,  
8 supervise, finance, and promote  
9 programs relating to health,  
10 rehabilitation, safety and the  
11 reduction of risk in respect of any  
12 branch or class of insurance in which  
13 the Corporation is engaged."

14 And is -- I just want to understand your  
15 evidence, sir, that that amendment doesn't change the  
16 mandate significantly as I suggested to you?

17 MR. DAN GUIMOND: I agree it doesn't  
18 change our mandate significantly.

19 MR. CHRISTIAN MONNIN: You agree with  
20 your evidence then?

21 MR. DAN GUIMOND: Yes.

22

23 (BRIEF PAUSE)

24

25 MR. CHRISTIAN MONNIN: Prior to this

1 amendment, sir, was the mandate -- did the mandate have  
2 anything to do with rehabilitation?

3

4 (BRIEF PAUSE)

5

6 MR. CHRISTIAN MONNIN: Perhaps this  
7 will help.

8 MS. KATHY KALINOWSKY: Sorry, I worked  
9 on the amendment as general counsel. To my  
10 recollection, there were two (2) words. And I think  
11 Mr. Williams yesterday -- I think there was an 'or' or  
12 an 'and' -- three (3) words taken out, that was it.

13

14 CONTINUED BY MR. CHRISTIAN MONNIN:

15 MR. CHRISTIAN MONNIN: And, Ms.  
16 Kalinowsky, you recall that what corresponds between  
17 ourselves, we had a discussion with whether two (2)  
18 words was -- was a lot to say or not. And I'll suggest  
19 to you that those are rather significant words that  
20 were removed, an 'and' or an 'or'. And now we have,  
21 "Relating to health, rehabilitation, safety."

22 And the question is to Mr. Guimond:  
23 Would you not agree that that amendment, no matter how  
24 minimal or supple it is, it changes rather  
25 significantly the mandate of the Corporation?

1 MR. DAN GUIMOND: I stand by what I  
2 said before.

3 MR. CHRISTIAN MONNIN: Diana, if you  
4 could turn to PUB/MPI PreAsk 2, attachment at page 5,  
5 please.

6

7 (BRIEF PAUSE)

8

9 MR. CHRISTIAN MONNIN: If you could  
10 scroll down to goal 7. I said page 5, and I apologize.  
11 It is actually page 6. Oh, you were there. Just...  
12 Thank you. And here we have largely the same goal as  
13 we identified earlier in the annual report.

14 Is that correct?

15 MR. DAN GUIMOND: I'm sorry, I missed  
16 the question.

17 MR. CHRISTIAN MONNIN: What you have  
18 before you, Mr. Guimond, goal 7, that is the same goal  
19 7 as was identified in the annual reper -- report  
20 earlier, correct?

21 MR. DAN GUIMOND: Yes.

22 MR. CHRISTIAN MONNIN: Well, here we  
23 have some extra language that says, "The why," with a  
24 question mark.

25 "Pursuing traffic safety and loss

1 prevention programs reflects our  
2 longstanding commitment to the well-  
3 being of Manitobans..."

4 Again, I'm going to suggest that not  
5 ratepayers, that's Manitobans as a whole.

6 "...and to affordable auto  
7 insurance."

8 And then next sentence is:

9 "Manitobans have told us they support  
10 these efforts."

11 Correct me if I'm wrong. Would you  
12 agree with me that my takeaway from this, Mr. Guimond,  
13 is that you're telling traffic safety and loss  
14 prevention programs, at least that's what the  
15 Corporation's representing, you're tying that to the  
16 well-being of Manitobans and to affordable auto  
17 insurance? So the well-being of Manitobans, traffic  
18 safety and loss prevention necessarily is tied to  
19 affordable auto insurance.

20 Is that correct?

21 MR. DAN GUIMOND: Yes.

22 MR. CHRISTIAN MONNIN: And here you  
23 have on the right -- extreme right-hand side, "Public  
24 Support for Road Safety." And that's at 87 percent,  
25 road safety activities.

1 How is that measured?

2

3 (BRIEF PAUSE)

4

5 MR. DAN GUIMOND: It's done through a  
6 survey.

7 MR. CHRISTIAN MONNIN: Could you --  
8 well -- well, how was that survey conducted?

9 MR. DAN GUIMOND: I'd have to get the  
10 details for you. I -- I don't know.

11 MR. CHRISTIAN MONNIN: Could you  
12 undertake to do that?

13 MR. DAN GUIMOND: Yes.

14 MR. CHRISTIAN MONNIN: Do you know --  
15 and I guess I'll ask you the question. If -- if you  
16 can't then maybe we'll build it into the same  
17 undertaking or -- or add another one.

18 Those who are surveyed, are those in --  
19 are those individuals who have been injured by way of a  
20 motor vehicle accident?

21 MR. DAN GUIMOND: I -- I don't know  
22 what the questionnaire is at the detail level. We'll -  
23 - we'll have to find that out.

24 MR. CHRISTIAN MONNIN: And again, I --  
25 I think if we could try to be efficient, we'll keep it

1 under the same undertaking.

2 Is that -- okay.

3

4 --- UNDERTAKING NO. 18: MPI to provide information  
5 on how the road safety  
6 survey was conducted and  
7 which individuals  
8 participated

9

10 CONTINUED BY MR. CHRISTIAN MONNIN:

11 MR. CHRISTIAN MONNIN: And again, I'm  
12 going to ask you one (1) more question. I -- I believe  
13 I know the answer. Is do -- do you have any idea of --  
14 you know what? Scratch that one. I think I know the  
15 answer. And, Diana, I apologize for making you jump  
16 around a little bit. If you can go back to the annual  
17 report, again under goal 7?

18

19 (BRIEF PAUSE)

20

21 MR. CHRISTIAN MONNIN: Thank you. You  
22 have strategies, and it runs through 7.1 to 7.7. And,  
23 for example, strategy 7.1 is:

24 "To develop -- develop an evidence-  
25 based road safety strategy with an

1 aim to reduce automobile collisions  
2 and using a multi-faceted approach.  
3 7.2, to ensure Manitoban drivers meet  
4 and continue to maintain established  
5 standards of knowledge, skill, and  
6 behaviour to gain access to the  
7 Manitoba -- to Manitoba roads."

8 And below that you have measures, and  
9 you had 87 percent. And that's just -- is it self-  
10 evident, is public support for safety.

11 Does the Corporation have any way of  
12 measuring the strategies under goal 7?

13

14 (BRIEF PAUSE)

15

16 MR. DAN GUIMOND: It's in progress,  
17 developing a way to measure these -- these strategies.

18 MR. CHRISTIAN MONNIN: I think that's a  
19 good segue to the next issue.

20 Does that -- does that tie into the new  
21 construct that I heard you refer to a couple of times  
22 over the last two (2) days?

23 MR. DAN GUIMOND: Yes.

24 MR. CHRISTIAN MONNIN: So when you say  
25 it's "in progress," are -- are you -- is it the

1 Corporation's position that it's just not able to -- to  
2 measure these strategies at the moment?

3 MR. DAN GUIMOND: To a certain extent,  
4 yes. For example, when we buy the little flashing  
5 lights for the kids during Halloween, we can't  
6 quantify, you know, how many children maybe didn't get  
7 run over because there was a flashing light on -- on  
8 the pack sack, or the -- the costume that they're  
9 wearing. There's a lot of things that we do that we  
10 can't quantify.

11 And that's why, you know, you -- when --  
12 early in my testimony, I was offering this strategy  
13 where we can link things more and develop measuring  
14 strategies and report on them. And we'll -- like --  
15 like we have a underca -- taking to provide something  
16 to the Board by -- by the end of the hearing.

17 MR. CHRISTIAN MONNIN: Is it because  
18 the impact of these programs are -- are so small, or is  
19 it because the tools that the Corporation has to  
20 attempt to measure them is just simply inadequate at  
21 the moment?

22 MR. DAN GUIMOND: We -- we don't know.  
23 Take a -- a child, for example. If it gets run over  
24 and it's a quadriplegic, you're looking at \$7 million.  
25 We -- it's the avoidance part that you don't know, and

1 that's -- that's what makes it so -- so difficult.

2 MR. CHRISTIAN MONNIN: And I don't want  
3 to be glib here, and -- but that -- that answer is  
4 really remi -- rem -- reminiscent in my mind of Donald  
5 Rumsfeld when he said, you know, there's known knowns  
6 and there's known unknowns. And regardless of my -- my  
7 reservation, I did sound glib but I'll proceed.

8 Now, still down that avenue, I know  
9 there's an undertaking to -- to provide something, and  
10 it -- my recollection of the evidence was that with  
11 respect to Chairperson -- or Chair -- Board member  
12 Gosselin, it was by the end of January. I now  
13 understand that'll be by the end of this hearing, which  
14 might be splitting hairs. It's almost January.

15 But I -- I just want to confirm my  
16 understanding that you're just unable to tell at this  
17 point in time if the road safety budget is optimized or  
18 not. Is that correct?

19 MR. DAN GUIMOND: Yeah, that -- that is  
20 correct.

21 MR. CHRISTIAN MONNIN: And -- and on  
22 account of that inability to do so, you indicated to  
23 the Board that you would come up with, and I'm  
24 paraphrasing here, is the little loss -- put it under  
25 the loss prevention plan, and we can put it in the rate

1 app next year for what we do about loss prevention for  
2 Basic. I think I'm actually lifting that from your  
3 transcript.

4 Is that correct?

5 MR. DAN GUIMOND: Yes, I think if we  
6 roll road safety under Basic loss prevention program  
7 and we connect more of the dots, that -- for the things  
8 that you can't quantify, at least from an umbrella  
9 perspective, you can see a return on investment.

10 MR. CHRISTIAN MONNIN: And I also want  
11 to make sure that I understand your evidence, and this  
12 is -- we don't need to go there, but I think it's on  
13 page 119 of the transcript on October 22nd. Is -- is  
14 that it's -- it was your evidence, and therefore the --  
15 the Corporation's position, that -- that you're looking  
16 forward to hear from the Board, to hear in the order,  
17 which is the order from this hearing, if it agreed in  
18 principle with this loss prevention plan that you --  
19 this -- this new construct that you're putting forward.

20 Is that correct?

21 MR. DAN GUIMOND: Yes.

22 MR. CHRISTIAN MONNIN: And again,  
23 you're not able to really put any proverbial meat on  
24 the bone of this new construct at this point in time,  
25 but what type of guarantee can the Corporation give to,

1 for example, my clients or the other Intervenors that  
2 this will actually attain what you're suggesting it is  
3 going to attain? That is, being able to indicate  
4 whether the budget is optimized or not?

5 MR. DAN GUIMOND: I think for -- well,  
6 first of all, we're going to put the undertaking in, so  
7 you'll be able to see the framework, but I believe  
8 there are things that will remain unknown. For  
9 example, a -- a distracted driving campaign. How do  
10 you ever figure out the return on investment on that?  
11 But you know you have to do it, because we know that  
12 Buckle Up worked. We know wearing your helmet worked,  
13 but it took years and years.

14 So if you spend two hundred thousand  
15 (200,000) a year, or three hundred thousand (300,000) a  
16 year, or a hundred thousand dollar (\$100,000), I think  
17 they will remain unknowns, but at least for the Board,  
18 if we can create a funding envelope under a loss  
19 prevention program that in its totality you're getting  
20 an acceptable return on investment, then -- then I  
21 think that should help the process.

22 MR. CHRISTIAN MONNIN: Diana, could you  
23 please go to page 183, please, of the transcript,  
24 October 22nd? And -- and, Madam Chair, just -- I'm at  
25 page 6 of 8, so I -- I am on track to be done. I --

1 I'm just putting this here for your level of comfort,  
2 Mr. Guimond. I'm going to paraphrase what your  
3 evidence is here, but I just wanted you have the  
4 benefit of having that transcript in front of you if  
5 you disagree with what I'm saying.

6                   And -- and still on the -- the issue of  
7 changing the construct, and here I believe what you  
8 indicate is the following. That you would -- the  
9 Corporation would create a score card, or a report for  
10 all things the Corporation does to try and minimize  
11 frequency and severity of claims, that would create a  
12 report for the Board to be able to document that and  
13 report -- and report on the effects of -- of these  
14 efforts.

15                   Do you agree with that basically?

16                   MR. DAN GUIMOND: Yes.

17                   MR. CHRISTIAN MONNIN: And you're  
18 talking about changing a construct, but again, it's the  
19 last time I'll use this word. I don't want to be glib.

20                   But isn't -- isn't that just a report?  
21 And why can't the Corporation do that now?

22                   MR. DAN GUIMOND: What I mean by a  
23 construct is that if the Board accepts that in  
24 principle, you'll never know if you've optimized, for  
25 example, an advertising campaign on distracted driving.

1 But if you create a funding envelope for the entire  
2 loss prevention program and you get a return on  
3 investment, that at least you know that you're not --  
4 that you're ahead of the game in its entirety versus  
5 looking at it narrowly on one (1) thing.

6                   Because you can't -- you can't quantify  
7 the savings, for example, with the example of -- of  
8 what we do for -- for Halloween. You can't -- even  
9 with what we do with you for -- for helping to train  
10 people on -- on how to use their bikes. Or -- so you -  
11 - there's a lot of unknowns. But at least if you tie  
12 everything together, you'll get a chance to -- to see  
13 if you have an acceptable ROI.

14                   MR. CHRISTIAN MONNIN: To your  
15 knowledge, Mr. Guimond, is -- is the Corporation the  
16 only one who's -- the only corporation in the same  
17 public insurance business -- let me rephrase it this  
18 way.

19                   Are there any other corporations in your  
20 business doing the same construct that you're  
21 proposing?

22                   MR. DAN GUIMOND: Not to my knowledge  
23 in terms of working with the Regulator and -- and what  
24 we're proposing. Not to my knowledge.

25                   MR. CHRISTIAN MONNIN: So this, to your

1 knowledge, would be -- would be a first not only in  
2 Manitoba, but a first in Canada.

3 Is that correct?

4 MR. DAN GUIMOND: Yes, that's my  
5 understanding.

6 MR. CHRISTIAN MONNIN: And if that's  
7 the case, why is the Corporation -- or how can the  
8 Corporation be confident that this will actually work?

9 MR. DAN GUIMOND: Because I -- I think  
10 quantitatively it will demonstrate the -- the ROI on  
11 the loss prevention program. And when you can quantify  
12 things and measure things, I'm confident that we'll  
13 achieve success. Look at our fleet rebate program, for  
14 example. It's very successful. That's a good loss  
15 prevention aspect of what we do for Basic.

16 MR. CHRISTIAN MONNIN: Isn't that a  
17 much -- much more tangible scenario than road safety,  
18 specifically if we're looking at bodily injuries?  
19 Would you agree with that?

20

21 (BRIEF PAUSE)

22

23 MR. DAN GUIMOND: I'm not sure about  
24 that. I'd have to think about it.

25 MR. CHRISTIAN MONNIN: And -- and so

1 we're -- we're dealing with a new construct that is --  
2 is never seen before in -- in Manitoba, never seen  
3 before in Canada. And, you know, a cynic might say --  
4 not me, I'm -- I'm a rosy-eyed optimist.

5 But a cynic might say, isn't the  
6 Corporation just trying to buy more time?

7 MR. DAN GUIMOND: No.

8

9 (BRIEF PAUSE)

10

11 MR. CHRISTIAN MONNIN: Now, I -- I seem  
12 to recall your evidence the last couple of days have  
13 been that we need to change the construct in order to  
14 be able to have a measurable -- or have a metric that  
15 we can measure on this road safety under the loss  
16 prevention plan. And only when we do that can we have  
17 this meaningful discussion. That's my summary.

18 Is that fair enough?

19 MR. DAN GUIMOND: Fair enough.

20 MR. CHRISTIAN MONNIN: But in the same  
21 vein you're saying, You know, I -- I can't populate  
22 that box; I can't tell you what's going to be in it,  
23 but I can tell you it's going to work. And so my  
24 question is this. It might be a similar question or  
25 the same question, but asked from a different angle.

1                   If you can't -- if you don't know how to  
2 -- to populate the box, how can you be so confident  
3 that you know it's going to work if you don't know  
4 what's in it? MR. DAN GUIMOND:    It's because I know  
5 many of the things that we do currently for loss  
6 prevention works.

7                   MR. CHRISTIAN MONNIN:   And so again  
8 keeping in mind that there is an undertaking, but this  
9 -- this is in progress, as I -- I think I understand  
10 your -- your evidence.

11                  MR. DAN GUIMOND:    The undertaking is in  
12 progress, yes.

13                  MR. CHRISTIAN MONNIN:   And so the  
14 Corporation has been giving some thought to this new  
15 construct.

16                                   Is that correct?

17                  MR. DAN GUIMOND:    We're trying to  
18 satisfy Mr. Gosselin's need to be able to be informed  
19 enough about what we mean by the terminology that we  
20 use to be able to make a decision, if -- if this is a  
21 good approach to be able to solve the issue of how we  
22 find a way to make sure that the budgets are optimized.

23                  MR. CHRISTIAN MONNIN:   And if -- I  
24 might have closed off that loop when you -- when -- I  
25 think I -- I understand correctly when you -- when you

1 said, We're trying to satisfy Mr. Gosselin's need, you  
2 really mean the PUB's need, correct?

3 MR. DAN GUIMOND: Yes.

4 MR. CHRISTIAN MONNIN: And -- and now I  
5 appreciate that you may not be able to answer these  
6 questions but you -- you give a lawyer an opportunity  
7 to put something on the record and they run wild with  
8 it, so I'm going to go here.

9 Regarding the loss prevention plan, if  
10 there was a new construct at a very high level, I know  
11 that you're -- the Corporation is cogitating this thing  
12 right now, would this loss prevention program, this new  
13 construct, would it include better measurement tools to  
14 determine the impact of road safety programs so you can  
15 tell which ones have a meaningful impact?

16 MR. DAN GUIMOND: Yes. And it -- it's  
17 my understanding, for example, that we are in  
18 discussions with the group that you're representing.  
19 For example, you're in one of our commercials right  
20 now. We'll see how that goes. We're working with you.  
21 We're doing things with your clients. And they'll  
22 definitely be -- be part of -- of that strategy.

23 MR. CHRISTIAN MONNIN: Thank you. And  
24 -- and again, along the same line, inside this loss  
25 prevention program that the Corporation is -- is

1 presently constructing, would it include a plan to  
2 develop a capability to -- to effect behaviour, change  
3 programs, to test them, to track their results?

4 MR. DAN GUIMOND: Yes.

5 MR. CHRISTIAN MONNIN: And what about  
6 identifying strategic initiatives to offset bodily  
7 injury costs?

8 Would it include that, the new loss  
9 prevention plan?

10 MR. DAN GUIMOND: The loss prevention  
11 plan is regarding frequency, severity, and the human  
12 aspect of it.

13 MR. CHRISTIAN MONNIN: And -- I thank  
14 you very much for that answer. And therefore I -- I  
15 take it that it would also be able to determine the  
16 optimum size of MPI's road safety budget, and whether  
17 it was sufficient to enable a reduction in cost to  
18 injury in the short and in the long term?

19 MR. DAN GUIMOND: I'm sorry, did you  
20 say the road safety?

21 MR. CHRISTIAN MONNIN: Yes, the road  
22 safety budget.

23 MR. DAN GUIMOND: I think when it comes  
24 to road safety budget, it will always be unknown.  
25 It'll be very hard to -- some of the things we do, like

1 what we do for Halloween, or what we do for  
2 advertising, like the 60-Second clips and so on, it'll  
3 always be hard to know if you really optimize it or  
4 not. They'll -- it -- it's very hard to quantify the -  
5 - like the specific RI.

6 We know it's a good thing to do, just  
7 like the Buckle Up campaign. But if you really want to  
8 know exactly, am I getting my money's worth out of this  
9 in terms of measurement, it's very hard to do because  
10 there's unknowns.

11 MR. CHRISTIAN MONNIN: Thank you.  
12 Diana, could you please go to slide 32 of Mr. Guimond's  
13 prefiled testimony?

14 Now, there's some unknowns and then  
15 there's some hard numbers. And in this slide, Mr.  
16 Guimond, you have 145.9 million on injury claims, and  
17 then 23.6 million paid to Manitoba Health. And that's  
18 under your slide "MPI's Contribution to Manitoba's  
19 Economic Landscape."

20 Now, we're dealing with unknowns. I  
21 appreciate that. But with respect to the adequacy of a  
22 budget on road safety, what percentage would the  
23 Corporation figure to be adequate or optimal to spend  
24 in order to reduce something of that magnitude, 145.9  
25 million and 26.3 million?

1 MR. DAN GUIMOND: We've put, like for  
2 the high school driver education program, a 2 percent  
3 target.

4

5 (BRIEF PAUSE)

6

7 MR. CHRISTIAN MONNIN: I'm sorry, the -  
8 - the high school driver education program is the -- is  
9 that the Corporation's complete answer to the 145.9  
10 million and 26.3 million?

11 MR. DAN GUIMOND: Right now, that's  
12 what we have on the record, that these go after 2  
13 percent on that number, yes. Well -- well, for the  
14 market segment of fifteen and a half (15 1/2) to  
15 twenty-seven (27) we're targeting a 2 percent reduction  
16 on -- on BI, well, of -- of our -- of our total losses,  
17 frequency and severity, I should say.

18 MR. CHRISTIAN MONNIN: That 2 percent,  
19 can I take away that that is the Corporation's -- their  
20 position, that that 2 percent, that's the adequate  
21 amount?

22 MR. DAN GUIMOND: To get rid of all of  
23 it, I would. We're going to look at our strategic  
24 planning when we do it next. And we're always, always  
25 striving to make that number as small as possible. So

1 right now, in terms of documentation, what's in the  
2 public, what we've committed to, it's that 2 percent  
3 right now.

4

5

(BRIEF PAUSE)

6

7 MR. CHRISTIAN MONNIN: Mr. Guimond,  
8 you'll be pleased to know that I'm drawing near the  
9 end. And we're getting into what My Friend, Mr.  
10 Williams, calls the snorts -- the -- the short snappers  
11 section. So I'll have a few for you. And then you  
12 don't have to listen to me ask you questions anymore.

13 I seem to recall, Mr. Guimond, in your  
14 testimony you're referring to telematics, and that had  
15 to do with the -- if memory serves me correctly, the --  
16 the drivers ed program. But you also referred to  
17 collision avoidance technology. And I need some -- a  
18 little bit of help understanding that -- that  
19 technology. I'm quite the Luddite.

20 So is it the Corporation's view that  
21 this technology is going to assist drivers to avoid  
22 collisions with cyclists and pedestrians and other  
23 vulnerable road users?

24 MR. DAN GUIMOND: It can, yes, like,  
25 backup cameras, for example, and so on, absolutely.

1 MR. CHRISTIAN MONNIN: Okay, backup  
2 cameras. I -- I -- that I understand. What other  
3 technology are you referring to?

4 MR. DAN GUIMOND: For example, there's  
5 collision avoidance technology that will help to brake  
6 the car a lot faster; it'll take over. So if you're  
7 talking about a pedestrian coming out of two (2)  
8 vehicles, for example, unseen, you know, the -- the  
9 vehicle will react much faster than the operator, in  
10 terms of stopping the car.

11 So you know for sure at least severity  
12 is going to be reduced, and -- and hopefully even maybe  
13 the collision.

14 MR. CHRISTIAN MONNIN: Does the  
15 Corporation have any idea of how long it's going to  
16 take for this technology to percolate into the fleet?

17 MR. DAN GUIMOND: No, we don't know.

18 MR. CHRISTIAN MONNIN: Yet another  
19 unknown. So what -- what does the Corporation plan to  
20 do during that gap period?

21 MR. DAN GUIMOND: It's a little bit  
22 like what we did with the theft file. For example,  
23 we're studying right now the -- the loss ratio  
24 associated to the -- to taxis, I mean, they have a --  
25 the -- the loss ratio there is terrible. And, you

1 know, is there a way that we can accelerate maybe the  
2 retrofit on some cars to be able to reduce frequency  
3 and severity?

4 So we're going to target at this point  
5 in time. And the -- as technology evolves in the cars  
6 over time, you know, hopefully we'll -- we'll have that  
7 built in, in every car. But at the beginning, we want  
8 to focus where the -- the loss ratios are really bad  
9 and try and do something about it.

10

11 (BRIEF PAUSE)

12

13 MS. SUSAN PROVEN: I was -- I had heard  
14 about cameras for bikes so that they can -- the bikers  
15 can see what's going on behind them. So I don't know  
16 whether that's the kind of technology that could work,  
17 in terms of bike safety.

18 Have you heard about those?

19 MR. DAN GUIMOND: No, I have not.

20

21 (BRIEF PAUSE)

22

23 MS. SUSAN PROVEN: Yes, I guess  
24 quickly. I -- I just thought while he was perusing his  
25 notes, we could find out about that.

1 MR. JASON CARTER: I'm sorry, I'm worse  
2 than -- I believe I'm worse than Mr. Frost on this  
3 button thing. I'm sorry, you were saying about  
4 technology to see behind you while you're riding a  
5 bicycle? I'm not aware of that kind of technology. I  
6 do know that it's more common now to have GoPros on  
7 their helmets. So, in other words, taking a -- a  
8 recurrent loop of video, and that video unit can be put  
9 on the back behind the seat to take video at all times.

10 That's mostly being useful in tort  
11 situations in -- in tort jurisdictions like New York  
12 City. And that kind of evidence is being used in -- in  
13 trials, and that's -- that sort of thing. Frankly, it  
14 -- when you -- on the back-up part of -- to see what's  
15 going on behind you, cyclists rely a lot on their  
16 hearing. So it's already in the High -- the Highway  
17 Traffic Act that you cannot have two (2) earbuds or two  
18 (2) headphones going on, although one (1) is allowable.  
19 And so you can't hear the -- the vehicle behind.

20 It is very difficult to find out what's  
21 happening from behind you. If you're on a bike, a 90  
22 degree shoulder check, which is common in a car, is  
23 insuf -- insufficient, because the car is travelling,  
24 you know, nearly double the speed. A -- a good cyclist  
25 travels at 30 kilometres per hour. A car is at 60

1 kilometres per hour is commonplace. So if you look at  
2 90 degrees, in the snap of your finger, that car is  
3 going to be beside you, right behind you.

4                   So, in effect, you have to swivel and  
5 turn complete -- completely around 180 degrees. And  
6 that is difficult for many people, especially new  
7 cyclists or cyclists who are coming back to -- to the  
8 activity. That is one (1) -- one (1) of the reasons  
9 why Bike Winnipeg has been promoting segregated bike  
10 lanes, and also why a 1 metre safe passing distance is  
11 so critical for the safety of cyclists. So that even  
12 if you don't see that rider or that car behind, then  
13 you have enough space to have a little cushion.

14                   MS. SUSAN PROVEN: Well, I think this  
15 was on CBC, which I listen to. And it was just  
16 basically a camera which did the same thing as the  
17 camera would do in the car. It gave you the ability to  
18 look down at a screen and see what was behind you  
19 without looking around and, you know, without hearing.  
20 So I just thought it sounded promising.

21                   MR. JASON CARTER: I -- I would agree  
22 that it sounds promising for a certain segment of  
23 riders, particularly the ones that have adaptations to  
24 their -- their cycles -- their bikes. However, really,  
25 a cyclist needs to have 360 degree awareness of what's

1 going on around them. And given the relative speeds of  
2 the cyclists who normally rides at around 17 kilometres  
3 per hour, whereas a car is at fifty (50) to sixty (60),  
4 really, the onus has to come upon drivers to think  
5 about the 4,000 pounds that they are operating.

6 MS. CANDACE GRAMMOND: Madam Chair, I  
7 just want to interject briefly. A note for the record.  
8 Mr. Carter is not a sworn witness. What was just said  
9 is not evidence, not subject to cross-examination. It  
10 can be taken by the Board in the vein of a presentation  
11 that the Board hears at these proceedings, but not  
12 beyond that.

13 THE CHAIRPERSON: Okay. Thank -- thank  
14 you, Ms. Grammond. I guess we'll continue with Mr.  
15 Monnin.

16

17 CONTINUED BY MR. CHRISTIAN MONNIN:

18 MR. CHRISTIAN MONNIN: One (1) more  
19 question, maybe two (2). Diana, if you could take us  
20 to PUB/MPI I-100, please? And if you can scroll into  
21 the response section under (e)? And, Mr. Guimond, I'll  
22 give you time to -- to read that response.

23

24

(BRIEF PAUSE)

25

1 MR. CHRISTIAN MONNIN: And while you're  
2 doing so, please pay particular attention to the last  
3 sentence:

4 "However, the Corporation does  
5 anticipate that road safety program  
6 evaluation work will be available for  
7 each year's GRA process as the intent  
8 is to conduct program evaluation work  
9 in the spring time frame for programs  
10 and initiatives in the preceding  
11 year."

12 And again, like, I -- I just want to  
13 explore -- if this is somewhat of an analogy, but I --  
14 I just wanted to explore the issue of this new  
15 construct again. If the Board so orders, Mr. Guimond,  
16 that the Board buys in, to use your language, if the  
17 Board so orders that this new construct is -- is to  
18 proceed and it -- it is to be part of each GRA on a  
19 yearly basis, is the Corporation going to be able to do  
20 that, and how soon will it be able to do that?

21 MR. DAN GUIMOND: And the first report  
22 would be next year's GRA.

23 MR. CHRISTIAN MONNIN: And the reason  
24 why I asked that question is -- is I seem to recall  
25 from Board Order 151/'13, the Board had ordered that a

1 -- a report be produced with regards to the  
2 optimization of the budget, and the Corporation just  
3 didn't do that. Is that correct?

4 MR. DAN GUIMOND: That's correct.

5 MR. CHRISTIAN MONNIN: No further  
6 questions, Madam Chair. Merci beaucoup, Mr. Guimond.

7 THE CHAIRPERSON: Thank you.

8 MR. IRVIN FROST: Madam Chair, Frost  
9 for the record. I -- I consulted with my clients, and  
10 I actually only have two (2) snappers. I don't need --  
11 I don't think the Board needs to be reconvened for --  
12 it shouldn't take more than five (5) minutes, if that,  
13 with your permission?

14 THE CHAIRPERSON: Is that the will of  
15 the group? Okay, yes. Please, go ahead.

16 MR. IRVIN FROST: Thank you.

17

18 CONTINUED CROSS-EXAMINATION BY MR. IRVIN FROST:

19 MR. IRVIN FROST: Mr. Guimond, I want  
20 to turn you to ARM/MPI 3-8. It's talking about the E-  
21 GLASS, the Mitchell computer software system.

22

23 (BRIEF PAUSE)

24

25 MR. IRVIN FROST: And it talk -- it

1 talks about not sharing some information with the  
2 recyclers, and you've said:

3 "This is problematic, and the  
4 Corporation is currently assessing  
5 how this could be remedied."

6 My question, sir, is what progress has  
7 the Corporation made in terms of assessing this  
8 problem, and what timeframes are we looking at in terms  
9 of remedying that problem?

10 MR. DAN GUIMOND: It's in progress, and  
11 I would hope that next year, it -- it would be fixed,  
12 or a pro -- the matter would be resolved by -- by the  
13 end of next year.

14 MR. IRVIN FROST: By being resolved,  
15 I'm assuming you mean the recyclers would have access  
16 to that system?

17 MR. DAN GUIMOND: Yes, or if -- as --  
18 as long as -- as we can negotiate an agreement with  
19 Mitchell to do that.

20 MR. IRVIN FROST: Thank you for that.  
21 ARM/MPI 3-17. There's another comment around the PDR  
22 program Charter, a question -- and the answer is down -  
23 - it's the second bullet:

24 "Improving part sourcing. Improving  
25 the recycled part process through

1 automation whereby recyclers provide  
2 their inventories online and repair  
3 their estimates in -- include --  
4 include those parts automatically."

5 And my question to you is, Will ARM be  
6 part of that process in improving the recycled parts  
7 automation endeavour?

8 MR. DAN GUIMOND: We will continue to  
9 deal with the, quote unquote, "elected members" of the  
10 recyclers, because that's how they want to do business  
11 with us. And if you mean that some of these members  
12 are part of ARM, then by default, they -- I -- I assume  
13 that they -- you will be kept informed.

14 MR. IRVIN FROST: Thank you. Those are  
15 my questions.

16 THE CHAIRPERSON: Thank you very much.  
17 And I -- I'm going to ask -- Mr. Gosselin has a  
18 question for...

19 MR. REGIS GOSSELIN: I -- I has a  
20 question for Mr. Guimond. In terms of ARM, I  
21 understand why you instruct a committee involving all  
22 the recyclers to address the software program and some  
23 of the issues you described, so I -- I get that part.

24 And I guess the question I have for you,  
25 though, is that -- you know, the -- the ARM counsel has

1 raised a number of questions that cause me to think  
2 perhaps that a -- a face-to-face meeting with the ARM  
3 people would have served to address some of the  
4 concerns being -- being mentioned by ARM in this  
5 setting.

6 Now, are you open to meeting directly  
7 with the -- with ARM to talk about some of these  
8 concerns?

9 MR. DAN GUIMOND: We have no objection  
10 in -- in dealing with ARM. I guess if -- if the -- we  
11 don't have any objections to that, I guess, for the  
12 record, and I'll leave it at that.

13 THE CHAIRPERSON: Okay, thank you very  
14 much. We'll recess for lunch at this time. And we  
15 will come back at 1:30. Thank you.

16

17 --- Upon recessing at 12:24 p.m.

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

19

20 THE CHAIRPERSON: Okay, welcome back  
21 from lunch. We'll begin the proceedings again. And  
22 I'm first going to call upon Ms. Young, from CAA. I  
23 believe you had a question, Ms. Young?

24 MS. ANGELE YOUNG: Yes, we did, just  
25 stemming from Bike Winnipeg's cross-examination. You

1 know, we had some questions after that that we think  
2 relate. So I figured now was the best time to ask  
3 them.

4

5 CROSS-EXAMINATION BY MS. ANGELE YOUNG:

6 MS. ANGELE YOUNG: So in MPI's prefiled  
7 testimony and mentioned several times in this hearing,  
8 MPI has suggested to the PUB that they would submit a  
9 loss prevention scorecard for the next year's GRA, and  
10 even perhaps an outline, by the end of this hearing.

11 Is that correct?

12 MR. DAN GUIMOND: Yes, for the outline  
13 by the end of this hearing. Subject to approval by the  
14 Regulator in terms of if we actually do it next year or  
15 not.

16 MS. ANGELE YOUNG: Perfect. And would  
17 it also be correct to say that the Corporation started  
18 offering low-interest loans for Manitobans wishing to  
19 purchase a new set of winter tires recently?

20 MR. DAN GUIMOND: Yes.

21 MS. ANGELE YOUNG: Okay, so stemming  
22 from that I have two (2) questions.

23 Are there any measures in place to  
24 collect data on collisions for this coming winter on  
25 whether or not these vehicles were equipped with winter

1 tires?

2 MR. DAN GUIMOND: Yes.

3 MS. ANGELE YOUNG: Perfect. So then my  
4 other question is in relation to the undertaking.

5 If the Corporation is able to provide  
6 any information about what measures they have to, you  
7 know, equate the success of the program within that  
8 outline and within possibly that undertaking for next  
9 year's GRA?

10 MR. DAN GUIMOND: We'll be able to --  
11 since we know which car has winter tires now because  
12 they're tied to a loan, we'll be able to know if that  
13 group of -- of vehicle owners have lower loss ratios  
14 than people who -- who do not have winter tires.

15 MS. ANGELE YOUNG: Great. M-hm.  
16 Perfect. That's all I have.

17 THE CHAIRPERSON: Thank you very much,  
18 Ms. Young.

19 MS. CANDACE GRAMMOND: Just -- can I  
20 just speak to you for one (1) second?

21

22 (BRIEF PAUSE)

23

24 MR. REGIS GOSSELIN: Madam Chair, I  
25 wonder if I could ask a few questions since we are

1 talking about winter tires. I had a few questions in  
2 reserve that I wanted to ask Mr. Guimond. I -- since  
3 we're talking about winter tires, M. Guimond, I'd like  
4 to ask you a few questions about that.

5 I know you've recently announced a  
6 program. And in the media -- in the media article --  
7 media article I read, it indicated that when Quebec  
8 made winter tires mandatory it resulted in a 2 percent  
9 reduction in losses.

10 And I guess the question I have is: Did  
11 you -- when you introduce the program, do you have any  
12 expectations of what potentially might be the outcome  
13 with respect to the -- the use of winter tires once the  
14 program has been adopted?

15 MR. DAN GUIMOND: If we were to reach a  
16 hu -- comparing to the only benchmark we have, which is  
17 Quebec, if we were to have a hundred percent market  
18 penetration, you can expect approximately a 2 percent  
19 reduction in frequency and severity.

20 MR. REGIS GOSSELIN: Now, I guess the  
21 question I have is -- you know, I -- I know it's early  
22 in the -- early in the -- at the outset of the program.

23 And I guess the question I had is: You  
24 -- can you give us some indication of the uptake of  
25 that program? An early indication of the -- of the

1 uptake?

2 MR. DAN GUIMOND: The last report I  
3 had, we had sold a little bit over two thousand (2,000)  
4 sets of winter tires; twenty-five hundred (2,500) since  
5 we launched the program.

6 MR. REGIS GOSSELIN: And -- and the  
7 funding is available for how many -- how many dra --  
8 how many sets of tires total?

9 MR. DAN GUIMOND: One (1) set per  
10 vehicle every four (4) years, because that's the  
11 average length of a winter tire in terms of duration.  
12 And it's limited to certain vehicle -- certain people.  
13 Like, for example, we didn't qualify the program for --  
14 for commercial enterprises, for example. It's -- it's  
15 for -- it's for people that have vehicles.

16 MR. REGIS GOSSELIN: I'm sorry. What I  
17 was getting at is in terms of an upper limit on the  
18 number of people who can participate in the program.

19 Is there an -- a limit, or is it...

20 MR. DAN GUIMOND: No, it's not capped.

21 THE CHAIRPERSON: Okay. Thank you, Mr.  
22 Gosselin. Now, I'm going to ask that Mr. Luke -- Mr.  
23 Luke Johnston, sorry, and Ms. Heather Reichert be sworn  
24 in for testimony.

25

1 MPI PANEL NO. 2

2 DAN GUIMOND, Previously Sworn

3 HEATHER REICHERT, Sworn

4 LUKE JOHNSTON, Sworn

5

6 THE CHAIRPERSON: Okay. Thank you.

7 Ms. Reichert, or Mr. Johnston, who's going to be --  
8 you're going to be doing a PowerPoint presentation, I  
9 understand? Are you going to be beginning, or...

10 MS. HEATHER REICHERT: I will be  
11 beginning, except I understand that Mr. Guimond wanted  
12 to put something on the record.

13 THE CHAIRPERSON: Okay. Thank you.  
14 Mr. Guimond...?

15 MR. DAN GUIMOND: Yes, we're able to  
16 confirm that there's thirteen (13) recyclers right now  
17 that we have accreditation with at this point in time.  
18 And we're also confirming that we're meeting with the  
19 recyclers on many of the issues presented this morning  
20 at the hearing. We're currently going to be doing  
21 that.

22 THE CHAIRPERSON: Okay. Thank you, M.  
23 Guimond. Ms. Reichert...?

24

25 PRESENTATION BY MPI PANEL 2:

1 MS. HEATHER REICHERT: Thank you. So  
2 Mr. Johnston and myself will be switching off  
3 throughout the presentation. I'll probably use about -  
4 - I don't know, maybe an hour in total. But hopefully  
5 not long. Not long relative to some of the other  
6 things we've been hearing the last couple of days.

7 Okay. So just to review very quickly.  
8 The 2015 GRA, the application and what we applied for,  
9 was a 2.4 percent rate increase, an RSR rebuilding fee  
10 of 1 percent, a minimum lower RSR target of 194 million  
11 in retained earnings based on the results of the 2014  
12 DCAT report, or a minimum lower RSR target of 213  
13 million in total equity based on the results of the  
14 2014 DCAT report. And then a range above that  
15 recommended minimum RSR, with the upper range based on  
16 100 percent MCT value, which at the end of this -- this  
17 year was 325 million.

18 I just wanted to comment very briefly on  
19 the bullets 3 and 4. Because the -- the DCAT report  
20 itself was a meth -- that methodology has not yet been  
21 accepted to determine the lower RSR limit, and there  
22 has been discussion both at the hearing and at DCAT  
23 technical conferences about using a -- a total equity  
24 basis for calculating the minimum.

25 We actually have done both calculations.

1 One (1), the minimum RSR of a hundred and ninety-four  
2 (194), which is based on retained earnings. And then  
3 the other, the RSR target of 213 million, based on  
4 total equity. So either one (1) of those could be  
5 approved by the Board, not necessarily both need to be  
6 approved.

7 And from our perspective, if we are  
8 moving to a -- a upper limit of the hundred percent MCT  
9 value, that's also an equity based calculation. So it  
10 would make sense, if you're approving a range to  
11 approve a 213 million to a 325 million range, as both  
12 of those are on the basis of a total equity  
13 calculation.

14 Okay. Next slide?

15 MR. REGIS GOSSELIN: Ms. Reichert, I  
16 have a question for you.

17 MS. HEATHER REICHERT: Oh.

18 MR. REGIS GOSSELIN: This is something  
19 that came up during our lunch break.

20 MS. HEATHER REICHERT: You couldn't  
21 even get out the --

22 MR. REGIS GOSSELIN: There's -- the  
23 last bullet, and -- and just to high -- highlight the  
24 fact that some of the slides that you've been using, or  
25 Mr. Guimond was using, referred to the upper -- upper

1 range of the DCAT. This is talking about a hundred  
2 percent of the MCT, which are, in my mind, are two (2)  
3 different things. MCT is the formula usually used by  
4 most insurance companies and the regulator to establish  
5 minimum capital levels.

6 DCAT -- upper range of DCAT, I see that  
7 as being -- say, for example, instead of a one (1) in a  
8 hundred (100) year scenario -- adverse scenario, you're  
9 using one (1) in three hundred (300) year scenario to  
10 generate the upper range. Two (2) different -- two (2)  
11 different calculations in my mind.

12 So, I want to make sure what it is we're  
13 talking about.

14 MS. HEATHER REICHERT: We will be, in  
15 our presentation, talking about this, in -- in some  
16 detail --

17 MR. REGIS GOSSELIN: Okay.

18 MS. HEATHER REICHERT: -- if -- if you  
19 could hold your question until then, and if it's not  
20 answered, then I'd be more than happy to come back to  
21 it. Okay?

22 The -- the second slide is just, again,  
23 the -- the pictorial, if you will, of what that 2015  
24 rate change, including the 1 percent RSR, so  
25 effectively, a 3.4 percent increase, what that looks

1 like as it relates to increases or decreases within --  
2 within the policies themselves. So from this, you can  
3 see that there's 62.1 percent that are increasing.  
4 However, what we have often quoted is that increases or  
5 decreases less than twenty dollars (\$20) is in the  
6 range of 52 percent -- or, sorry, yeah, 51.6 percent.

7           This -- this shows the history of both  
8 our rates -- rates that we have applied for and what  
9 has been ordered by the -- the Public Utilities Board,  
10 as well as rebates that have been provided over the  
11 last fourteen (14) years. So I just wanted to  
12 highlight that as it relates to rate changes, the PUB  
13 has -- has actually varied the requested rate in their  
14 order six (6) of the last (14) times. Of those six (6)  
15 varied orders, the four (4) decreased the rate that was  
16 applied for, and two (2) actually increased the rate  
17 that was applied for.

18           And on the rebate side, as was mentioned  
19 by Mr. Guimond, I believe that was yesterday's  
20 testimony, that the largest rebate that was provided in  
21 2011 actually resulted from the fact that in 1994, when  
22 the no-fault insurance was introduced, the actuaries  
23 needed to make an estimate not having any historical  
24 data on which to base that. And based on what was  
25 actually rebated to customers in 2011, it equated to

1 approximately a twelve dollar (\$12) per policy per year  
2 over -- overcharge, if you will, that was then rebated  
3 in 2011. So -- and then it's -- five (5) of the  
4 fourteen (14) years, there have been rebates, the most  
5 significant, of course, being in 2011.

6                   So moving on to the 2013/'14 results,  
7 and you'll recall in our overview section, we do talk  
8 about this. And I'm just going to highlight this  
9 quickly. So the 2013/'14 results, we were -- different  
10 from what we were forecasting last year by about \$75  
11 million. Sixteen (16) million of that had to do with  
12 collision and property damage frequency. There was 3 -  
13 - 3 percent more frequency of -- of claims than -- than  
14 the year -- than -- than what we -- sorry -- than what  
15 we were forecasting. There was 24 million increase in  
16 physical damage severity. That was a 10 percent  
17 increase in what we were seeing as severity from what  
18 we were forecasting. Twenty-six (26) million was the  
19 increase in the injury and claims reserves, and that  
20 has been discussed previously already at these  
21 hearings, and was discussed last year. And Mr.  
22 Johnston will be talking about it more in this  
23 presentation.

24                   There is a 9 million increase in loss  
25 adjustment expense provision. It is an actuarial

1 adjustment that relates to the fact that because the  
2 claims -- we had the claims increasing as much as we  
3 did, then we had to increase the adjustment expense  
4 provision, as well.

5                   Continuing on. There was 25 million  
6 that was related to a premium deficiency increase li --  
7 increase in the liability. So this was an incremental  
8 impact. Again, this is an actuarial adjustment. It  
9 results when the unearned premiums, the money that  
10 we've collected for policies that we have not yet  
11 earned, is deemed -- or -- or is determined to be  
12 insufficient to cover the cost of the claims that we  
13 would be expecting from those policies.

14                   So when there is a deficiency between  
15 the unearned premiums and what we believe those -- the  
16 claims or those policies are going to cost us, the  
17 actuary is required to increase this premium deficiency  
18 liability which we had to do last year to the tune of  
19 25 million.

20                   Twenty-two (22) million resulted from  
21 capital losses on -- on marketable bonds. So that was  
22 losses that resulted from the fact that the interest  
23 rate last year was slightly higher than what we had  
24 forecasted it to be. So that was the 22 million. All  
25 other variances, and then there's a couple noted in the

1 overview itself, was about 10 million.

2                   Offsetting all of those negative  
3 variances was 57 million that we received higher than  
4 we were expecting on -- in gains on the sales of  
5 equity. Now, for those that were on the panel last  
6 year, you may recall that we actually did forecast to  
7 sell of our US equities to -- to gain about 45 million.  
8 And we were doing that because of the -- the  
9 unfavourable forecast that we were seeing for the next  
10 year.

11                   So we did better than what we had  
12 forecasted by about 10 million. The other amount of  
13 the remaining 47 million resulted because in our  
14 investment policy statement we are required to  
15 rebalance our allocation of -- of investments if they  
16 go beyond the maximum target that we have for the  
17 different types of vehicles.

18                   So in the case of last year -- oh, did I  
19 say dif -- type of vehicles? Well, types of vehicles  
20 of -- of investment vehicles, sorry. So what happened  
21 last year was that our Canadian equities exceeded the  
22 maximum target allowed per our investment policy  
23 statement for more than six (6) months.

24                   And when that happens we are required,  
25 as a risk mitigation mechanism, to rebalance and to

1 take money away from equities and put it into other  
2 vehicles. So when we did that we generated some gains  
3 on the sale of those equities, and that was the  
4 remaining 47 million that was not forecasted when we  
5 were here at this time last year. All of those  
6 together is the 75 million greater loss than what we  
7 had forecasted last year at this time.

8                   Okay, for the 2014/'15 forecast, in the  
9 2014 GRA we were forecasting a \$7.5 million loss. We  
10 are currently budgeting for '14/'15 a \$38 million loss,  
11 so it has deteriorated by \$30 1/2 million.

12                   Less items here to explain why that has  
13 occurred, 17 million has resulted from an increase in  
14 severity assumptions between what we saw last year and  
15 what we had previously forecasted to happen this year.  
16 So 17 million of that 30 million is relating to  
17 increases in severity.

18                   Nine million is resulting from increase  
19 in injury claims forecast from the prior year. And the  
20 4 million that remains is everything else. And  
21 there's, you know, varying smaller amounts that  
22 contribute to that 4 million.

23                   Second quarter results. So we just  
24 released, I believe it was last week, the second  
25 quarter results for the current fiscal year. So those

1 are our results up to the end of August 2014. Earned  
2 revenues are slightly less than budget. But the real  
3 story here is with net claims incurred are worse than  
4 budget by 57.3 million.

5                   Claims expenses and other expenses,  
6 operating, commissions, et cetera, those next two (2)  
7 numbers, one point seven (1.7) and one point nine  
8 (1.9), are actually -- we are -- we are reporting  
9 better than budget for the first six (6) months. So  
10 operating expenses -- operating expenses, including  
11 claims expenses, both are doing a total of 3.6 million  
12 better than what was -- what is budgeted for this  
13 current year.

14                   Investment and other income is better by  
15 56.7 million. The majority of that is relating to the  
16 fact that interest rates have not gone up as we had  
17 budgeted them to. And they have in fact gone down,  
18 which has created a gain in our marketable bonds. So  
19 the net there, you'll see, the -- the net income on  
20 Basic for the first six (6) months is 8.6 million,  
21 which is just slightly better than what we were  
22 budgeting to have happen at seven point nine (7.9).

23                   What I want to bring to the panel's  
24 attention, though, is our budget for 2014/'15 still  
25 remains at a budgeted \$38 million loss. So that means

1 compared to the first six (6) months we are still  
2 budgeting to incur a loss of 45.9 million in the last  
3 six (6) months. The last six (6) months of our fiscal  
4 year take in the worst months of the winter. So it --  
5 from now until February the 28th, is when the -- the  
6 possibility of bad winter driving weather occurs.

7           And so when we do our budget we actually  
8 do recognize that we expect to make money the first six  
9 (6) months, which we have done this year. And then we  
10 know that typically we will lose money in the last six  
11 (6) months. So we do -- do still expect and it depends  
12 on, again, how the winter turns out. We do expect that  
13 we will be in a deficit position by the end of the  
14 year, as well as what might occur with the interest  
15 rates.

16           Specifically as it relates to the  
17 interest rates impact, with respect to Basic, so we  
18 were budgeting -- because we were budgeting for  
19 increasing interest rates we were budgeting to actually  
20 lose money on our marketable bonds of 31.9 million.  
21 Because interest rates have in fact gone down, we  
22 actually have seen gains of 30.6 million. That is a  
23 favourable swing of 62.5 million. That's on a  
24 corporate basis. The Basic share of that, right below,  
25 is a 52.4 million favourable to budget swing for

1 marketable bonds, so gains on marketable bonds.

2                   When you look at the offsetting impact  
3 of what is happening in our claims due to the discount  
4 rate changes that occur when the interest rate  
5 fluctuates, we were in fact budgeting to have -- have a  
6 favourable impact on our claims of 39.9 million in  
7 Basic. What we've actually had year-to-date is a \$26.6  
8 million loss. Again, a significant \$66.5 million  
9 unfavourable variance from our budget.

10                   The net impact compared to the -- the  
11 budget. We were expecting a 13.1 million favourable  
12 impact from interest rates increasing in the first six  
13 (6) months. Because they decreased we actually had a  
14 negative 14.1 million variance. And I will now turn it  
15 over to Mr. Johnston to do the next portion of the  
16 presentation.

17                   MR. LUKE JOHNSTON: Good afternoon.  
18 Okay. So we figured we'd start with this graph on the  
19 rate setting framework. And if -- if you look at the  
20 top row you'll notice it -- it's very similar to how we  
21 set up our -- our rate application over the last couple  
22 of years.

23                   So I chair the forecasting committee,  
24 and as it shows at the top there's four (4) different  
25 main components of that. The claims forecasting

1 committee, which we all understand what that is.  
2 Revenue forecasting committee, excluding investment.  
3 So what rate is the fleet going to grow, how much  
4 upgrade are we going to get. How are drivers going to  
5 move on the DSR scale. Tho -- those types of  
6 forecasts. And, of course, there's the expense piece  
7 which is largely done through the corporate  
8 controller's area. And, finally, the investment  
9 forecast.

10 So those four (4) separate forecasts are  
11 all completed. There -- there is some inter-  
12 relationships between the two (2). For example, how  
13 you forecast fleet growth would -- would feed into the  
14 forecast for collisions, for example.

15 All of these forecasts are -- are fed  
16 into our financial model. And on the accounting side  
17 they do all the -- the normal accounting allocation by  
18 line of business. And -- and I won't get into -- to  
19 that piece. But the output is financial statements by  
20 line of business.

21 We get, as an output, the basic  
22 financial statements. And for the GRA year that we're  
23 in, we look at the two (2) rating years that -- so, in  
24 this case, we're looking at the 2015/'16 rating year  
25 and we look to have by what is required in revenue to

1 have break even that income in that 2015/'16 rating  
2 year.

3                   So the way we do that is we take the  
4 average of the '15/'16 and '16/'17 fiscal years. And  
5 we do that because of staggered renewals, the first  
6 policy being issued March 1st, 2015, and the last  
7 policy ending at the end of the '16/'17 year, so.  
8 That's the way we've done it for many years and that's  
9 the way we did it this year.

10                   So we have -- in terms of the process,  
11 that work is done. That indication is presented to  
12 management and the Board. And, of course, there's  
13 discussions around how was your forecast made and --  
14 and all that type of work, and sometimes gets revised,  
15 and there is a process there.

16                   Once the rate indication is approved by  
17 the Board the actuarial department starts running  
18 through all -- all the rate indications. So some --  
19 most of the rate making work is actually independent of  
20 the indicated rate change, so we get clear rate groups.  
21 We update all our rate groups.

22                   Once they're updated we balance them to  
23 be revenue neutral. We, of course, update -- on the  
24 graph it says, "Experience adjustments." We take the  
25 latest year's experience. We add it to our -- our

1 records. We recalculate the relative costs of all the  
2 different classifications we insure and we have updated  
3 experience adjustments. So, you know, if territory 1  
4 needs to go up by 2 percent for all-purpose passenger  
5 vehicles, that kind -- that kind of thing.

6                   So once we have all that calculated, we,  
7 of course, have to balance to the overall revenue  
8 requirement that we need. In this case, 2.4 percent  
9 was the breakeven revenue requirement in the rate app  
10 that we submitted. And we put that in a rate model.  
11 And the financial model and the rate model are two (2)  
12 different things.

13                   The rate model is, essentially, a  
14 snapshot of vehicles and drivers at a point in time.  
15 And the actuarial department will ask the rate  
16 modellers -- they'll give them instructions and say,  
17 This is how you need to change all the different  
18 classifications that we have. And they'll put that in.  
19 They'll get output about how it impacts specifics  
20 customers. Actuaries are speaking more general terms,  
21 territories, uses. This is speaking at the individual  
22 customer level. And that's how you get the graphics of  
23 who changed by -- by how much and et cetera.

24                   In addition to, the rate model also  
25 deals with all the capping rules that we have; for

1 example, like, the -- the firm 20 percent plus or minus  
2 target. We also have rate reversals. Like, you  
3 wouldn't want all-purpose use to be a lower rate than  
4 pleasure, for example.

5                   Once -- and then, yeah, once those  
6 capping rules are -- are completed, we get the final  
7 rate output. And that next piece is brought forward to  
8 management and the board for approval.

9                   MR. REGIS GOSSELIN:    Mr. Johnston, if -  
10 - if the -- the capping comes into play and, you know,  
11 once you've established that a particular class has  
12 reached a cap --

13                   MR. LUKE JOHNSTON:    M-hm.

14                   MR. REGIS GOSSELIN:    -- the excess cost  
15 rated to that imposed cap are picked up in the rest of  
16 the rates. Is that how it works or...?

17                   MR. LUKE JOHNSTON:    They're basically  
18 rebalanced across the rest of the rates, yeah.

19                   MR. REGIS GOSSELIN:    And the ranking --  
20 remind me again what the ranking is relative to the  
21 capping.

22                   MR. LUKE JOHNSTON:    Par -- pardon me?

23                   MR. REGIS GOSSELIN:    Could you explain  
24 the ranking relative to the capping?

25                   MR. LUKE JOHNSTON:    Yeah. So the --

1 the ranking was the piece where you wouldn't want a  
2 less restrict -- like, so the -- you wouldn't want  
3 pleasure use to be more than all-pur -- that kind of  
4 idea, yeah. So that's why you see Mr. Oakes gave the  
5 example of, you know, motorcycle rates were indicated  
6 to go down 7 percent roughly, and we only gave 6 (six).  
7 You know, so there was likely vehicles that -- in that  
8 pool that could have gone down more than the maximum  
9 allowed, but we capped them. And so the overall  
10 decrease was a little bit smaller. Yeah. Okay.

11 This next table is looking at the  
12 changes in the 2015/'16 rating period forecast. So  
13 that was that average of the two (2) fiscal years that  
14 I talked about. The -- the years that we look at to  
15 determine breakeven net income. So what you have here  
16 is the 2015 GRA average for the -- this GR -- this GRA,  
17 compared to what we had in our pro formas last -- in  
18 last year's GRA. And that's -- that's what we applied  
19 for, not what was ordered. So that -- the 2014 GRA is  
20 what we came forward with for these hearings. And then  
21 it -- it was subsequently adjusted, but I'll -- I'll  
22 talk about that.

23 So when we came last year, if we were  
24 looking at the rating period beyond what was being  
25 reviewed at that hearing we would have saw that we

1 expected to make an average 11.3 million in the  
2 '15/'16, '16/'17 fiscal years. We come back to today,  
3 and for those same years we now have forecasts that  
4 indicate that we expect to lose fifteen point nine  
5 (15.9) before any rate changes. So the -- the swing,  
6 so to speak, or the -- the change or variance to the  
7 bottom line is \$27 million. And I'm going to go  
8 through the waterfall graph and we'll talk about that.

9           Just at a really high level you can see  
10 that revenues are 12.9 million lower. Claims costs are  
11 higher. Expenses are a little bit higher, and  
12 investment income is also greater. So I'm going to go  
13 through the -- the details of that. Okay. Okay. So  
14 in the overview there's this waterfall graph. And it  
15 might not be completely clear how it's calculated, so  
16 I'm going to give examples that show that.

17           Basically, we're saying that 15.9  
18 million, that loss you saw on the previous table, is  
19 equivalent to a 2.4 percent rate increase. So what we  
20 did is we looked at all the variances that brought us  
21 from our original forecast last year to this year. And  
22 we took them as a ratio of that 15.9 million. Okay.  
23 So if something was a 15.9 million increase, we would  
24 say that that had a 2.4 percent swing in our rate  
25 indication, so.

1                   So if you look through the list here  
2 quickly, I'm going to talk about them in more detail.  
3 But you can see that the first one (1), there's the PUB  
4 order followed by -- you know, there was a volume  
5 forecast upgrade. These types of changes feeding into  
6 physical damage which is the much bigger line, and et  
7 cetera. So I'm going to go through those details.

8                   Okay. Okay. So this one (1) is a --  
9 this is an easy example because we know exactly what  
10 the impact of this is. As I told you, the forecast you  
11 saw for 2014 is what we applied for, not what was  
12 ordered. So the order was lower by zero point nine  
13 (0.9). Of course, with less of a rate increase than we  
14 thought, there'll be less revenue. The impact in the  
15 rating period was to get 7.4 million less revenue than  
16 we had applied for.

17                   As you see on the bottom line, as a  
18 ratio of what were the two point four (2.4) -- or,  
19 pardon me, the 15.9 million that we're losing. That's  
20 -- that's roughly worth 1.1 percent. Okay. So if --  
21 if we had break even last year, in -- in that forecast  
22 and this order came, it would result in a \$7.4 million  
23 shift in net income. And that's all this is showing.

24                   Okay. Okay. Focussing on the bigger  
25 swings on the waterfall graph, this is collision

1 severity, and we'll likely talk about this quite a bit  
2 at these hearings. You have accident year, which is  
3 the year that the loss actually happens. So the acc --  
4 when the accident occurs, not when it's reported or not  
5 when the dollars are paid, but when it actually  
6 happens. And you see in collision severity sort of by  
7 repair, so the vehicle is actually repaired and  
8 returned to the customer, versus total loss where the  
9 vehicle is written off. And -- and then, finally at  
10 the end, the -- the grand total of those.

11                   So on the repair side you can see some  
12 of the history of the severity increases, last year's  
13 being significant. And at the bottom there's some  
14 longer-term averages. And -- and you'll notice that  
15 definitely the last couple of years for sure, higher  
16 than we're used to seeing, okay.

17                   And -- and then similar on the total  
18 loss side, definitely true, a really big increase in  
19 the severity in this last year which, again, the year  
20 before also higher than normal, normal being the  
21 longer-term trend increase in -- in severity.

22                   On the last piece you might say, Okay,  
23 well, how does a 7.6 percent increase and a 9.7 percent  
24 increase add up to 10 percent over all? Well, we had a  
25 shift to more total losses as well, so not only did we

1 have a 9.7 percent severity increase, we had a shift to  
2 more total losses which are a bigger -- the severity is  
3 more than double what a repair is, so that pushed up  
4 the -- the total even more.

5 So --

6 MR. REGIS GOSSELIN: Excuse me. Would  
7 you mind defining -- just so I understand -- the  
8 columns, please. I -- so --

9 MR. LUKE JOHNSTON: Yeah.

10 MR. REGIS GOSSELIN: -- repairs area,  
11 severity, I get. Total loss severity would be the  
12 combination of repair sever -- severity plus...

13 MR. LUKE JOHNSTON: The total severity  
14 would be, yes, the overall, so adding -- taking all the  
15 claims in their entirety, not worrying about the -- oh,  
16 pardon me. Total loss is like the write-offs; the --  
17 the vehicles that we don't repair, we say we're just  
18 paying out the claim.

19 MR. REGIS GOSSELIN: Oh, I see.

20 MR. LUKE JOHNSTON: Yeah.

21 MR. REGIS GOSSELIN: Okay. And then  
22 the total sever -- the last column, total severity is--

23 MR. LUKE JOHNSTON: It's the total of  
24 repair and the write-offs.

25 MR. REGIS GOSSELIN: I see, okay.

1 MR. LUKE JOHNSTON: Yeah, that's right.  
2 So that was kind of what I was saying on the to -- like  
3 the total loss or the written-off vehicles, we also had  
4 more of -- of those which cost more and then created an  
5 overall increase, so it was even bigger than the two  
6 (2), yeah.

7 MR. REGIS GOSSELIN: So looking at  
8 these numbers in terms of last year's winter experience  
9 --

10 MR. LUKE JOHNSTON: M-hm.

11 MR. REGIS GOSSELIN: -- some of these  
12 would be normal trend-line changes and some of them --  
13 looking at '12, '13, '14 would be some related to the  
14 winter we had. But the trend line is clearly  
15 indicating that those values are going up irrespective  
16 of a particular winter conditions.

17 MR. LUKE JOHNSTON: Well, the -- the  
18 next -- actually, the next slide might be helpful. On  
19 the total loss side -- like this is a -- this is a good  
20 example. What you have here is on -- you know, on the  
21 red line is the Blackbook value, and that's the  
22 valuation tool -- like, one (1) of the tools we look at  
23 for determining what the vehicle's worth if someone was  
24 to write it off.

25 And that's obviously not something that

1 we -- we create. That's an external tool. And the red  
2 line shows the actual changes in the average value of -  
3 - from Blackbook of vehicles that we've written off.

4           And so that -- that trend line is not  
5 something within our control. The -- the green line  
6 above that is what we actually settled the vehicle,  
7 like, the -- the total loss for -- the actual average  
8 severity.

9           And you can see that we've tried to  
10 close that gap a little bit, but at the end of the day,  
11 like, you know, the customer is still entitled to what  
12 the value of the vehicle should be.

13           We don't want to give them less than  
14 what they're entitled to on their insurance, so even if  
15 we were right on that red line all the way up, we'd --  
16 we'd experience those types of severity increases.  
17 Okay?

18           And Mr. Guimond, I think, had showed  
19 this graph already, but you can see on the green line  
20 the average severity growth in collision. As we just  
21 kind of talked about, there's been a spike in the last  
22 few years. Prior to that we had more flat -- flat  
23 experience.

24           Of -- of course, collision is just one  
25 (1) piece of the rate -- rate-making puzzle, so to

1 speak. We've -- we've had other things that have been  
2 fortunate. We've had very flat, stable injury claims  
3 that have helped keep rates down, et cetera.

4                   But when you start getting really  
5 significant collision severity increases, it becomes  
6 more difficult to not have a rate increase, you know,  
7 when -- when you're talking, you know, 6, 7, 8 percent  
8 higher than inflation. Okay.

9                   So, in terms of what -- how much of an  
10 impact did this have on our rate change: So, our  
11 actual physical damage forecast over the rating period  
12 increased by \$26 million per year, and virtually all of  
13 that is changing our severity forecast. And one (1)  
14 thing -- on -- on frequency, if you -- if you say we  
15 had a bad winter, it -- it makes sense to look back and  
16 say, Okay, well, we don't need to put this winter, this  
17 bad winter, in our forecast every year going forward,  
18 rightly.

19                   So if we normally have thirteen (13)  
20 claims per hundred vehicles, and we have a really bad  
21 winter, and we get fifteen (15) claims per hundred  
22 vehicles, do we need to change our forecast to be  
23 higher? Probably not. We can say that's a one-off.  
24 Let's leave our long-term frequency rate the same. And  
25 that'll be a hit to the retained earnings, but not a

1 hit to -- to our rate forecast going forward.

2                   And that's essentially what we did. We  
3 -- we -- our forecast of frequency is largely unchanged  
4 from last year. We took a hit for a bad winter.  
5 Whatever. We dealt with it. We didn't think it made  
6 sense to feed that forward.

7                   Severity is different, though, because  
8 it -- rarely does severity drop. Like, once you're  
9 paying three thousand dollars (\$3,000) a claim, it's  
10 pretty rare for it -- you're not really expecting it to  
11 fall to twenty-nine hundred (2,900), like, in -- in the  
12 repair and -- world. We have had cases where it's kind  
13 of remained flat or had maybe even slight decreases,  
14 but it's rare.

15                   So when you get this big jump, you  
16 almost have to re-baseline your forecast. And if we --  
17 even if we simply just updated our base severity for  
18 the new number, most of that twenty (20) -- you're  
19 going to get most of that 26 million.

20                   We did also increase our -- our trend  
21 rate. We were assuming prior to -- in last year's GRA  
22 that collision severity would grow in the 3 to 3 1/2  
23 percent a year range. We now have that growing 4 to 4  
24 1/2 percent. So that's a -- that is also part of the  
25 26 million, but easily the biggest part is that big

1 bump up in the base.

2                   So from what -- what is my perspective,  
3 as leading the forecasting process? Clearly, I have  
4 lots of data, historical data on collisions. I can  
5 look at trends. I can say, The -- well, okay, the  
6 long-term average is three (3) or three and a half (3  
7 1/2), but -- so there -- there's -- also on that basis,  
8 there's recent trends versus long-term trends. But  
9 there's also the business side of it, right? And so,  
10 per Mr. Guimond's comments, there's changes in the  
11 business we're concerned about. Is the long-term trend  
12 of three (3) still enough? Those types of  
13 conversations have to be had, and we ultimately have to  
14 select a growth rate. So it's -- it's a mix of our  
15 long-term results, some of the short-term big increases  
16 we've seen, and of course, business insight. Okay.

17                   This PIPP reserve review that we talked  
18 a little bit about, never something that an actuary  
19 wants to talk about too much, but I'll -- I'll give you  
20 the history on it. There's -- again, Mr. Guimond  
21 talked a little bit about this. We had a new injury  
22 claims management system go in in 2000 -- late 2010.  
23 And, of course, there's -- there's always some growing  
24 pains with a -- a new system, and case managers have a  
25 lot of things that they need to do other than just put

1 in the reserves that the actuary wants to get put in  
2 immediately.

3                   So initially when the system went in,  
4 the first year we saw some bumps in the -- in the data.  
5 And when I -- when I say, "bumps," I mean actuaries are  
6 looking at the patterns, right? How are these claims  
7 coming in? How fast are they closing? How much are we  
8 paying? Are they -- you know, are they staying open  
9 longer? Shorter? Are the reserves getting put up?

10                   And in the short term, the first year,  
11 we said, Okay, well, the system implementation, it's  
12 probably going to look a little different. There's a  
13 couple issues we had to deal with, like auto reserving,  
14 and et cetera, but those got resolved. But the  
15 expectation was, by year 2 or 3 we should start  
16 reverting back to normal, everybody gets familiar with  
17 the system, it's -- it's all good.

18                   A couple years in, now I'm looking at  
19 patterns and I'm saying, Okay, well, it looks like  
20 we're paying a little bit more, maybe claims are --  
21 some claims -- types of claims are staying open a  
22 little longer so the payments are higher, but the  
23 reserves are lower. So that's -- clearly, that doesn't  
24 -- having more claims and paying more isn't consistent  
25 with having less case reserves. Claims -- there --

1 there's no evidence to me that -- that, you know, we're  
2 having less claims or they're costing us less, so why  
3 should I change my view about what I -- what claims  
4 normally cost?

5                   So what I say is I -- I look at the  
6 claims and I say, You know what, I think if this was  
7 all per the normal way it would be \$30 million more.  
8 And in '12/'13 that's what we did. We added an extra  
9 30 million 'cause, in my view, our exposure was greater  
10 than was being case reserved.

11                   The issue, of course, was -- was  
12 communicated with injury claims management. And  
13 they've -- they committed immediately. You know, we're  
14 just going to review all claims. We're not going to --  
15 you know, and -- and as, again -- as Mr. Guimond  
16 stated, we don't think there's anything intentional  
17 here; people were busy and learning a new system, and -  
18 - and so just update them all.

19                   So what -- what happened that was more  
20 unexpected was particularly claims that were maybe a  
21 little bit older that were being managed during  
22 implementation didn't get the reserves put on that they  
23 perhaps normally would have. And so while we added  
24 extra IBNR for the las -- you know, the -- the last few  
25 years, the unexpected piece was that there's actually

1 reserves added on some of the older years as well. So  
2 when -- when we talk about this net \$26 million hit  
3 we're talking about 26 million more than -- than I  
4 thought would be added when they did that review.  
5 Okay.

6                   So whenever the -- like, a review like  
7 that is done and there's a deviation from what you  
8 budgeted, that's a -- that's a hit to net income. But  
9 how does that affect the forecast? So we didn't -- we  
10 -- we did make some changes to our PIPP forecast, but,  
11 in general, the methodology is -- is fairly similar.  
12 But we have a bunch of restated history. It's --  
13 again, it's -- it's -- you know, they -- we talked  
14 about adding a significant amount of case reserve, so  
15 we have new numbers. We're looking kind of at the  
16 long-ter -- on PIPP we're using looking in the longer  
17 term view; we update our forecasts on that. And it  
18 results in about an extra 5 1/2 million per year into  
19 the forecast, and that is about 0.8. Okay.

20                   MR. REGIS GOSSELIN: Mr. Johnston,  
21 could you -- Johnston, can you go back to the previous  
22 slide just to -- for -- to clarify in my mind? That'd  
23 be --

24                   MR. LUKE JOHNSTON: One (1) more? That  
25 one?

1 MR. REGIS GOSSELIN: -- talking about  
2 the -- the claims management review. You -- you had  
3 estimated 30 million, and it became -- it came out 57  
4 million. So the -- the difference between the two (2)  
5 values represents -- I'm trying to understand why the  
6 claims management would -- would come out higher than  
7 what you had estimated. Is it because it was related  
8 to having paid losses higher and open claims count  
9 higher, but it is also because issues within the file  
10 itself? Is that...?

11 MR. LUKE JOHNSTON: No, not -- not with  
12 the -- with the file itself. I -- I -- there might be  
13 cases like that, but not in general, no. If normal --  
14 I'll talk a little bit about normal reserving  
15 practices, and that -- that'll help explain it.

16 So in the -- for -- for injury claims  
17 that are settled quickly, usually they just come in,  
18 they're dealt with, they're paid, they're settled.  
19 Before I even do my actual report they've already been  
20 kind of dealt with. Those claims I don't worry about  
21 too much unless we look in the forecast and we see that  
22 there's some particular issue, like there's more of  
23 them, or whatever.

24 When claims start -- and then, on the  
25 other extreme, there's some claims that are immediately

1 very bad claims. And you know what, the person's a  
2 paraplegic. It's very clear that the case manager  
3 needs to be looking at lifetime reserves for this  
4 person. They set that up as quickly as possible and  
5 those reserves go in.

6 All -- other claims that go beyond two  
7 (2) years of being open, we have different rules and  
8 case manage -- case reserving guidelines that we use.  
9 If it's a serious claim, we know it's a lifetime claim.  
10 Within two (2) years we need to post lifetime reserves  
11 for that person. So we figured out what they made at  
12 their previous employment, they're not going back,  
13 likely. Post the lifetime reserve, get it in the  
14 system. I need to know that.

15 If it's not obvious that they're a  
16 lifetime, like maybe we can get them back into partial  
17 capacity, we have to use something that we call the  
18 Non-catastrophic Lifetime Reserve. And that actually  
19 includes our expectation of recovery; there's a  
20 adjustment for recovery. By the fifth year, every  
21 claim in this is lifetime reserved, like, per my  
22 instructions. Because what I have generally seen is  
23 once they've been getting, you know, on -- one (1)  
24 claim for five (5) years or more, they're -- they're  
25 generally not going off. We can maybe try to reduce

1 exposure a bit, but they're -- they're here forever.

2 We still try, but on the actuary side I -- try all you  
3 want, this is what I'm booking.

4                   So where -- where -- what happened where  
5 there's a deviation from budget, is that I generally  
6 assume beyond five (5) years for sure that those are  
7 life -- lifetime reserved. So there's not a lot of --  
8 I don't hold a lot of provision in -- in non -- like,  
9 the non-reported provision for those claims 'cause they  
10 should be reserved for life. So in some cases there  
11 was -- there was dollars added that were not expected.

12 And particularly in that two (2) to five (5) year  
13 window of a claim being open, there are some  
14 significant dollars in there. So it appeared some  
15 claims didn't get their lifetime reserves put on, et  
16 cetera. So, yeah, more than I thought. Yeah. Okay.

17                   Okay. Equity return assumption. This  
18 one's fairly straightforward. We -- last year's GRA,  
19 we proposed a 6.2 percent equity return per year in the  
20 2015 GRA. At the -- at some advice from the Board, I  
21 believe, we updated the methodology for that. It's now  
22 -- we now use a 7.3 percent return assumption. That's  
23 the -- the main reason for this improvement.

24                   So just that -- that change alone is --  
25 is most of that \$10.6 million improvement on the equity

1 side. And in the rating period that would be worth  
2 about 1.6 percent on the favourable reduction to rates.  
3 Okay.

4 Okay. Interest rates. Okay. So what -  
5 - what we have -- now that we have interest rates in  
6 the model, we -- we're always going to have expected  
7 interest rate impacts. And what is in this table is  
8 what we expect the effect of interest rates to be based  
9 on the forecast that we're using. So the 2015 GRA, we  
10 have that standard, the bank-based interest rate  
11 forecast that we use. Over the two (2) rating periods,  
12 you can see that 2015 GRA, we're expecting that to  
13 lower claims by 51 million in '15/'16, and by a further  
14 39.7 million in '16/'17.

15 So interest rates go up, discount rate  
16 on our liabilities goes up. that's how it would be  
17 expected to impact claims in those particular years.  
18 Similarly, investment income, interest rates go up.  
19 The value of the bonds is going to have a -- a negative  
20 impact based on the forecasts that we have. Those are  
21 the -- those are the investment income impacts.

22 The -- as you can see the -- the timing  
23 is not always -- like, the -- you know, the -- this is  
24 over a two (2) year period. In the financial model  
25 there are some timing between -- you know, like we have

1 about a quarter between the duration gets adjusted, et  
2 cetera. But, in general, you see the -- the impacts  
3 from this year's forecast, as you might expect, are  
4 positive. We're talking about increasing interest  
5 rates. And claims having a longer duration. I won't -  
6 - I won't get into all that. But the net effect of  
7 interest rate increases is -- is positive for us.

8 In last year's GRA we had a much -- this  
9 was the low growth forecast that we used. We had a  
10 much flatter assumption, at least over the long-term.  
11 But those -- those were the net impacts that we had  
12 forecasted last year. So three-point-three (3.3) and -  
13 - and one-point-six (1.6).

14 And so the effect of the change in our  
15 interest rate forecast between this year and last  
16 year's GRA is those two (2) numbers at the bottom.

17 And if you to the next slide, the  
18 average of those is basically \$14 million, so the  
19 interest rate forecasts is a \$14 million favourable  
20 swing.

21 MS. HEATHER REICHERT: Okay, so with --

22 MR. REGIS GOSSELIN: Mr. Johnston, the  
23 -- the -- the previous year's GRA forecast was based on  
24 the standard rate, right. Wasn't it based on the --

25 MR. LUKE JOHNSTON: Low growth. The

1 low growth methodology. Yeah, so even there is --  
2 again, even though there is a -- a recommendation, I  
3 believe, in the order, what -- everything you're seeing  
4 here is our original application, yeah.

5 MS. HEATHER REICHERT: Okay, so on to  
6 expenses. The total expenses in the 2015 rating period  
7 are \$214.1 million. Again, this is the average for the  
8 rating period which, again, just to be clear, that's  
9 2015/'16 and 2016/'17. That's our -- our rating  
10 period.

11 So the average currently being  
12 forecasted two fourteen point one (214.1); last year  
13 for that same time period, we were forecasting two  
14 hundred and six point seven (206.7).

15 So it's a difference of 7.4 million that  
16 we've increased on average; 4 million of that increase  
17 is due to an increase in the overall expense allocation  
18 to Basic. So it's not due to absolute increases and  
19 expense, but the amount of the total expense that's  
20 been allocated to Basic has increased.

21 And that's increased because one (1) of  
22 the allocators -- one (1) of the more important  
23 allocators is the amount of claims incurred. And when  
24 you have two (2) significantly bad winters of claims,  
25 as we have had, we take a four (4) year rolling average

1 to determine that particular allocator and that  
2 allocator has increased because claims incurred  
3 increased.

4                   So 4 million of the 7.4 million is  
5 because of, again, claims experienced impacting the  
6 allocation of expenses to the Basic line of business.  
7 The balance is due to a mix of the improvement  
8 initiatives; what is happening in improvement  
9 initiatives and the timing of those improvement  
10 initiatives.

11                   So expenses -- just to go a little bit  
12 into the different categorization that we talk about  
13 within the Rate Application as it relates to expenses.  
14 We refer to normal operating expenses, so that's the  
15 day-to-day costs that we incur to -- to operate the  
16 Basic line of business. Improvement initiatives; there  
17 are implementation expenses, so improvement initiatives  
18 are essentially capital projects.

19                   Within those capital projects there are  
20 some expenses that cannot be capitalized and we refer  
21 to those as "implementation expenses." The bulk of the  
22 implementation expenses -- and this is a policy  
23 decision that the -- that the Corporation has made --  
24 when we use our own internal staff on a particular  
25 project and that -- their salaries, well, we could

1 potentially legitimize that it should be capitalized  
2 with whatever that project is, we have taken the  
3 position that we do not capitalize those.

4           So the greatest portion of  
5 implementation expenses is internal staff working on  
6 capital projects. And that amount will vary from year  
7 to year and project to project.

8           Then the other component of improvement  
9 initiatives -- because we are forecasting five (5)  
10 years into the future and most critically the next  
11 three (3) years being the -- the year that we're in  
12 plus the rating years, we have to -- to determine on a  
13 particular capital project, once it is completed, what  
14 is going to be the ongoing expenditures that we have to  
15 make sure that we cover within our premium revenue.

16           So ongoing expenses -- the -- again, the  
17 bulk -- the majority of ongoing expenses relate to the  
18 actual amortization or depreciation of deferred  
19 expenses or capital expenses relating to a specific  
20 improvement initiative. That would be the -- the most  
21 significant component. Other ongoing expenses may be  
22 things like software licensing or maintenance contracts  
23 to support an existing -- or to support a completed IT  
24 project, as an example. Okay? So normal operating  
25 expenses, the basic share, and, again, this our day-to-

1 day operating expenses. Compensation, of course, is  
2 the -- is the biggest. Data processing is another  
3 significant component. And then other is everything  
4 else, from telephone printing, maintenance, all of  
5 those kinds of things, just general security services,  
6 et cetera.

7           The amortization and depreciation that  
8 you see being reflected here, despite what I just said  
9 about ongoing expenses for an improvement initiative  
10 containing depreciation and amortization, that's in  
11 forward-looking forecasts. When a project has not yet  
12 been completed we still have to anticipate, when it's  
13 completed, what's going to happen with amortization and  
14 depreciation.

15           The amortization and depreciation that  
16 you see here is in normal operations for projects or  
17 buildings that we have that are depreciating that is in  
18 the -- it's already a capital project that's been  
19 completed. So this is something that may have been  
20 completed five (5) years ago. It may be a building  
21 that was, you know, purchased or built twenty (20)  
22 years ago that is being depreciated.

23           MR. REGIS GOSSELIN: Mr. Reichert, you  
24 -- you -- when you were talking about depreciation  
25 linked to improvement initiatives, you mentioned

1 service centres being part of the improvement  
2 initiatives. That kind of surprised me. I would have  
3 thought that that would -- no, there isn't? Okay.

4 MR. HEATHER REICHERT: No, no. Service  
5 -- a service centre -- sorry, a service centre would be  
6 one (1) of our assets, one (1) of our buildings. The  
7 amortization or depreciation of it would -- you would  
8 see here. Now, there was a period when there were new  
9 service centres being built. In which case, it would  
10 have been a capital project or a renovation or an  
11 expansion of an existing service centre may have been a  
12 capital project, but there's very little of that that  
13 is currently happening.

14 I guess probably the most recent, and it  
15 -- it was this past year, that there was a new service  
16 centre that was built in Portage la Prairie, as an  
17 example. So that would have been a capital project.  
18 Now that it's completed, it will start to be  
19 depreciated next year, and so that will be contemplated  
20 in our forecasts that are in front of you.

21 MR. REGIS GOSSELIN: But another  
22 example, the -- it wouldn't show up as costs -- costs  
23 attributed to an improved initiative, would it, the  
24 ongoing depreciation linked to that service centre?

25 MR. HEATHER REICHERT: The ongoing

1 depreciation linked to a service centre that has  
2 completed construction would not be showing as an  
3 ongoing expense for an improvement initiative. The  
4 only thing you will see in improvement initiatives  
5 ongoing is for projects that are currently in process,  
6 okay.

7 The next slide. Oh, sorry.

8 MR. ALLAN MORIN: Is it on now? Yeah.  
9 Why would you not allocate internal labour costs to  
10 your initiatives?

11 MR. HEATHER REICHERT: That was a  
12 policy decision that the -- the Corporation made some  
13 time ago in order to avoid the fluctuation of --  
14 because there was a period of time when there was a lot  
15 of projects that were going on, a lot of internal staff  
16 was being used, they did -- we did not want to have the  
17 fluctuations in operating costs that would result from  
18 having a significant number of people on a project not  
19 being charged to operating costs, and then the next  
20 year coming off of project and being charged operating  
21 costs, and, there -- therefore, having a very large  
22 increase in operating costs.

23 So it was -- it was to smooth, I would  
24 say, more the -- smooth the salary costs incurred for  
25 internal staff that were going to continue -- continue

1 to exist --

2 MR. ALLAN MORIN: Okay.

3 MR. HEATHER REICHERT: -- when those  
4 projects were done.

5 MR. ALLAN MORIN: Okay. So if I may as  
6 a follow-up. So how do you kind of measure your  
7 project success? Like, what -- if you're not measuring  
8 labour costs, how do you know whether or not your --  
9 your project is well past budget or -- or it's, you  
10 know, well past the deliverable?

11 MR. HEATHER REICHERT: So we still  
12 budget for the use of internal staff, and it is  
13 budgeted as part of implementation expense as it  
14 relates to a specific project; it's just it's not  
15 capitalized into that project.

16 MR. ALLAN MORIN: Okay.

17 MR. HEATHER REICHERT: So there is the  
18 three (3) components of a budget for any capital  
19 project, being deferred amor -- deferred expenses,  
20 capital costs, sticks and bricks, and then  
21 implementation expenses, which include maybe internal  
22 labour. So it's still part of the budget, just not  
23 capitalized on the balance sheet.

24 MR. ALLAN MORIN: Okay. Thank you for  
25 that.

1 MS. HEATHER REICHERT: Okay.

2 MR. REGIS GOSSELIN: As part of that  
3 process in respect of what we just talked about, do you  
4 actually have employees track their time?

5 MS. HEATHER REICHERT: Yes, we do.  
6 Yes. Any staff that is on a project is tracking their  
7 time that they spend on that project. Yes. Okay.  
8 Let's -- okay.

9 So normal operating expenses, again  
10 remember there's normal and then implementa -- or  
11 improvement initiatives. So normal operating expenses  
12 are not the key driver in our rate increase that's  
13 being requested.

14 The Basic average normal operating  
15 expenses forecasted in the rating years, as I -- as I  
16 mentioned, for '15/'16, '16/'17, is 200.8 million.  
17 That represents an increase of 1.3 and 2 percent,  
18 respectively, in those two (2) years, which is less  
19 than or at what we are forecasting for CPI. CPI is  
20 being forecasted in our out years at 2 percent per  
21 year. So the normal operating expenses are not a  
22 driver in what is causing us to ask for the 2.4 percent  
23 rate increase.

24 MPI is containing our overall expenses  
25 or increases in normal operating despite what I had

1 mentioned before. One (1) of the largest components of  
2 normal operating expense is compensation. So despite  
3 the fact that we have contractual commitments that is  
4 increasing our compensation by 4.5 percent, we are  
5 still able to -- have been able to keep the overall  
6 normal operating expenses within that 1.3 and 2  
7 percent. So compensation expense for Basic -- oh --

8 MR. REGIS GOSSELIN: That 4.5 percent  
9 is over what time frame?

10 MS. HEATHER REICHERT: Pardon me?

11 MR. REGIS GOSSELIN: The four-five (45)  
12 -- the 4.5 percent increase is over what time frame?

13 MS. HEATHER REICHERT: That is on an  
14 annual basis. I -- I'm coming to a -- I can show you  
15 the breakdown. Okay. So our compensation expense,  
16 what you see before you are total compensation  
17 expenses, and then they're allocated to the Basic line  
18 of business. So the total compensation expense Basic  
19 share, as you can see at the second last line there,  
20 start at a hundred and eight (108). That's actual for  
21 2013/'14. The '13/'14 actual at a hundred and twelve  
22 (112). And then is being forecasted to increase, as  
23 you can see, two and a half (2 1/2), five point two  
24 (5.2) and three point seven (3.7).

25 Okay. So why does the compensation

1 expense fluctuate? There -- there are -- I -- I guess  
2 I wasn't counting very well the day that I did this  
3 slide because there are five (5) bullets there. So  
4 there's five (5) -- five (5) main reasons, not four  
5 (4). General wage increases. So these are negotiated  
6 contractual general wage increases.

7           The changes in the number of staff that  
8 are employed, either up or down, will cause the  
9 compensation, obviously, to fluctuate. Changes due to  
10 movement on the pay scale will also cause fluctuations  
11 in the compensation. So people will -- or staff will,  
12 sorry. Staff will move up on the scale based on the  
13 experience that they have in their current job.

14           Another impact to compensation is if  
15 there are job classification changes. So that is a --  
16 a change in the mix of staff. So it may be that we  
17 reclassify positions to be at a lower level than what  
18 they're currently at when we introduced the streamline  
19 renewal. There was a major reclassification done and -  
20 - and there were more lower level positions that were  
21 created or -- or converted into lower level positions.  
22 And sometimes it is in -- in recognition that we are  
23 doing more complex work and positions are reclassified  
24 to a higher level. But it can be both ways.

25           MS. ANITA NEVILLE: A question. What

1 portion of your work force is at top of scale?

2 MS. HEATHER REICHERT: About 50  
3 percent. Okay. And that -- also I'm coming to -- to  
4 that in just a moment as well. And then the fifth  
5 reason that our total compensation can increase is  
6 because of the -- of what might happen with benefits.  
7 And benefits -- our most significant benefit, of  
8 course, is our pension. We are a member of the Civil  
9 Service Superannuation Board pension. And so both the  
10 type of benefits and the cost of those benefits will  
11 impact total compensation.

12 So the general wage increase that I  
13 mentioned. That is negotiated. It's negotiated based  
14 on a mandate that is provided to the Corporation by the  
15 compensation committee of Cabinet in the Province of  
16 Manitoba. So we are provided with a mandate that we  
17 have -- have to negotiate within.

18 The last contract that was negotiated  
19 spanned 2012 to 2016. So we are still within that  
20 contract. And the general wage increase that was  
21 negotiated was zero zero (00), two point seven-five  
22 (002.75), two point seven-five (2.75). Now, it does  
23 go, as you notice, from September to September so it  
24 crosses over our -- our fiscal years.

25 Steps on scale, to Ms. Neville's

1 question. The step-on scale, which is embedded again  
2 within the union contract. Like, every step you move  
3 up in the scale is a 3.5 percent increase, and  
4 currently we are estimating based on our workforce and  
5 where they are on -- on that scale, we're estimating 50  
6 percent will have a step up in the scale in -- in our  
7 forecast.

8                   So that's the equivalent of a 1.75  
9 percent increase in compensation in salaries. So the  
10 two point seven five (2.75) that I -- of the contract,  
11 plus the one point seven five (1.75) on the steps on  
12 scale, that was the 4.5 percent that I was referencing  
13 that is starting to impact us now, that we are in this  
14 portion of our union contract, that we're in '14/'15,  
15 '15/'16. '15/'16, we're starting to see the full  
16 effect of the two point seven five (2.75), plus the one  
17 point seven five (1.75) steps on scale. So that is the  
18 4.5 percent that is now in our forecast.

19                   In the last four (4) years, so from  
20 '9/'10 to '13/'14, this is attempting to break down  
21 what the total impact in dollars was of the general  
22 wage increase. So, remembering that it was, you know,  
23 zero (0) -- pardon me, in 2009, up to September 2012,  
24 the union contract that was negotiated again within the  
25 mandate provided to us by the province, was a 2.9

1 percent increase in each of the four (4) years of the  
2 contract, so in that four (4) -- in those -- in that  
3 four (4) year period.

4                   So, in total, the four (4) years, from  
5 '9/'10 to '13/'14, a 7.6 percent -- sorry, 7.6 million  
6 increase in overall compensation. That's an average of  
7 -- of \$1.9 million over that four (4) year period on an  
8 annual basis, which, when you compound that and  
9 calculated the compounded annual percentage, that  
10 represents a 1.8 percent increase per year in each of  
11 the four (4) years.

12                   The number of staff employed increased  
13 in -- in the four (4) years by a total of 8 million, 2  
14 million on average, and that represents a 1.9 percent  
15 each year in the four (4) years.

16                   Movement on scale. Actually, in the  
17 four (4) years, the movement on scale was a decrease in  
18 compensation, and that was a point five (.5). And then  
19 -- or, sorry, that was a point five (.5) average  
20 million, which worked out to a negative point five (.5)  
21 compound annual.

22                   And then benefits, those increased in  
23 total 5.3 million over that four (4) year period, an  
24 average of one point three (1.3) for a compound annual  
25 percentage increase of five point five (5.5).

1 MR. REGIS GOSSELIN: Why would the  
2 movement on scale be a negative here?

3 MS. HEATHER REICHERT: Because the  
4 movement on scale -- I'm sorry, the movement on scale  
5 included -- and this is why I probably goofed on the  
6 four (4) versus the five (5). This movement on scale  
7 includes both the reclassifications and movement on  
8 scale dueing (sic) to the -- be the experience; like,  
9 the one (1) more year experience. So this was a  
10 combination of both reclassifications that were done to  
11 positions to lower them in the salary grid, and then  
12 also movement by experience. So it was a combination  
13 of both.

14 MR. REGIS GOSSELIN: I find it unusual  
15 that there would be a significant downward in --  
16 downward trend in classifications. What was going on?

17 MS. HEATHER REICHERT: Well, that was  
18 when the streamlined renewal had been -- had been  
19 implemented, and there was a shift in the requirements  
20 or the qualifications required. Like, I -- that's my  
21 understanding. I -- I wasn't here at the time, but  
22 that was my understanding. There was a significant  
23 shift.

24 So overall, in the last four (4) years,  
25 on a compound annual basis, we had a -- an increase of

1 3.6 percent.

2 MR. ALLAN MORIN: If I -- if I may. On  
3 the benefit's side, would you happen to know how much  
4 of that was a -- a result of the pension contribution?

5 MS. HEATHER REICHERT: Sorry, one (1)  
6 moment.

7 MR. ALLAN MORIN: Okay.

8

9 (BRIEF PAUSE)

10

11 MS. HEATHER REICHERT: Are we back to  
12 that? Okay. About half of that was because of  
13 increasing costs of the pension plan.

14 MR. ALLAN MORIN: Okay, thanks for  
15 that.

16 MS. HEATHER REICHERT: Okay. Okay, so  
17 now the next three (3) years which is the -- the year  
18 that we're currently in and -- are two (2) years that  
19 are impacting on the rates. The three (3) year totals  
20 for each of those respective categories, this is what  
21 is being currently forecasted and estimated. So just  
22 to go quickly right down to the compound annual  
23 percentage increase, you'll see the -- the general wage  
24 increase at 2.2 percent. Now, that's higher than what  
25 it was the last four (4) years because the last four

1 (4) years had those zero and zero percentage increases  
2 in there. So this is slightly higher.

3 The number of staff employed. We are  
4 forecasting to decrease compensation by 2.1 million  
5 relating to reducing staff, and that's a -- a point six  
6 (.6) negative compound annual increase.

7 Movement on scale again. Both  
8 reclassifications, as well as movement on -- up the  
9 scale is being forecasted to increase 1.6 percent on a  
10 compound basis. And benefits, still the biggest driver  
11 of our overall increase in compensation at 3.7 percent,  
12 to give a total overall of three point three (3.3). So  
13 not the four point five (4.5) that you would otherwise  
14 expect, and that is because of -- of what we are doing  
15 with managing our vacancies and the number of staff  
16 employed to bring that down.

17 Okay. And other expenses. So this is -  
18 - the last lines were focussing mainly on compensation,  
19 so other expenses, non-compensation expenses and --  
20 and, so not including compensation and not including  
21 depreciation and amortization that are driven by  
22 capital, in the rating years we're forecasting those to  
23 increase by 1.8 percent and 2.7 percent. That second  
24 year, 2016/'17, is increasing a little bit more than  
25 inflation mainly because of one (1) expenditure in

1 particular, and that's to do with the equipment  
2 refresh.

3                   We do an equipment refresh every three  
4 (3) to four (4) years. The next refresh is slate --  
5 slated for '16/'17. That represents 1.2 percent, or  
6 almost half of the overall increase in '16/'17. So if  
7 not for that computer refresh, '16/'17 would be  
8 increasing by about 1.5 percent. Okay.

9                   Improvement initiatives. Two (2)  
10 components again as I mentioned: the implementation  
11 expense and then the ongoing expense. There's a --  
12 these are just the implementation and ongoing expenses  
13 that were forecasted to occur in the -- in the next  
14 three (3) years, and what I've just shown is what of  
15 ongoing expenses was forecasted in '12/'13 and '13/'14  
16 that actually was in -- was incurred.

17                   So a lot of fluctuation here because  
18 they're directly related to the type of improvement  
19 initiatives that we might be doing in any given year.  
20 And the type of improvement initiative will vary on how  
21 much is internal labour that's working on it and,  
22 therefore, implementation expense versus a deferred  
23 expense that -- that another project might have. So  
24 that's why there's a lot of variation in here.

25                   But you can just see it does hover in

1 around, or has been hovering around 9 million. And in  
2 '16/'17, there are some other projects that are  
3 incurring that increasing that to the sixteen (16).

4 Capitalized cost -- sorry?

5 MR. ALLAN MORIN: Sorry, if I may.  
6 Going back to your computer refresh, have you given  
7 consideration to looking at a longer refresh term?

8 MS. HEATHER REICHERT: Not at this  
9 point in time. The last refresh we did was  
10 approximately four (4) years ago. It -- you -- it --  
11 it typically is on the three (3) year cycle, and with  
12 computer systems or computer desktop -- this is mainly  
13 what we're talking about, is computer desktop -- with  
14 the way the technology is changing and the way that it  
15 needs to be maintained and -- and refurbished, that's  
16 been deemed to be the most cost-effective cycle to use.

17 MR. ALLAN MORIN: Yeah, no, I'm --  
18 yeah, I'm familiar with -- and most of them have a  
19 three (3) year refresh.

20 MR. HEATHER REICHERT: Yeah.

21 MR. ALLAN MORIN: But I've seen quite a  
22 few organizations now are -- are extending that term, I  
23 suspect --

24 MR. HEATHER REICHERT: Yeah. So -- so  
25 we've --

1 MR. ALLAN MORIN: -- because of the --  
2 the cost implication.

3 MR. HEATHER REICHERT: Yeah. We -- we  
4 have extended it slightly in that this is really the  
5 four -- year 4. We would have preferred a three (3)  
6 year cycle, but it -- it's turning out to be four (4).  
7 The next slide.

8 So capitalized costs. So this is what  
9 goes onto our balance sheet. And the cost that we  
10 incur in capital, they don't start to hit our income  
11 statement until the project is complete. So deferred  
12 expenses are amortized over five (5) years. Once the  
13 project is complete, capital expenditures, sticks and  
14 bricks or computer equipment that is purchased during a  
15 project, we start to depreciate that as soon as it is  
16 in -- in use, and so it is depreciated over three (3)  
17 years. The year that we acquire that computer  
18 equipment we take a half a years depreciation, and then  
19 it is spread over the next three (3) years.

20 So something like the Physical Damage  
21 Re-engineering Project, which is currently in process  
22 but not completed, you will see in the capital plan and  
23 being forecasted. But it is going to start to hit our  
24 actual income and require rate premium coverage when  
25 it's completed, and that won't be until '18/'19 fiscal

1 year. And then you're going to see -- actually can  
2 see, I guess it's in '17/'18 or '18/'19 in our  
3 forecast, a significant increase in deferred  
4 amortization due to a very significant project like  
5 physical damage re-engineering. So something that  
6 started, you know, six (6) years previously will start  
7 to hit in '17/'18. Okay.

8                   And if I may, this might be a good time,  
9 if -- if folks are wanting a break, I can break now  
10 before going into...

11                   THE CHAIRPERSON:    Sorry, yes, we can  
12 take a short break, maybe, what, ten (10) minutes.

13

14 --- Upon recessing at 2:53 p.m.

15 --- Upon resuming at 3:08 p.m.

16

17                   THE CHAIRPERSON:    Okay, welcome back.  
18 We'll continue with your presentation, Ms. Reichert and  
19 Mr. Johnston. Thank you.

20                   MR. HEATHER REICHERT:    Thank you. So  
21 moving on to investment income. So basic investment  
22 income, I'm showing here the -- what it has been. And  
23 I -- I apologize, I should have put what years were  
24 actual, but, obviously, actual goes right up until  
25 '13/'14, and then it's forecasted or budgeted '14/'15,

1 and -- and then the rating years, '15/'16, '16/'17.

2                   So, obviously, you can see from this  
3 schedule or table that there's a lot of volatility in  
4 investment income. I was going to focus specifically  
5 on '13/'14, the year just past, where we saw a record  
6 147.7 million in investment income.

7                   Now, there were two (2) main reasons why  
8 we had that significant of an investment income.

9 First, and I had mentioned this when I was reviewing  
10 the results for '13/'14, we had forecasted the sale of  
11 US equities, and that generated a gain of 58.1 million.  
12 And then we had the required re-balancing of the  
13 Canadian equities, and that netted fifty-seven point  
14 four (57.4). So those two (2) combined are the reason  
15 we had such a significant investment income in '13/'14.

16                   In '14/'15, you see it drop  
17 considerably. Obviously, we are not forecasting for  
18 that kind of significant gain in sale of equities as we  
19 did have in the prior year. And the other reason that  
20 the forecasted income for investments are so low in  
21 '14/'15 is because we are forecasting increasing  
22 interest rates which decreases the value of our mar --  
23 marketable bonds and creates capital losses in that  
24 marketable bond portfolio.

25                   So that is occurring in 20 -- in

1 '14/'15. And then it's re -- it's recovering a bit in  
2 '15/'16. And then in '16/'17 again we still have the  
3 impact of increasing interest rates. But in '16/'17,  
4 we also have a forecasted additional re-balancing of  
5 Canadian equities within our model.

6 MR. ALLAN MORIN: Perhaps this might be  
7 an appropriate time to ask some questions about that.

8 What is your current investment asset  
9 allocation policy?

10 MS. HEATHER REICHERT: The -- the  
11 current investment allocation policy? If you give me  
12 one (1) moment.

13

14 (BRIEF PAUSE)

15

16 MS. HEATHER REICHERT: Okay. And,  
17 Diana, you do not have to try and put this up on -- on  
18 the screen. I'm just referring to our investment  
19 policy statement which is in the investment income  
20 section of our rate application. So with respect to  
21 fixed income, marketable -- marketable bonds, the  
22 target is -- I'll just give you fixed income in total.  
23 The target is 60 percent. So it goes from a minimum 45  
24 percent to a maximum of 80 percent, but our target is  
25 sixty (60).

1                   And with equities, Canadian equities,  
2 it's minimum twelve (12), target fifteen (15), maximum  
3 eighteen (18). US equities, minimum three (3), target  
4 five (5), and maximum seven (7). And then alternate --  
5 alternative investments, so Canadian real estate, eight  
6 (8), thirteen (13), fifteen (15). And infrastructure  
7 minimum of zero, target of seven (7), and maximum of  
8 eight (8).

9                   MR. ALLAN MORIN:    Okay.  Thank you.  
10 The -- if I may I have just a few more questions on  
11 that.

12                   Would you happen to know when that  
13 policy was established?

14                   MS. HEATHER REICHERT:   The -- the  
15 investment policy state -- or, sorry.  The investment  
16 policy itself is reviewed annually.  But as it relates  
17 to these allocations, this was done at the last asset  
18 liability management study, which I believe was 2008 or  
19 2007, in and around there.  We are currently, as -- as  
20 you know, engaging in another asset liability  
21 management study that will be out later.

22                   MR. ALLAN MORIN:    And that study, if I  
23 may, is that -- is the intent of that more with respect  
24 to immunization from interest rate volatility, or is --  
25 or are you looking also at how you might maximize

1 investment returns through different asset allocations?

2 MS. HEATHER REICHERT: It would be  
3 both.

4 MR. ALLAN MORIN: And you're satisfied  
5 that that study can do both?

6 MS. HEATHER REICHERT: Yes, we -- we're  
7 taking a -- a phased approach. But, yes, we -- we are  
8 comfortable that the scope of the study -- that they'll  
9 -- they'll meet what we're asking them to.

10 MR. ALLAN MORIN: Thank you.

11 MS. HEATHER REICHERT: Okay. Next  
12 slide. Graphs. This is less busy than the graphs last  
13 year when we were showing the forecasted bank interest  
14 rates. This is looking at 2014 General Rate  
15 Application. When we were here in front of you last  
16 year, we were forecasting interest rates along the  
17 green line, that low growth at -- at March 2013. And  
18 what the low growth methodology was, simply, it was  
19 taking the five (5) major banks and Global Insights,  
20 how they were forecasting on a standard basis, which is  
21 that red line with the boxes.

22 We said, Okay, you'll -- you'll  
23 remember. The standard interest rate forecast  
24 methodology, just by taking those averages from the  
25 five (5) major banks and Global Insights, had not been

1 coming to fruition in the last five (5) years. They  
2 were always coming in lower than what the banks were  
3 forecasting. So because of the situation that we were  
4 in we decided to do what we called a risk-adjusted  
5 interest rate forecast.

6           And how we adjusted it, essentially, was  
7 if they said it was going to increase by three hundred  
8 (300) basis points over five (5) years, we said, Well,  
9 maybe it'll increase three hundred (300) basis points  
10 over ten (10) years. So we -- we lowered that slope,  
11 okay? So the standard -- that's -- that's essentially  
12 what -- what the two (2) lines -- the one (1) with the  
13 box, which was standard in March compared to the low  
14 growth in March was the difference between those.

15           When we were in front -- oh, I'm sorry.  
16 The -- the solid line. I apologize. The solid red  
17 line was the standard in March last year, and the green  
18 line was the low growth in March last year. When we  
19 were in front of the panel last fall, we were asked at  
20 that time to re-forecast on the basis of the standard  
21 growth method, which, again, is the five (5) banks and  
22 global without adjusting for any risk assessment. And  
23 that, at that time, was the red line with the boxes.

24           And you can see, at the time that we  
25 were here in the hearing, for -- the interest rates

1 were being forecasted higher than what they had been  
2 forecasted in the -- March, six months previous. And  
3 when the order came out from the Public Utility Board,  
4 it is my understanding, and I -- I was just looking at  
5 this the other day. It was my understanding that part  
6 of the reason why the rate indication that we had asked  
7 for of 1.8 percent was lower to the point nine (.9) was  
8 because of the recent changes that had been seen in  
9 interest rates that were not reflected in our filing,  
10 and that impacted favourably on the current financial  
11 results. And that is the result of that standard red  
12 line with the boxes being that much higher than the --  
13 what the interest rates were that we were using in our  
14 -- our -- in our general rate application. So again,  
15 higher interest rates we benefit from, because it  
16 lowers the -- the claims more than it impacts on our  
17 assets.

18                   So that was the situation in 2014. Now,  
19 today, in 2015, again, we're showing the same actual  
20 line from February '13, that black line of actual.  
21 When we submitted our general rate application for this  
22 year, we used the standard interest rate forecast of  
23 the banks at March 2014. That is the red line, again,  
24 without the boxes. So that's that top red line. If we  
25 had used the low growth methodology that I just

1 explained, it would have been the solid green line  
2 that's just shown below the solid red line.

3                   Updating this information for what's  
4 currently happening, and this -- this particular graph  
5 was updated at the end of September, the standard  
6 September interest rate forecast, the red line with the  
7 boxes, you can see is starting at a -- at the base of  
8 the actual, at -- at August, and it's showing that it's  
9 -- it's going to increase 118 basis points. That's  
10 what the -- the reference is on the far right-hand  
11 corner. If we had applied our low growth methodology,  
12 you would see the green line with the boxes.

13                   So, in this particular situation, what  
14 we have included in our GRA is an interest rate  
15 forecast that is higher than what we are currently  
16 actually seeing at this point in time in the market,  
17 and as was commented on by Mr. Guimond the other day,  
18 the impact of the difference in that red solid line and  
19 the red boxed line is an impact of 1.2 percent on our  
20 rates.

21                   So if we were filing today, instead of  
22 2.4 percent for a rate increase, this graph would  
23 indicate that we should be asking for a 3.6 percent  
24 rate increase. And that's -- that's the -- the  
25 difference in what has happened over the last six

1 months.

2                   So the reverse of what happened last  
3 year at this time, where we were forecasting lower, and  
4 interest rates went higher, this year, we forecasted  
5 higher and the interest rates are lower.

6                   So again, interest rates -- it was only  
7 last year that we actually started to forecast the  
8 impact of interest rate changes in our -- our forecast.  
9 And I think this has already been said, but I -- I'll  
10 just quickly repeat it. In a -- it -- a rising  
11 interest rate environment, the duration -- if our --  
12 the duration of our assets is less than the  
13 liabilities, then if -- a negative duration gap,  
14 there's a positive impact to our net income, and that  
15 is what we are forecasting.

16                   The impact of that interest rate change  
17 is smaller this year compared to last year, because in  
18 order to mitigate the risk of forecasting much higher  
19 interest rates, instead of a duration that was minus  
20 one point eight (1.8) in our forecast last year, we are  
21 now managing our fixed-income portfolio to be at a  
22 duration one (1) year below our claims duration. And  
23 because of that, it doesn't give us as -- as big a  
24 forecast again, but it also protects us a little bit  
25 from what -- if the interest rates go down. But

1 regardless, what we're forecasting as a minus 1.0 year  
2 duration gap, if we use the interest rates that exist  
3 today, we would be asking for a 1.2 percent higher  
4 increase.

5                   And I will now turn again back to Mr.  
6 Johnston.

7                   MR. LUKE JOHNSTON: Thank you. Okay,  
8 rate stabilization reserve, the RSR. So I'll start  
9 with the purpose here. The purpose of the RSR is to  
10 protect motorist from rate increases made necessary by  
11 unexpected events and losses arising from non-  
12 reoccurring events or factors. We've heard that  
13 definition many times in the last four (4) or five (5)  
14 years.

15                   So it talks about protect motorists from  
16 rate increases. And it also talks about unexpected  
17 events, non-re -- reoccurring events or factors. And I  
18 think implied in that definition is you probably want  
19 to have an understanding of what the likelihood and  
20 magnitude of these unexpected events are when you're  
21 setting this particular reserve, right?

22                   Like, it's -- if you want protection  
23 from something, you would like to do as good of a job  
24 as you can to understand what you're getting protection  
25 from, so I'll talk a little bit about that.

1                   Dynamic capital adequacy testing, DCAT,  
2 so what -- what is that? And there's a definition here  
3 a little different than our RSR definition. But it  
4 says:

5                   "A tool to examine the effects of  
6                   adverse scenarios on insurer's  
7                   forecasted capital adequacy."

8                   So this is also talking about these  
9 adverse unexpected events, but it's framed a little  
10 differently. It's talking about how it impacts our --  
11 our -- the adequacy of our capital position, but to the  
12 same -- you know, in -- in terms of the -- what it's  
13 looking at is, again, these adverse unexpected  
14 scenarios. So, at least in my opinion, the two (2)  
15 definitions are after the same idea, protection against  
16 these -- these adverse risks, okay.

17                   So why does MPI recommend this -- this  
18 DCAT methodology for -- for the minimum RSR? So  
19 there's a bunch of points here. I -- I've been told  
20 that people remember three (3) points best, but I got -  
21 - I got more than that, so.

22                   So the first one (1), follow actuarials  
23 -- follows actuarial standards of practice. So I think  
24 that one's important because when this is being  
25 prepared, and we talked about getting assistance from,

1 you know, the other actuaries involved, there are  
2 professional standards that -- that we have to follow.  
3 And you can count on those standards being followed if  
4 an actuary is signing off on such an analysis. So that  
5 -- I think that's a big positive.

6                   Of course, we talked about we want the  
7 risk -- the risk being measured and quantified to  
8 reflect our risks, not someone else's, or not some  
9 general, you know, private sector, whatever you want to  
10 -- want to call it, these are MPI risks, and in terms  
11 of how the risks actually affect us in our regulatory  
12 environment and -- and everything.

13                   The third point, management and  
14 regulatory actions reflect the Manitoba situation. So  
15 I ba -- I made my best effort to portray what I think  
16 this Board would do in situations like this and I've  
17 looked back in past history to get some better  
18 understanding of that.

19                   I think what I've put in there is  
20 reasonable, but, of course, we -- we said we're quite  
21 open to understanding that better, and to the extent  
22 that we improve that in the future, we're definitely  
23 open to -- to doing that.

24                   The -- the fourth point, flexibility.  
25 So if it was a more structured -- I'll talk about the

1 minimum capital test. But there is some flexibility  
2 within actuarial standards to say, you know, I don't  
3 want one (1) in a hundred year risk margin; I want a  
4 one (1) in forty (40) or -- or some -- right. And --  
5 and there's this -- as we've discussed, there's ability  
6 to collaborate and understand, you know, our risks  
7 better and get different opinions and get the Board's  
8 real view. So there's -- there's that flexibility in -  
9 - in the design of it.

10                   This probably should have been the first  
11 point, but I think most importantly you -- everyone's  
12 understanding the risks that MPI has better. So even -  
13 - no matter what our interest rate forecast is, it's  
14 pretty important that we know what the risk of not  
15 achieving that forecast is, or -- or, you know, the  
16 impact of a -- a stock market crash of different  
17 magnitudes and how we think we would respond to those  
18 events. So that -- regardless of whether the D -- what  
19 the DCAT's used for, if that -- that reason alone is a  
20 very important reason.

21                   The last two (2) points. I put MPI DCAT  
22 in brackets because I don't have access to everyone's  
23 DCAT report -- like, every actuary's DCAT report. I  
24 don't know how transparent other DCATs are. Different  
25 companies may have proprietary models. They run things

1 through their model, they give an output, and they say,  
2 This is our output, any questions? Like, there's no --  
3 so I think -- I don't think, I know that I'm held to a  
4 higher standard in -- in this forum to be transparent,  
5 to show how the scenarios are developed.

6                   The financial model. We've talked about  
7 that. We, you know, tried to provide, you know,  
8 printed versions and output to be as transparent as --  
9 as possible in terms of how -- how we did the analysis.

10                   And other DCAT reports. Again, they're  
11 probably not as collaborative if the actuary or the  
12 actuarial firm do their work. Of course, they're going  
13 to talk -- if they're doing it as a consultant there,  
14 of course they're going to talk to the -- to the  
15 business and get information. But this is a more --  
16 intended as a more collaborative, in terms of the  
17 design of the assumptions and the scenarios. And  
18 that's, I think, unique to MPI for sure.

19                   Okay. Per the -- per your question,  
20 retained earnings versus total equity. When -- when we  
21 were designing the report we're -- we have two (2)  
22 things going on. We have a current methodology, which  
23 is the rate stabilization reserve. So I felt it was  
24 important to give a recommendation using the existing  
25 terminology and -- of the RSR.

1                   There has been debate and re -- and  
2 recommendations over the last few years about inclusion  
3 of AOCI and how the DCAT recommendations should be  
4 made. And so we have moved to -- in the DCAT report to  
5 make the opinion based on total equity. So we actually  
6 show both the imp -- show the impacts to retained  
7 earnings and total equity in our scenarios. So that  
8 was to meet recommendations from the PUB actuary and  
9 the external actuary.

10                   As I mentioned, the -- our external  
11 actuary, Joe Cheng, recommended that we include AOCI in  
12 our analysis. And, as -- as we've mentioned, our  
13 preference would be to use a total equity target. It  
14 would com -- the report would comply better with  
15 actuarial standards and it would be consistent with our  
16 upper target. And I'll talk more about the upper  
17 target.

18                   Okay. Minimum capital test, a brief  
19 definition. So this is a external test developed by  
20 OSFI, Office of the Superintendent of Financial  
21 Institutions. It is a private sector test. The req --  
22 required capital is determined by applying various  
23 factors to different items on your balance sheet.  
24 Different coverages would have higher factors.  
25 Different asset classes would have higher or lower

1 factors depending on the risks.

2                   What's great about it, obviously, is  
3 it's -- it's standardized. It's not -- you can -- and  
4 you can compare it between insurers 'cause of the  
5 methodology is essentially the same and subjective.  
6 It's not Luke Johnston's DCAT; it's the -- it's the MC  
7 -- MCT test and then everyone's going to apply it in a  
8 similar way.

9                   At the end of the day you get two (2)  
10 figures, the capital available and capital required,  
11 and you get this ratio called the M -- MCT ratio. And  
12 private sectors -- sorry, private insurers have a  
13 minimum supervisory target of 150 percent. And the  
14 average, I think, is about 225 percent.

15                   I -- I have a slide later, but I believe  
16 MPI is roughly 40-something percent right now. Okay.  
17 So, I -- I -- at least in my opinion, I think it's  
18 really clear why MPI wants to use the DCAT as the  
19 minimum target for the reasons on -- on the other side.

20                   Why -- why this upper target with using  
21 MCT? Well, as I mentioned, it is an objective measure  
22 that's -- that is independent of -- of the DCAT  
23 analysis. Whatever we ultimately settle on in  
24 collaboration with other parties, if that is the method  
25 that we use, this method is independent of that. And

1 it gives the Board a view that's completely, you know,  
2 independent of what we come up with on the DCAT.

3           And, again, it's comparable. Other  
4 insurers -- other public insurers do utilize it, so it -  
5 - it's helpful too to see not only what SGI and ICBC  
6 targets are, but also what their actual MCT scores are.  
7 So that's -- that's good information.

8           It's o -- we're -- we're only proposing  
9 as an upper capital target, so it's not the basis for  
10 our -- our minimum. I just -- so the DCAT is still --  
11 it's the made in Manitoba DCAT, all our risks, that's  
12 our minimum we're proposing.

13           We do know that some sort of range is  
14 required in which you're going to stabilize rates, so  
15 this seemed like a very good selection for the -- well,  
16 the reasons I just mentioned, beyond that DCAT target.

17           And, again, as I men -- as I mention on  
18 the bottom, this upper target -- this isn't the  
19 minimum, this is the upper target -- our upper target's  
20 si -- significantly lower than -- than the private  
21 sector minimum target and it's actually lower than --  
22 SGI and ICBC are both around the 100 to 130 percent.

23           So, we've had these DCAT technical  
24 conferences, and the Corporation's talked about being  
25 more collaborative and really wanting to get this DCAT

1 method approved by the Board.

2                   And, so, I thought it would be helpful  
3 to go through some of the things that have been  
4 achieved from those conferences because we -- they -- I  
5 -- I think everybody viewed them as quite -- quite  
6 favourably.

7                   So, just going through the list, we want  
8 a report that follows actuarial standards so if there  
9 is any issue whether they are being followed, for  
10 example, the AOCI issue, we dealt with that.

11                   Inclusion of balance sheets. We didn't  
12 have balance sheets. Those were included.

13                   Improved disclosure and reconciliation.  
14 There's been some efforts there with the additional  
15 exhibits and printed financial models and that type of  
16 work.

17                   Multiple risk tolerance levels. So the  
18 Board has -- it's not just my opinion on what the  
19 tolerance level should be; there's a few other options  
20 and even if the Board doesn't like those three (3),  
21 they can, you know, have a -- a gauge as to what -- you  
22 know, what it looks like at different levels.

23                   Results over multiple time periods.  
24 That was one (1) from our external actuary, and I'll  
25 talk a little bit about that because it's important to

1 know not just what the worst thing that can happen over  
2 four (4) years, but what's the worst thing that can  
3 happen in one (1) year, two (2) years, three (3) years,  
4 and results within -- without management action so you  
5 can see what it would look like before MPI or the Board  
6 act, and then what it would look like after.

7                   Okay, so that was the first technical  
8 conference.

9                   And this is from MPI's perspective. I -  
10 - I'm -- I'm sure I'll get questions on -- on some of  
11 these. DCAT technical conference part 2 -- we tried to  
12 work a little bit towards standardized output, so we  
13 have expanded the output a little bit.

14                   I don't know if we're completely there,  
15 like, we've -- we -- we provided, for example,  
16 standardized output for each scenario and the entire  
17 financial model printed out, so I'm hoping we're close.

18                   We did, you know, try to run through the  
19 financial model with everyone involved to give everyone  
20 an improved understanding of that model so there's a  
21 better comfort in -- in the work that's being done.  
22 We've included MCT ratios in the model, and -- and  
23 again, the last one, the -- we now evaluate financial  
24 condition using total equity.

25                   So in the -- in the DCAT report, we

1 identified four (4) key risk areas or scenarios, and  
2 they're -- they're as follows. There's interest rate  
3 scenario. I guess they're pretty obvious to everyone  
4 why that one's important. We've seen some of the  
5 impacts, the equity returns, claims that incurred, and  
6 a combination of those events. The -- the last few  
7 years with the -- with the back-to-back 70 million  
8 losses. It's not like just one thing happened, right?

9                   And that's why we've got our -- realize,  
10 like, sometimes there's a -- we were actually fortunate  
11 to have some favourable equity results in those years.  
12 If we even had moderately poor results, they would have  
13 added to those numbers. And actuarial standards  
14 require that we actually look at a whole -- a list of  
15 different risks, along with any else -- anything else  
16 that I might identify. We do that, but they just  
17 weren't identified as being the top, you know, three  
18 (3) to five (5) risks.

19                   So are these -- it -- the -- over the  
20 years, there's been a lot of questions about, are these  
21 scenarios plausible? Are the assumptions that I'm  
22 using realistic? So we tried to design scenarios that  
23 meet -- that -- that will meet the requirements we  
24 have, and again, in this -- in this forum. So what I  
25 mean by that is, if I create this prop -- proprietary

1 model, and run a bunch of numbers, and spi -- and spit  
2 it out, and show the Board, and say, It's 200 million,  
3 that's not going to work, all right?

4                   So we want -- so the models are --  
5 you'll see are designed on historical data. It's large  
6 samples of historical data, whether it's clin -- hist -  
7 - you know, our claims' history or our equity history,  
8 or interest rate history, regardless of what you think,  
9 you know, there's diff -- maybe different opinions on  
10 how much history should be used, the -- they're based  
11 on historical information. So it's not -- you know,  
12 it's not secret to anybody. I can send your advisors  
13 all the history we used, and they can look at it, okay?

14                   The other benefit of that approach is  
15 whatever you ultimately select as your history for  
16 modelling purposes is it becomes stable. So if you --  
17 if we decide 1956 to present for equity returns is the  
18 historical information we want to use for our  
19 modelling, well, adding one year of equity returns to  
20 that history isn't going to change our model that much.  
21 So -- and again, it's -- it's easily verifiable that  
22 that's true.

23                   The collaborative -- I think we have  
24 shown a genuine interest in collaboration. I -- I --  
25 you know, I'm not overly concerned that I get some

1 particular number. I'm -- I'm concerned that we get  
2 something that the Board agrees with that meets  
3 actuarial standards. That's all -- that's all that  
4 we're trying to get to. And so when Mr. Guimond says,  
5 Hand over the pen, I take that more to mean that the --  
6 you know the actuaries in the room should be able to  
7 agree -- agree on scenarios that meet actuarial  
8 standards and measure the -- the risks of the Basic  
9 program. Like, that's something we should be able to  
10 do, and I think -- I think we're very close to that.

11 Management action, of course, reflecting  
12 the management -- the Manitoba situation and the -- it  
13 has to do that if it's a plausible -- going to be a  
14 plausible scenario. And transparency. I -- again, I  
15 talked about we have provided -- definitely have  
16 provided a lot of information, and if there is anything  
17 that, you know, like -- outside of emailing the whole  
18 entire financial model, which we're -- we've -- we've  
19 told you that we're -- we're not in favour of doing.  
20 We've printed out the whole financial model. But if  
21 there's anything else that we're -- haven't been  
22 transparent in providing, we would definitely like to  
23 know, and -- and try to get there.

24 MR. REGIS GOSSELIN: Just to repeat the  
25 question I asked earlier in respect of the minimum

1 capital test versus the -- expanding the range of -- of  
2 years considered for the -- for the DCAT in terms of  
3 other scenarios. And so I suggested, you know, we have  
4 a lower end one (1) in forty (40), for example. And  
5 then the upper end would be one (1) in a hundred. I'm  
6 using that as a -- as a --

7 MR. LUKE JOHNSTON: I see.

8 MR. REGIS GOSSELIN: -- yeah, a proxy  
9 for -- for choice. So -- so set -- setting your range  
10 on that basis, what about that versus the upper end  
11 being the MCT? And -- and you've heard -- I'm sure  
12 you've heard the argument from the various parties in  
13 this room about the merits of using MCT for a Crown  
14 Corporation backstopped by government and on and on?

15 MR. LUKE JOHNSTON: So I'll -- I'll  
16 split it up. Like, so the -- the rationale we have for  
17 the MCT are kind of per my previous slide. I do think  
18 it's -- it's important that the -- it is a objective  
19 measure that gives you that kind of independent  
20 assessment of our risks. And -- and, you know, whether  
21 it's a hundred percent or some other number, at least  
22 you have a standardized measure that you can compare to  
23 other insurers.

24 So in terms of the issue of this range  
25 that -- that we're looking at, so I don't -- off the

1 top of my head I don't know what the one (1) and -- say  
2 one (1) and forty (40) to one (1) and a hundred or one  
3 (1) and twenty (20) to -- that's something that we  
4 could look at.

5                   The whole discussion on the size of the  
6 range would be important because I don't know what --  
7 again, what size of range that that would produce, but  
8 we're definitely in favour of this DCAT-based approach.

9                   So if -- if we can move to a methodology  
10 that's looking at a lower and upper range based on the  
11 DCAT, that's definitely something we'd be interested in  
12 talking about. If -- again though, that doesn't change  
13 my view on -- on why the MCT measure itself is very  
14 important for this Board to -- to have available and --  
15 and know about. And -- and again, we've used it in the  
16 context of giving you that objective measure and, also,  
17 giving us the upper range.

18                   MR. REGIS GOSSELIN: Now, we had a  
19 discussion, Mr. Guimond and I, about the embedded  
20 formulas used to generate the values for the adverse  
21 scenarios. You know, the -- in the -- in your model  
22 there are formulas that are embedded in the spreadsheet  
23 generating the values.

24                   And I -- and I guess Mr. Guimond said,  
25 Well, you know, there's -- that's commercially

1 sensitive information. I -- I didn't get that. And I  
2 -- I'm wondering what's -- what's commercially  
3 sensitive with respect to those formulas?

4

5

(BRIEF PAUSE)

6

7 MR. LUKE JOHNSTON: So the question in  
8 regards to the -- the sharing of the -- the financial  
9 model? Yeah, there -- there's different views on this.  
10 But my view in terms of -- this is our entire financial  
11 model, including the other -- you know, the other lines  
12 of business that we have. We've put a lot of effort  
13 and money into the model. And we're -- we're obviously  
14 concerned with just handing it over to anybody and  
15 letting people plug and play with the results, right.

16

17 So we're -- we're -- we -- you know, we  
18 want to protect both the -- the model that we've  
19 developed and, you know, the concerns that -- that the  
20 answers come out of the model, right. Well, and, yes,  
21 and the other -- of course, the other lines of business  
22 that aren't -- aren't part of these hearings. So  
23 that's -- that's the concern.

24

25 And we're -- we're definitely trying to  
find a way where we can give the Board the confidence  
they need in the model. And I -- maybe what you're

1 saying is printing it out doesn't get you there, but  
2 hopefully there's another way we can do that without  
3 just, you know, sending the whole model, like, just  
4 kind of freeform to do whatever you like with it kind  
5 of thing.

6 MR. REGIS GOSSELIN: That's the answer

7 --

8 MR. LUKE JOHNSTON: Yeah.

9 MR. REGIS GOSSELIN: -- I expected, so.

10 But, yeah, thanks for --

11 MR. LUKE JOHNSTON: Thanks.

12 MR. REGIS GOSSELIN: -- clarifying --

13 clarifying that for me. I guess the other question I

14 have is in respect to AOCI given the fact that it's

15 highly variable from year to year based on market

16 conditions. And do you propose to use that for

17 calculating equity?

18 So, you know, we have model to -- to --

19 you know, we have a good model to establish the

20 consequences of adverse scenarios from a financial

21 perspective. And then we have this OCI piece which is

22 going like this. And so do you see a difficulty with -

23 - with that approach? I mean...

24 MR. LUKE JOHNSTON: Well, it's -- we

25 have talked about that in -- in other hear -- hearings

1 and talking about, well, you know, we would like the  
2 Board to look at the AOCI balance before they make  
3 decisions about rebates or building fees. You know, so  
4 either way, right, if you -- if you're contemplating a  
5 rebuilding fee and you had a enormous positive AOCI you  
6 might -- you know, you might want to wait, right? Or  
7 similar, if you had a rebate and you had a really  
8 negative AOCI balance it might -- you might want to  
9 consider not rebating.

10                   So this -- this really puts it all into  
11 the -- into the analysis so you can see the full  
12 effects of that. You're -- you're absolutely right  
13 that the swings on something like equities are going to  
14 be much larger in the short term that shown for  
15 retained earnings. But what's nice is you now have  
16 both. And you can see that on a total equity basis,  
17 the recommendation's a little bit higher, but not, you  
18 know, so high that it -- it's -- yeah, at almost the  
19 same. Yeah.

20                   MR. REGIS GOSSELIN: I guess the other  
21 thing that -- that struck me when I saw some of the  
22 data that was generated through this -- through the  
23 hearings and the technical conferences was the -- the  
24 fact that management action can have a tremendous  
25 impact on the level of -- of DCAT that's required. In

1 other words, if you assume management action somewhere  
2 along the -- along the way to address an adverse  
3 scenario that's been encountered, it has a tremendous  
4 impact on the level of DCAT that you require. And you  
5 haven't -- I haven't heard anything so far that talks  
6 to whether or not to consider management action as part  
7 of a -- a DCAT -- part of establishing a DCAT and  
8 approving DCAT level.

9 MR. LUKE JOHNSTON: Well, it is -- it  
10 is required to show the results, including management  
11 action. Because it -- it -- clearly, we -- we won't  
12 sit still in -- when an adverse event occurs. So  
13 you're right that there's -- there is a massive change.  
14 And I -- and there's an example in your -- doing that.  
15 So some -- some of these scenarios while we'll say, you  
16 know, it's 200 million after management action. Again,  
17 it's important for you to look what was required to --  
18 to even bring it to 200 million. Like, you might have  
19 had to put in multiple rate increases and -- and  
20 rebuilding fees just to get there.

21 But it -- again, actuarial requirements.  
22 And -- and just the requirements of doing this in  
23 general. Like, even if there was -- this wasn't the  
24 DCAT, it was just something else, you'd want to put  
25 that in there to make it realistic as possible in terms

1 of what you'd -- what you'd really do. Yeah.

2 So just -- why are these graphs in here?

3 Well, I want to -- what I wanted to do was to -- to  
4 illustrate the -- the stability of the models that we  
5 currently have, just to give the Board some confidence  
6 that we -- if -- you know, whether we're there now or  
7 we are almost there, we can create models like this  
8 that have a level of stability. So you're -- you know,  
9 but the DCAT target hasn't fluctuated significantly  
10 since we started doing it internally. But we can  
11 design models that give a relative level of stability  
12 if the risk -- if your risk levels stay the same. If  
13 you decide to just get out of equities completely,  
14 obviously the DCAT number's going to go down.

15 But exclusive of changes in your risk  
16 profile, the -- the scenarios are stable. So this --  
17 this model on the screen here is just showing us  
18 modelling our variability in -- in claims. And we have  
19 a model that we si -- we use to simulate claims data.  
20 And it shows that, you know, as -- as more years -- you  
21 know, this is like the one (1) year range. You've kind  
22 of got a -- you can go from kind of minus fifty (50) to  
23 plus 100 million over your budget.

24 And then for other years it kind of, you  
25 know, it spreads out a little bit, but it's not as

1 extreme as the one (1) you're -- it's not like the one  
2 (1) year scenario four (4) times, right? You -- you  
3 have -- you -- you make a best estimate forecast and it  
4 kind of smooths, so.

5                   If you go to the next one (1).  
6 Similarly, equity returns, a lot of talk about this  
7 recovery issue. I -- I can tell you that we -- we  
8 definitely model recoveries because we used the actual  
9 equity return history. So if you look at this graph,  
10 the blue line's the one (1) year. And you can see that  
11 the -- you know, there's this likelihood of this 40 --  
12 30, 40 percent decline on the one (1) side.

13                   But when you start modelling two (2),  
14 three (3), four (4) years, you see actually it shies  
15 away from the negative return because you got the  
16 recovery. So -- and, of course, we're not just -- and  
17 when we model these things we're not just -- when we  
18 model these things, we're not just showing the bad  
19 things that can happen. You can see on the other side  
20 there is hypothetical as scenarios that have actually  
21 happened where we had incredible equity returns.

22                   So they're all -- they're all being  
23 modelled. The -- one (1) of the -- the question was  
24 asked multiple times in the IRs was: How come you're  
25 not including recovery in -- in the scenarios that you

1 ran?

2 Well, in the case of equities, the worst  
3 hit we took were over short periods of time, so in  
4 terms of the actuary modelling these items, if it's  
5 true you can have a two (2) year hit that puts you in a  
6 negative 50 million totally equity position, if that's  
7 the worst possible scenario, you need to model that and  
8 -- and show that.

9 I realize there will be recovery after  
10 that, but at that point in time it's saying that  
11 there's legitimate two (2) year scenarios where we  
12 could just wipe out all our retained earnings. And  
13 that's -- that's important to know.

14 So -- but they are all -- all the  
15 scenarios are -- are in there for -- for viewing.

16 And then -- so this one is going to be  
17 debated, but why -- why did we model insurance rates  
18 this way and the way we did it was we said, How --  
19 historically, how much have interest rates varied from  
20 their current level, over one (1) year, two (2) year,  
21 three (3) year, four (4) year.

22 And one (1) of the reasons we did this  
23 is because we're in a completely unique interest rate  
24 environment, so whatever I do, I have nothing to  
25 support my assumptions if I just say, well, I think

1 it's going to go up or I think it's going to stay the  
2 same or -- so I get in that issue again where how do I  
3 give you some credible -- some kind of credible model  
4 that has -- is tied to history and you can verify and  
5 everything.

6                   So we looked at the historical changes,  
7 again, like I -- from the current rate, over time, and  
8 we got these graphs and they're actually surprisingly  
9 normal bell curve looking type graphs.

10                   And in order to not get unrealistic  
11 outcomes, we said we better put a floor on this  
12 interest rate so it can't fall into, you know,  
13 ridiculous numbers like negative interest rates, right.

14

15                   So we put -- we put a floor on it. The  
16 other really significant benefit is by using the same  
17 period we used for equity returns, we can correlate the  
18 two analysis that, you know, so if -- if there's a  
19 correlation between equities and interest rates, it's  
20 modelled.

21                   So -- and then, yeah, and then lastly,  
22 by using a model like this, it's stable. So for any  
23 starting level of interest rates you have this model  
24 that looks at probabilities of up or down movements  
25 based on history. And, again, you can apply some sort

1 of floor that, again, our actuaries can agree on.

2 It doesn't necessarily have to be my  
3 number, but I thought this was the best way for us to  
4 meet all those other requirements that I put on the  
5 earlier slide that could satisfy this Board of  
6 something stable, credible, verifiable, that -- all  
7 those key things. Okay.

8 So as I mentioned, there's -- there's  
9 scenarios -- we -- we do show scenarios before  
10 management action and there's -- in -- in this slide,  
11 we're showing the actual RSR balance, but before  
12 management action we simulate combined scenarios that  
13 would actually drop our RSR balance to negative 220 --  
14 21 million by '18/'19, and the other scenarios to a  
15 lesser extent.

16 So what we're saying is, like, even if  
17 you look at the interest rate one, our interest rate  
18 scenario is modelled based on the slide I just -- I  
19 just showed you.

20 Even if we just said interest rates stay  
21 flat, the -- the negative impact would be enormous if  
22 we did nothing, right -- if we didn't have any rate  
23 increases or surcharges, it -- it would be significant.

24 So, we've -- we've talked about if -- if  
25 interest rates stay flat, it might be, like, 5, 6, 7

1 percent rate increase, like, so I think we already know  
2 that.

3                   But for the other scenario, like --  
4 like, equity decline, okay, like, when we put in, you  
5 know, these rebound assumptions, it's not as horrible  
6 as maybe people would have thought based on the models  
7 that we have and that are based on history.

8                   So, similar with high loss ratio; it's -  
9 - zero wasn't a good number, but it's not as  
10 significant as some of the other scenarios, okay.

11                   I won't stay long on this, but  
12 basically, this is -- I talked about trying to do  
13 realistic management and regulatory action grading.  
14 Like, when we do the scenarios, we said, Well, of  
15 course we're going to keep applying for break-even  
16 rates. So whatever we think, you know, based on the  
17 new numbers, the break-even rate is, we assumed that  
18 we'd apply for it to the Board automatically.

19                   We put in a rule saying that the Board  
20 wouldn't order combined rate increases or rebuilding  
21 fees over 5 percent. That's a judgmental assumption,  
22 but I'm going off of some history that I have where the  
23 Board hasn't put in more than 2 percent surcharge at a  
24 time, for example. And we just -- we thought 5 percent  
25 was a realistic cap in terms of how -- you know, if we

1 had a bad year, we wouldn't just surchar -- you know,  
2 surcharge 10 percent.

3                   It's -- and then at -- at the bottom,  
4 and all -- the capital transfers. Mr. Guimond has  
5 talked about capital transfers, but in terms of  
6 assessing the risk of Basic, I can do that  
7 independently of -- pretty much independently of  
8 capital transfers in the sense that the risks -- the  
9 variability of the risks on Basic is the same. Like,  
10 for equities, whether we have some extra money in the  
11 bank, or we don't. How you -- how fast you rebuild the  
12 RSR. Of course, it's helpful to have a -- competitive  
13 lines, retained earnings to rebuild. Like, definitely.  
14 And -- but it doesn't change the risk level for -- for  
15 an equity for a stock market crash. Okay.

16                   To your point about management action,  
17 this -- in this combined scenario, we, of course, have  
18 the -- what we applied for in '15/'16, but in '16/'17,  
19 we got in big trouble right away, and it's just -- we  
20 need to rebuild RSR, 5 percent. And what's -- what's  
21 interesting about the interest rate scenarios is that  
22 if interest rates were to stay the same, my expectation  
23 is that we're going to continue to get these bank  
24 forecasts that say they're going to go up.

25                   And that means every year, you come to

1 this forum, and you -- interest rates are going to up,  
2 and you're going to keep asking for a rate increa --  
3 but less than you need. And I don't have any reason to  
4 believe that the banks are going to just let a flat  
5 forecast all of a sudden. From what I can tell,  
6 they're just going to keep producing these mean-  
7 reverting models that bring interest rates back to  
8 historical norms, whether everyone will -- believes  
9 that or not.

10 But what happens, of course, is if the  
11 interest rates don't materialize, you take a massive  
12 RSR hit. And it -- until you can respond to it through  
13 a rate change. So that's what happens here. And then  
14 more moderate rate in -- rate -- rate increases after  
15 that. But even those numbers which don't seem too  
16 outrageous -- there's a 5 percent surcharge or  
17 rebuilding fee, and then two (2), and another  
18 additional two (2), and then a 2 percent rate change.  
19 If you look at the bottom, the impact of management  
20 action by the '18/'19 year is an extra \$181 million.  
21 So all those rebuilding fees and rate changes have  
22 generated a massive amount of money, but of course, the  
23 Manitobans are -- are paying for that in the rates.  
24 Okay. When -- and then all -- in terms  
25 of how do we get our targets, at the end of the day,

1 we're saying, We put in all that management action.  
2 What -- what is the change relative to the base  
3 forecast? And for this scenario, which was the worst  
4 one, \$194 million reduction in retained earnings, than  
5 a \$213 million reduction in total equity? And that's  
6 where the recommendations come from. So we're saying  
7 regardless -- you know, maybe -- if we have some other  
8 work to do on the models to get the -- you know, Mr.  
9 Pelly and possibly people from CAC to agree, fine, but  
10 the same -- same kind of outcome in terms of how we had  
11 looked at, and maybe just moderately different, but  
12 that's how we measure it. So add \$181 million of  
13 management action to that -- to those numbers, and you  
14 kind of get what they were before we put that  
15 management action in.

16                   Okay. And, yeah. Lastly, just the MCT  
17 ratio. We're currently at a 42 percent MCT ratio. I  
18 already told you that private insurers use SGI, ICBC to  
19 target roughly a hundred percent. It doesn't mean we  
20 have to, but that -- that's what they do.

21                   Our implied MCT ratio, based on the DCAT  
22 target, is about 65 percent, so. But what we're recom  
23 -- you know, the equivalent of what we're recommending  
24 on DCAT is 65 percent MCT. That puts it into some  
25 context.

1                   And that's -- that concludes our  
2 presentation.

3                   MR. ALLAN MORIN:    You mentioned that  
4 SGI, and, I guess, BC have a target of 100 percent.  
5 Where are they in reality though?  Would you happen to  
6 know that?

7                   MR. LUKE JOHNSTON:    I can undertake to  
8 do that, yeah.  I -- I do know, I just -- not off the  
9 top of my head, yeah.

10                  MR. ALLAN MORIN:    Thank you.

11

12 --- UNDERTAKING NO. 19:       MPI to provide actual  
13                                   values of SGI and ICBC

14

15                  THE CHAIRPERSON:    Okay, thank you very  
16 much.  I'm looking at the time.  It's four o'clock, so  
17 I'm assuming we will not start any cross-examination at  
18 this time.  I am going to call the proceedings to an  
19 end for this afternoon, and we'll begin again on  
20 Tuesday at 9:00 a.m.

21                   I also believe in the afternoon, at 1:00  
22 p.m. we may have a presentation.  I'm not sure.

23                  MS. CANDACE GRAMMOND:    We actually have  
24 a presenter at 9:00 a.m. on Tuesday.  It's the motor  
25 dealers.  Oh, we have two (2)?  Okay, sorry, Ms. Dubois

1 is holding up. So we've got two (2) presenters coming  
2 on Mon -- on Tuesday at 9:00, and then we've got one  
3 (1) coming first off in the afternoon. Oh, no, one (1)  
4 of them's been moved to the afternoon. Yeah, so  
5 there's one (1) -- one in the morning and one (1) in  
6 the afternoon. These are presenters that were not able  
7 to present yesterday or -- I'm sorry.

8 THE CHAIRPERSON: Oh. Okay, thanks.  
9 Mr. Williams...?

10 MR. BYRON WILLIAMS: I can just  
11 indicate that we had initially scheduled Dr. Simpson  
12 for November the 4th, and we're currently canvassing  
13 alternative dates for him to appear. And we're  
14 looking, with the guidance of MPI and Board council,  
15 both at kind of full days that he can make, or also,  
16 alternatives where -- because of his academic  
17 obligations, he might come a bit later. And perhaps we  
18 -- we might go a bit later.

19 These are obviously the Board's  
20 decisions, not ours, but we'll propose some alternative  
21 dates for the Board's consideration.

22 THE CHAIRPERSON: Okay, thank you very  
23 much. Okay, hearing nothing else, I wish you well for  
24 the weekend, and this will close the hearings for  
25 today. We'll see you Tuesday at 9:00 a.m.

1 --- Upon adjourning at 4:03 p.m.

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5 Certified correct,

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11 Cheryl Lavigne, Ms.

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