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MANITOBA PUBLIC UTILITIES BOARD

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

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 12th, 2006
Pages 1260 to 1507

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25

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1 --- Upon commencing at 9:10 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. CAC/MSOS witnesses are more than likely
5 detained in traffic so we're going to make an adjustment
6 and return to Mr. Dawson.

7 And, Mr. Dawson, you can be assured you'll
8 be allowed to complete regardless of their arrival time.
9 We'll switch over to them after that.

10 Before I begin, I'm just noting every day
11 it seems to be another surprise in the papers and today
12 we have two (2) more articles from the Fraser Institute
13 and they seem to be an annual event. But in any case, if
14 MPI wants to put something on the record with respect the
15 Fraser's choice of parameters for their study or
16 something of that nature you'd be most welcome to,
17 perhaps after break.

18 Mr. Dawson, would you like to begin?

19

20 MPI PANEL:

21 BARRY GALENZOSKI, Resumed

22 DON PALMER, Resumed

23 MARILYN MCLAREN, Resumed

24 WILF BEDARD, Resumed

25

1 CONTINUED CROSS-EXAMINATION BY MR. ROBERT DAWSON:

2 MR. ROBERT DAWSON: Good morning, Mr.
3 Chairman, Members of the Witness Panel. Let's just
4 summarize where we were two (2) days ago before we had to
5 break for the day and yesterday's expert witnesses.

6 If you'll recall, Ms. McLaren, we had
7 talked about how two (2) years ago the Public Utilities
8 Board had required MPI to develop claim benchmarks for
9 duration, frequency, and cost and to report on those
10 benchmarks at the next GRA, is that right?

11 MS. MARILYN MCLAREN: Yes.

12 MR. ROBERT DAWSON: And no benchmarks
13 were, in fact, established at the 2006 General Rate
14 Application which would have been last year and which
15 would have been that very GRA at which the report was
16 supposed to be made, is that right?

17 MS. MARILYN MCLAREN: Yes.

18 MR. ROBERT DAWSON: And instead MPI had
19 reported on its progress, namely, by filing a request for
20 a proposal or for proposals for a project that included
21 benchmarking, is that right?

22 MS. MARILYN MCLAREN: Yes.

23 MR. ROBERT DAWSON: And you told us,
24 helping me, that benchmarking was only part of that
25 larger project, right?

1 MS. MARILYN MCLAREN: Yes.

2 MR. ROBERT DAWSON: And last year's Board
3 Order, that is after that GRA for 2006, repeated the --
4 repeated the request made after the 2005 request,
5 requiring that benchmarks be filed at the next GRA, which
6 would be this year, is that right?

7 MS. MARILYN MCLAREN: Yes.

8 MR. ROBERT DAWSON: And again, no such
9 report has been filed this year, has it?

10 MS. MARILYN MCLAREN: We did file the
11 framework for benchmarks.

12 MR. ROBERT DAWSON: You've told us that
13 that framework so far, is a study that's underway and
14 that the actual project itself might actually not be
15 adopted, is that correct?

16 MS. MARILYN MCLAREN: Yes.

17 MR. ROBERT DAWSON: And part of the
18 problem in terms of adopting that project, seems to be
19 the problem of standardizing benchmarks across the
20 country, right?

21 MS. MARILYN MCLAREN: No, I think that
22 would be the least of our challenge in that area. The
23 benchmarks themselves require substantial data and
24 information to start with, about PIPP itself, about
25 automobile insurance compensation here in the Province of

1 Manitoba.

2 And if you look at the framework that we
3 filed and the categories and all the different kinds of
4 benchmarks that can be established; we are very ill
5 equipped at this point in time, to start populating those
6 tables. We don't have the data. We don't have the
7 information.

8 So what you really need to do -- and as I
9 said the other day also to me, the most important form of
10 benchmarking will be -- one (1) of the more important
11 forms, not the only and not necessarily the most, but
12 it's critical to us to have a better ability to benchmark
13 activity with related to PIPP from year to year.

14 So that's all about MPI. It's all about
15 claims here within Manitoba. There's an awful lot of
16 work to do to get ourselves in a position where we can
17 actually start populating some of those tables with
18 Manitoba data. That's the first challenge.

19 And then I think at a certain point there
20 will have to be that cost benefit analysis. And again
21 not so much in terms of what is the effort to leave
22 Manitoba or leave Manitoba Public Insurance and start
23 getting comparable data from others.

24 But, as I said, early estimates are that,
25 sort of, establishing that framework is probably maybe \$4

1 to \$8 million. It's not inexpensive. We may get to a
2 point where we say, is it really in everyone's best
3 interest to spend that amount of money that way for that
4 benefit, or would there be a greater benefit to spend
5 those dollars in other ways to enhance our ability to
6 manage the PIPP program and to understand its evolution
7 going forward, other than a particular benchmarking
8 framework.

9 MR. ROBERT DAWSON: So its safe to say
10 that the problem really is that this is a big,
11 complicated, expensive and time consuming project, is
12 that right?

13 MS. MARILYN MCLAREN: Yes. And not only
14 the benchmarking component. What I believe the
15 Corporation likely needs to do to put itself in a better
16 position to manage PIPP over the long term, is a big,
17 complicated project.

18 MR. ROBERT DAWSON: Let's move now onto
19 some public policy and legal issues, if I may. In a
20 tribute to the Byron William's school of cross-
21 examination, I won't ask you to talk about your career as
22 perhaps a hockey star or whatever it was, what we had
23 talked about a few years ago.

24 But, I will ask you to consider the
25 mythical little old lady who has a budgie in a cage. And

1 the little old lady, perhaps to use Mr. Wilf Bedard's
2 earlier line, goes for her weekly Sunday drive and comes
3 back distraught to find that her house has been broken
4 into, and finds that her beloved budgie and its cage have
5 been stolen.

6 You'd agree with me that the first thing
7 that most people would do at that point would be to call
8 the police department and hope that they attend, is that
9 right?

10 MS. MARILYN MCLAREN: Yes.

11 MR. ROBERT DAWSON: And let's assume that
12 the police show up. They would presumably, one would
13 hope, conduct an investigation hoping to identify how
14 the crime had occurred and perhaps identify a
15 perpetrator, is that right?

16 MS. MARILYN MCLAREN: I think that's a
17 possible set of assumptions.

18 MR. ROBERT DAWSON: I realize neither of
19 us probably watch these CSI TV shows, but I'm just
20 guessing that that's what happens.

21 And the next logical thing might be if
22 they found, for example, the cage discarded in the back
23 lot perhaps to take forensic evidence, such as
24 fingerprints from that cage?

25 MS. MARILYN MCLAREN: Okay. I'm

1 following so far.

2 MR. ROBERT DAWSON: I realize I'm not
3 trying to ask you to draw upon your own career as a
4 criminal, I'm must asking if these are logical
5 assumptions. And at some point let's assume that these
6 fingerprints actually match up with someone who is known
7 to be a famed budgie stealer.

8 And we would hope that at that point the
9 police would go out and make an arrest of that person if
10 they had other evidence that convinces them of likely
11 guilt, is that right?

12 MS. MARILYN MCLAREN: Yes.

13 MR. ROBERT DAWSON: And once an arrest
14 had been made we would eventually hope that it had made
15 its way to the courts where the Department of Justice
16 would prosecute that individual in a fair but diligent
17 manner?

18 MS. MARILYN MCLAREN: Yes.

19 MR. ROBERT DAWSON: And after that person
20 were sentenced, if it seemed appropriate, it would be
21 appropriate also to monitor that budgie stealer to make
22 sure that feathered birds around the country were safe
23 from his purloining hands, would you agree with that?

24 MS. MARILYN MCLAREN: Yes.

25 MR. ROBERT DAWSON: And isn't it fair to

1 say that the same approach should be taken with respect
2 to the theft of motor vehicles?

3 MS. MARILYN MCLAREN: I think there are
4 certainly similarities, yes.

5 MR. ROBERT DAWSON: So you would agree
6 with me that it's not unreasonable to expect that if
7 one's vehicle were stolen that the police ought to attend
8 if, in fact, the call is made that one's car has been
9 stolen?

10 MS. MARILYN MCLAREN: I think that's very
11 consistent with the budgie story.

12 MR. ROBERT DAWSON: And you'd agree with
13 me that, again, one would hope if one's car had been
14 stolen that the police would investigate that in an ideal
15 world and perhaps take forensic evidence in the hopes of
16 ultimately identifying a culprit?

17 MS. MARILYN MCLAREN: Agreed.

18 MR. ROBERT DAWSON: And then if they had,
19 in fact, found someone against whom the guilt seems to be
20 building that the police would then arrest that
21 individual?

22 MS. MARILYN MCLAREN: Agreed.

23 MR. ROBERT DAWSON: And then that person
24 would be turned over to be prosecuted by the Department
25 of Justice where we -- one would assume it would be done

1 properly with due diligence and fairly?

2 MS. MARILYN MCLAREN: Yes.

3 MR. ROBERT DAWSON: And assuming a
4 finding of guilt were made against that individual when
5 that individual were later released back to the
6 community, it could be assumed that, if necessary, that
7 individual should be monitored by probation services and
8 correction services if they are involved?

9 MS. MARILYN MCLAREN: Yes.

10 MR. ROBERT DAWSON: So, just as you had
11 said, before I took us on this long little walk, the way
12 in which the little old lady, the mythical little old
13 lady, would hope her stolen budgie problem would be
14 treated, you would think that most people would think
15 their stolen car should be treated that way, is that
16 right?

17 MS. MARILYN MCLAREN: Yes.

18 MR. ROBERT DAWSON: If I could trouble
19 you to turn to the First Round Interrogatories by the
20 Manitoba Public -- Manitoba Bar Association, number 9.

21

22 (BRIEF PAUSE)

23

24 MR. ROBERT DAWSON: Attached to -- well,
25 attached as the Corporation's response is an agreement

1 that the Corporation has entered into with the City of
2 Winnipeg with respect to dealing with stolen motor
3 vehicles.

4 Could you just very briefly at a very high
5 level give us a summary of what that document is?

6 MS. MARILYN MCLAREN: It is the agreement
7 between Manitoba Public Insurance and Winnipeg Police
8 Service with respect to the financial support that MPI
9 provides to, I believe, it's about nine (9) resources
10 that comp -- comprises the auto theft unit of the WPS.

11 MR. ROBERT DAWSON: And looking at
12 paragraph 1.01 it seems that the agreement provides that
13 the City will add five (5) investigating officer
14 positions, one (1) police identification specialist, and
15 one (1) ID technician to its stolen auto unit, is that
16 right?

17 MS. MARILYN MCLAREN: Yes.

18 MR. ROBERT DAWSON: And it identifies, on
19 the next page at 1.02, that these officers will be
20 deployed in a way that, as far as the police service is
21 concerned, in a reasonable manner, to best address the
22 reduction of motor vehicle thefts, am I correct?

23 MS. MARILYN MCLAREN: Yes.

24 MR. ROBERT DAWSON: And at 1.04 it also
25 talks about how the City will ensure that the police

1 department will process any latent fingerprints from
2 recovered stolen vehicles in a timely manner, is that
3 correct?

4 MS. MARILYN MCLAREN: Yes.

5 MR. ROBERT DAWSON: And at 1.06 that same
6 agreement talks about how any individuals who are found
7 to be -- well, who are found to be in possession of
8 stolen motor vehicles will be arrested pursuant to the
9 police policy, is that correct?

10 MS. MARILYN MCLAREN: Yes.

11 MR. ROBERT DAWSON: Can you explain why
12 it was necessary that the Corporation should have to
13 enter into an agreement with the police department to do
14 what, at least as far as the little old lady with her
15 budgie would be concerned, would have been the police
16 department's job all along?

17 MS. MARILYN MCLAREN: This appeared to us
18 and I guess it started quite a -- quite a number of years
19 ago, probably ten (10) years ago as the best option
20 available to us to get this number of resources
21 specifically dedicated to auto theft.

22 MR. ROBERT DAWSON: Is it fair to say
23 that without the Corporation's intervention the level
24 that the Corporation desires of attention to the problem
25 of motor vehicle theft would not have been achieved

1 within Winnipeg?

2 MS. MARILYN MCLAREN: Yes. In the
3 preamble just in the section above 1.01 it talks about
4 the fact that the Winnipeg Police Service does not have
5 sufficient resources to fully investigate the number of
6 motor vehicle thefts which occur annually in Winnipeg.

7 MR. ROBERT DAWSON: Lest there be any
8 confusion, I think it's commendable, and my client would
9 agree, that it's commendable that MPI would take the step
10 in order to control motor vehicle thefts.

11 But my concern is, is that why is it -- is
12 there any information that the Corporation has that could
13 answer the question why the police department wasn't
14 doing what many would perceive to have been its job from
15 the beginning?

16 MS. MARILYN MCLAREN: I have no other
17 information other than what I just read into the record
18 from this contract.

19 MR. ROBERT DAWSON: Although not a
20 significant amount of money that the Corporation pays in
21 the big picture of things to the City of Winnipeg, you'd
22 agree with me that the money that is paid to the City of
23 Winnipeg for the purposes of fulfilling the obligations
24 under this contract constitutes an expense that the
25 Corporation records on its balance sheet?

1 MS. MARILYN MCLAREN: Income statement.
2 It's in the income statement. And it -- yeah, it -- it
3 is not an insignificant amount of money on its face. In
4 the grander scheme of things it's a small percentage of
5 overall expenditures, but it's about six hundred thousand
6 dollars (\$600,000) a year.

7 MR. ROBERT DAWSON: You would agree with
8 me that if we were able to remove that expense from the
9 income statement it could, not necessarily would, but it
10 could reduce rates for some policyholders?

11 MS. MARILYN MCLAREN: Yes, I believe that
12 entire expenses is borne by motorists in Territory 1 and
13 2, Winnipeg and the -- Territory 1, Winnipeg, and 5,
14 those who live outside of Winnipeg but come in for work
15 or school on a regular basis.

16 MR. ROBERT DAWSON: Has the Winnipeg
17 Police Department ever provided the Corporation with an
18 explanation of why drivers within Manitoba or within
19 Territories 1 and 2 should effectively pay an extra tax
20 to have the police department do that which it should be
21 doing from the beginning?

22 MS. MARILYN MCLAREN: I really can't
23 speak to that. This funding -- the agreement has been in
24 place for many, many years and I -- I was not at all
25 involved when it was initially established.

1 MR. ROBERT DAWSON: May I trouble you,
2 please, to turn to Manitoba Bar Association Interrogatory
3 First Round 13?

4

5 (BRIEF PAUSE)

6

7 MR. ROBERT DAWSON: At a very high level
8 could you describe briefly what the agreement that
9 appears as an attachment or as part of the Corporation's
10 response at one thirteen (113) is?

11 MR. WILF BEDARD: Maybe I can respond to
12 that, Mr. Dawson. This agreement was struck with the
13 Department of Justice perhaps five (5) years ago, to
14 assist in the prosecution of insurance fraud cases as
15 well as people who have been charged with auto theft.

16 And what you see here is the agreement
17 that we have, the funding agreement that we have with the
18 Province with respect to the funding of -- the shared
19 cost funding of three (3) prosecutors that participate in
20 dealing with prosecution of fraud and auto theft.

21 MR. ROBERT DAWSON: So this is an
22 agreement, as you just said, just summarizing it, this is
23 an agreement by which the Corporation pays money to the
24 Province to ensure that prosecutors are available to deal
25 with issues that concern MPI?

1 MR. WILF BEDARD: Yes.

2 MR. ROBERT DAWSON: And before we go on,
3 just to avoid any misunderstandings, you would agree with
4 me that there's absolutely no suggestion that any of the
5 lawyers involved in this or the Department of Justice is
6 -- has in any way acted in a biased manner in favour of
7 the Corporation?

8 MR. WILF BEDARD: I would not suggest
9 that at all. I fully agree with that statement. We take
10 precautions to ensure that such biases do not exist.

11 MR. ROBERT DAWSON: And you would agree
12 with me that there's no suggestion that any of these
13 individuals, for example, should not be prosecuting
14 cases, whether for the Department of Justice, or whether
15 for the Department of Justice on behalf of MPI?

16 MR. WILF BEDARD: No, certainly not.
17 These are dedicated resources for the purposes, as I
18 described, to prosecute insurance fraud and auto thieves.

19 MR. ROBERT DAWSON: I think I just want
20 to put it on the record, just to particularize it. I
21 appreciate your comments with respect to the program, as
22 a whole, but, you would agree with me, that there's
23 absolutely no reason to cast a negative eye upon any of
24 the actual individuals who form part of this program?

25 MR. WILF BEDARD: I would agree with

1 that, yes.

2 MR. ROBERT DAWSON: Having said that,
3 let's now examine just a bit, this program. You said
4 that this is an agreement by which MPI pays all or part
5 of the salaries associated with three (3) prosecutors.

6 What is the function of those prosecutors
7 under this agreement?

8 MR. WILF BEDARD: Section 1 in the
9 agreement, makes reference to three (3) prosecutors.
10 Mike Mahon is a senior prosecutor. He is dedicated to
11 MPI. He works in our facilities. He has an office in
12 our facilities and his job is to -- primarily to deal
13 with the fraud cases and we fund his salary 100 percent.

14 The other two (2) individuals that you see
15 listed there are junior prosecutors. They are dedicated
16 solely to the task of dealing with auto theft
17 prosecutions and they report directly to Mr. Mahon. And
18 they work partly in our facilities and partly in the
19 Department of Justice.

20

21 (BRIEF PAUSE)

22

23 MR. ROBERT DAWSON: Just for the record,
24 could you describe how the Corporation interacts, if at
25 all, with these prosecutors, with respect to specific

1 cases?

2 MR. WILF BEDARD: There's a fair bit of
3 interaction between MPI staff and Mr. Mahon with the --
4 with respect to investigating insurance fraud. He has a
5 relationship with members of our special investigation
6 unit.

7 We want to make sure that we are
8 investigating cases that have a reasonable likelihood or
9 an outcome of conviction. They do consult with him in
10 terms of investigation.

11 He also provides a fair bit of training
12 and fraud awareness to our adjusting and estimating staff
13 to make sure that they know what the red flags are, in
14 terms of what to look for in cases presented to them, to
15 see if there's elements of fraud involved there. He does
16 participate in some -- some media releases, as well, on
17 convictions that -- that he obtains.

18 Those are primarily the type of
19 interaction that -- that he would have. Personally, I do
20 speak to Mr. Mahon on an infrequent basis. He takes no
21 direction from me. I don't provide any direction from
22 him. He reports and deals directly with his superiors in
23 the Justice Department.

24 The other two (2) individuals who do
25 participate in the auto theft prosecutions have very

1 little to do, on a day-to-day basis, with individuals at
2 MPI. Generally, that would only come into play when they
3 are prosecuting something where they may be using one of
4 our staff members as a witness in a prosecution. There
5 would be some interaction there.

6 With the exception of that, there is very
7 little interaction between those two (2) individuals and
8 staff at MPI.

9 MR. ROBERT DAWSON: Are you aware of any
10 instances in which any of the prosecutors has asked or
11 instructed an MPI staff person not to pursue a matter
12 with the vigour with which it seems to be presented to
13 them?

14 MR. WILF BEDARD: Anecdotally, I could
15 say yes. I don't know of any specific cases. Again, I
16 don't get myself involved on a -- on a regular basis with
17 -- with this initiative at all.

18 I do know, as I said earlier, that members
19 of our investigation unit do consult with Mr. Mahon to
20 make sure that, you know, they are looking at things
21 appropriately and he will provide some guidance in terms
22 of whether they ought to be pursuing a particular case or
23 not.

24 We want to bring good cases forward. We
25 don't want incomplete investigations. We don't want to

1 be spending our time doing things where there's not a
2 likelihood of conviction. And there is dialogue. I'm
3 aware that does take place between members of our special
4 investigation unit and Mr. Mahon.

5 MR. ROBERT DAWSON: And again, just out
6 of an abundance of caution, lest anyone misinterpret the
7 record we're creating here, you're not aware, either
8 personally or anecdotally, of any instance in which any
9 of these prosecutors, or perhaps any of their
10 predecessors, ever succumbed to, shall we say,
11 suggestions from MPI staff to pursue matters with vigour.

12 MR. WILF BEDARD: No, absolutely not.
13 And we're very sensitive to that issue. In this
14 agreement there's -- we insist, as does the Department of
15 Justice, that these prosecutors conduct their duties with
16 -- with proper protocol and responsibility to the
17 Province and the Department of Justice. And anything as
18 you suggest would be deemed inappropriate.

19 MR. ROBERT DAWSON: And earlier when we
20 began our conversation on this topic you had made
21 reference to taking precautions to prevent bias.

22 Have we covered off all that you wanted to
23 say to particularize those kinds of precautions?

24 MR. WILF BEDARD: I think so.

25 MR. ROBERT DAWSON: So summarizing the

1 agreement with Justice, on a very broad basis, it seems
2 that MPI is paying money to the Government to prosecute
3 cases for motor vehicle theft.

4 What would have happened if MPI weren't
5 paying this money to the Government in order to conduct
6 these prosecutions?

7 MR. WILF BEDARD: That would be
8 speculation on my part. I don't know what would happen.
9 I do know that with the advent of this agreement there's
10 more attention being paid to auto theft prosecutions;
11 more attention being paid to insurance fraud.

12 The judicial system is far more aware of
13 the degree of insurance fraud, I think, within this
14 province than prior to this agreement. What would be the
15 outcome in the absence of this agreement, I -- I would be
16 only speculating. I don't know.

17 MR. ROBERT DAWSON: So you'd certainly
18 agree with me that the outcome of this agreement is a
19 positive thing and, as a result of that, the Corporation
20 is again deserving of commendation that it takes this
21 initiative?

22 MR. WILF BEDARD: Yes, we're very pleased
23 with the outcome of this agreement.

24 MR. ROBERT DAWSON: May I trouble you to
25 turn to Manitoba Bar Association First Round

1 Interrogatory number 17 please?

2 MR. WILF BEDARD: I have it.

3 MR. ROBERT DAWSON: May I trouble you to
4 read the first sentence of the response of the
5 Corporation into the record please?

6 MR. WILF BEDARD: Yes. The first
7 sentence is:

8 "The secondment of Crown attorneys to
9 MPI has put the Corporation in a much
10 better position to ensure that criminal
11 charges are pursued against fraudulent
12 customers."

13 MR. ROBERT DAWSON: Are we to infer that
14 if MPI had not taken this laudable initiative to enter
15 into an agreement to pay for the prosecutors that it
16 would not have been in as good a position as it currently
17 is to pursue criminal charges against fraudulent
18 customers.

19 MR. WILF BEDARD: I think what we're
20 saying is we knew what the situation was prior to this
21 agreement and we felt that with the agreement things
22 would improve and we are satisfied that they have
23 improved.

24 MR. ROBERT DAWSON: Could I trouble you
25 to read the second sentence of the response at one

1 seventeen (117) into the record, please?

2 MR. WILF BEDARD: Yes, the second
3 sentence is:

4 "With a special docket for MPI matters,
5 cases now proceed through the justice
6 system more expeditiously."

7 MR. ROBERT DAWSON: And by "more
8 expeditiously," of course, you mean that this agreement
9 allows criminal charges against fraudulent customers to
10 be dealt with more promptly than they would have been
11 without this agreement, is that right?

12 MR. WILF BEDARD: I believe that to be
13 the case, yes.

14 MR. ROBERT DAWSON: Putting it in the
15 very broadest terms, essentially would it be fair to say
16 that the Corporation would have been displeased with the
17 pace at which prosecutions would have proceeded if it
18 hadn't entered into this agreement?

19 MR. WILF BEDARD: Again, that's -- would
20 be speculation on -- on my part. I can tell you that
21 things do proceed far more expedi -- expeditiously today
22 than they did before. We're very pleased with the
23 profile that insurance fraud now has. We are very happy
24 that we are on the docket on a weekly basis with
25 outstanding matters. It's created a lot more visibility

1 and awareness.

2 And as a consequence I think the -- the
3 program has been a success and I would certainly endorse
4 it to continue into the future.

5 MR. ROBERT DAWSON: And the last sentence
6 that I'll ask you to read in is the third sentence,
7 please?

8 MR. WILF BEDARD: Yes, the third sentence
9 is:

10 "SIU investigators are also able to
11 consult directly with the Crown while
12 investigations are still ongoing
13 enabling stronger cases to be presented
14 to the courts."

15 MR. ROBERT DAWSON: Do you accept that
16 the corollary of that sentence is, is that without this
17 agreement cases going to court would be weaker than they
18 currently are?

19 MR. WILF BEDARD: I'm not so sure that
20 they would be weaker, you know, in the trial itself, but
21 I think what we're doing is preparing stronger cases
22 earlier on than perhaps would likewise be the case with
23 the consultation that goes on between the prosecutors and
24 -- and our investigators.

25 MR. ROBERT DAWSON: And preparing cases,

1 stronger cases, earlier on, is a better thing than not
2 doing so, is that what you mean?

3 MR. WILF BEDARD: Yes.

4 MR. ROBERT DAWSON: In summary, if it
5 weren't for this agreement would it be fair to say that
6 the Corporation would not be in as good a position as it
7 is now to ensure that criminal charges are pursued?

8 MR. WILF BEDARD: Yes, I -- I think
9 that's part of it. As well, you know, this response does
10 go on to talk about the fact that we do got our
11 convictions into the attention of the media. I think
12 that helps a lot as well.

13 So, you know, insurance fraud is a crime
14 of opportunity. What we're trying to do with -- with
15 that exercise is to -- people who -- who may be thinking
16 of doing something as inappropriate as this, because they
17 may have seen media releases on convictions know that
18 there's consequences in pursuing the type -- that type of
19 activity. I think there's value there too.

20 The response also talks about heightened
21 awareness in general amongst MPI staff. You know, the --
22 the training that -- that is provided our staff and the
23 dialogue that we have I think -- I think benefits
24 Manitobans generally, not just -- just MPI. I think --
25 again I -- I support the outcome of -- of this agreement.

1 the money that you pay under this agreement, presumably
2 like the police agreement, constitutes an expense that
3 shows up on the income statement, am I right?

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

5 MR. ROBERT DAWSON: And again, in the big
6 picture of things, even though that amount might not be
7 overwhelmingly large, that expense does contribute toward
8 the premium rates that policyholders ultimately are asked
9 to pay, is that correct?

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

11 MR. ROBERT DAWSON: So effectively, we're
12 asking policyholders to pay for a prosecution system that
13 derives obvious benefits to the Corporation and other
14 victims of crime, but that the Province has decided for
15 some reason, not to fund and provide.

16 Is that what we're doing here?

17 MR. WILF BEDARD: No, I think these cases
18 would continue to go forward in spite of this funding;
19 perhaps not as timely as they do now, perhaps not with
20 the other benefits that we've talked about associated
21 with this, as well.

22 There is, you know, a financial payback to
23 this as well, where people are ordered to reimburse the
24 Corporation on the dollars that they have fraudulently
25 taken from -- from MPI. So there is that -- that

1 involved, as well.

2 Again, the program works well. It works
3 well for Manitobans; works well for MPI; works well for
4 the Department of Justice; it's a relationship that both
5 they and ourselves are proud of. We're -- we're very
6 pleased with the collaborative initiative and you know,
7 both are -- as a consequence are doing a better job, I
8 think with this agreement in place.

9 MR. ROBERT DAWSON: I'm surprised and
10 somewhat saddened that we have to spend more time on this
11 because I didn't think that you would tell me that
12 without this agreement, this prosecutions would
13 nonetheless roll ahead. So now we have to spend some
14 time justifying this program. I --

15 MS. MARILYN MCLAREN: Mr. Dawson, if I
16 could jump in here briefly. I think the program itself
17 in addition to the other -- the people that you mentioned
18 and the people that Mr. Bedard mentioned, it does also
19 serve ratepayers. It's a good program for ratepayers.

20 A good part of the \$7 million in cash that
21 Mr. Galenzoski talked about the other day that comes in
22 as subrogation payments are from people who have been
23 convicted in a Court of law. It closes the loop and it's
24 very effective with respect to the cost of insurance and
25 lowering the cost of insurance, as well.

1 And that the -- the very positive effect
2 of the two (2) individuals solely dedicated to auto
3 theft, is that that effort is coordinated and cohesive
4 and dedicated. That is a benefit that plays a big role.
5 That just as many auto theft prosecutions may have taken
6 place before, but they were not as effective because they
7 were not dedicated resources who could see the same name
8 come up and -- again and pull the different convictions
9 together from different parts of the City, or things like
10 that.

11 So it's the coordinated effort, the
12 dedicated effort, that really has a significant benefit
13 to the fight against auto theft, in particular. And with
14 respect to the fraudulent activity, and theft is part of
15 that, as well.

16 You know when we get these convictions
17 there is a cost benefits that flows back to the
18 Corporation and its ratepayers.

19 MR. ROBERT DAWSON: You spoke about how
20 this agreement has the benefit of creating dedicated
21 resources, are you telling me that the only way that the
22 Department of Justice was prepared to dedicate resources
23 to a major problem such as motor vehicle theft was to
24 require the Corporation to pay money to create this
25 setup?

1 MS. MARILYN MCLAREN: No, that's not what
2 I'm saying. I just said that is a particular benefit of
3 the strategy that's been adopted.

4 MR. ROBERT DAWSON: Are you aware that
5 within the Department of Justice there are dedicated
6 prosecution units, for example, to family violence?

7 MS. MARILYN MCLAREN: I -- I accept that.

8 MR. ROBERT DAWSON: Before entering into
9 this agreement did the Corporation approach the
10 Department of Justice asking it on its own, within its
11 own budget, to create a dedicated unit to deal with motor
12 vehicle theft and motor vehicle fraud claims?

13 MS. MARILYN MCLAREN: I think that was
14 starting to take place at about that time. The program
15 that Mr. Bedard talked about having been in place for
16 years was the one (1) Crown Prosecutor dedicated to
17 insurance fraud. The more recent addition has been two
18 (2) dedicated prosecutors with respect to auto theft.
19 MPI funds half of that.

20 That really arose out of the Provincial
21 Auto Theft Task Force, so it was not the Corporation just
22 necessarily going to Justice. All the players were at
23 the table. And, again, a benefit of having the dedicated
24 resources, regardless who funds them, is that those two
25 (2) theft prosecutors are part of that provincial auto

1 theft task force and strategy as well.

2 MR. ROBERT DAWSON: Based on the
3 testimony that I've heard, would it be fair then to
4 distinguish the rationale for entering into the agreement
5 with the police from the rationale for entering into the
6 agreement with the Department of Justice for prosecution
7 as follows, you'd agree with me as we earlier said that
8 the main reason that MPI had to enter into an agreement
9 with the City of Winnipeg was to focus the attention of
10 the police department upon the problem of combatting
11 automobile theft?

12 MS. MARILYN MCLAREN: We asked them to
13 increase their focus. They said they didn't have the
14 resources. We agreed to fund additional resources.

15 MR. ROBERT DAWSON: In contrast to that
16 approach, you've told me that without this agreement the
17 same prosecutions themselves would have occurred within
18 the Department of Justice, although without certain
19 benefits that we can elaborate in just a moment.

20 But generally before we get to those
21 benefits, would that be a fair beginning?

22 MS. MARILYN MCLAREN: I believe that
23 would be a fair beginning.

24 MR. ROBERT DAWSON: So even though the
25 prosecutions would have happened anyway, the benefits to

1 MPI go beyond the fact that those prosecutions are
2 arising. And they include, for example, the ability to
3 create a dedicated unit; that's one of them?

4 MS. MARILYN MCLAREN: Yes. And -- and in
5 that regard we're speaking specifically about the theft
6 prosecutions.

7 MR. ROBERT DAWSON: And using Mr.
8 Bedard's earlier comments, it also enables MPI, for
9 example, to have a resource for internal training and
10 improvement of the way in which its investigators begin
11 their consideration of these cases?

12 MS. MARILYN MCLAREN: Yes.

13 MR. ROBERT DAWSON: And those benefits --
14 let me move -- let me rephrase that. What I meant when I
15 began this question was to say that the police
16 department, without your help, without the Corporation's
17 help, would not have done the same work that you're now
18 seeing done to combat auto theft, is that right?

19 MS. MARILYN MCLAREN: Yes.

20 MR. ROBERT DAWSON: Whereas the
21 Department of Justice prosecutions would, nonetheless,
22 have occurred without MPI's agreement, although MPI would
23 then have been denied some of the benefits that we've
24 just described?

25 MS. MARILYN MCLAREN: I think that's a

1 fair characterization. But I think in reality it was --
2 probably the truth is somewhere between those two (2).
3 There's some grey in the middle of those two (2) black
4 and white perspectives.

5 MR. ROBERT DAWSON: Thank you for that.
6 We'll move along and inevitably I do paint with a broad
7 brush, mostly because that's the way I understand things.

8 Let's move to Manitoba Bar Association
9 First Interrogatory number 11, please.

10 The Corporation's response provides yet
11 another agreement between the Corporation and the
12 Manitoba Department of Justice. May I have a very high
13 level description of what that document provides?

14 MS. MARILYN MCLAREN: It provides for
15 Manitoba Public Insurance funding to support the hiring
16 of additional probation officers to support the Winnipeg
17 Auto Theft Suppression Strategy.

18 MR. ROBERT DAWSON: Putting it very
19 crassly, effectively we're hiring more people to watch
20 young offenders who are at high risk of committing or re-
21 committing motor vehicle thefts, is that right?

22 MS. MARILYN MCLAREN: Yes.

23 MR. ROBERT DAWSON: What was the
24 Corporation's rationale for entering into this agreement
25 with the Department of Justice?

1 MS. MARILYN MCLAREN: The concept of the
2 suppression strategy was developed by the Winnipeg -- the
3 Provincial Auto Theft Task Force and people from a broad
4 range of organizations concerned about auto theft in
5 Manitoba are part of that Provincial Auto Theft Task
6 Force.

7 They conceived this program, determined
8 how best it could be structured, talked to the
9 participants which included the Corrections Branch of
10 Justice, the Winnipeg Police Service and through our
11 participation, the Corporation's participation on that
12 Auto Theft Task Force, talked to the Corporation with
13 respect to its ability to help fund the additional costs
14 that would be associated to a program like this.

15 So it wasn't sort of a bilateral
16 discussion between Justice and Manitoba Public Insurance,
17 it was a -- a broad strategy developed by the Provincial
18 Auto Theft Task Force of which we are a part; analysis
19 that was included in that proposal that would --
20 predicted a financial payback to the Corporation should
21 it agree to participate in this funding and we move
22 forward on that basis and establish the agreement with
23 Justice.

24 MR. ROBERT DAWSON: You'd agree with me,
25 Ms. McLaren, that this agreement and the resulting

1 monitoring is yet another laudable initiative that the
2 Corporation has undertaken in the attempt to combat the
3 problem of auto theft in Manitoba, is that right?

4 MS. MARILYN MCLAREN: Yes.

5 MR. ROBERT DAWSON: Without this
6 agreement you would agree with me that there would be
7 less, if any, monitoring of those young offenders who are
8 at high risk of re-offending and again committing auto
9 theft?

10 MS. MARILYN MCLAREN: There would be less
11 definitely.

12 MR. ROBERT DAWSON: The expense that the
13 Corporation or the -- the cost of -- or the money that
14 the Corporation pays to the Department of Justice in
15 order to implement this agreement again constitutes an
16 expense that appears on the Corporation's income
17 statement; am I correct?

18 MS. MARILYN MCLAREN: Yes, it does.

19 MR. ROBERT DAWSON: And again although in
20 the big picture of things it might not be a big -- large
21 amount of money this sum nonetheless goes towards
22 increasing the rates of policyholders, am I right?

23 MS. MARILYN MCLAREN: Over most of the
24 last year, that seems to have been the case. The -- but
25 again, you know, it's very difficult to speculate on what

1 might have been had we not done this. But the concept is
2 that this kind of suppression had the ability to return,
3 in a very short period of time, within that same fiscal
4 year, within the same income statement to return savings
5 by fewer auto thefts that would outweigh the nine hundred
6 thousand dollar (\$900,000) expenditure.

7 MR. ROBERT DAWSON: When we began this
8 discussion I -- I put up my silly -- silly example of the
9 little old lady with her budgie. And at one (1) point I
10 asked you and you agreed with me that after an arrest of
11 the person who had stolen her budgie had occurred, that
12 person should be monitored for re-offending, and that
13 would be a reasonable expectation on the part of the
14 little old lady. Do you remember that?

15 MS. MARILYN MCLAREN: Yes.

16 MR. ROBERT DAWSON: Why was it not a
17 reasonable expectation that the Department of Justice and
18 its Probation Officers would monitor high risk, young
19 offenders without being prodded and paid by the
20 Corporation?

21 MS. MARILYN MCLAREN: Well, I think this
22 Corporation has a particular role in initiatives like
23 this in the Province of Manitoba because it is the -- you
24 know, single provider of mandatory automobile insurance.

25 That puts us in a particular, not only

1 ability, but responsibility to participate in initiatives
2 like that. I think with specific reference to auto
3 theft, the Corrections Branch, the Department of Justice,
4 was not staffed to consider the kind of overwhelming
5 frequency of auto theft and frequency of people being
6 convicted and sentenced in the community and requiring to
7 be monitored.

8 There was really an overload to the
9 expected activity of that department, given the
10 preponderance of theft. We are the organization that has
11 a clear opportunity to spend a dollar and save two (2)
12 dollars.

13 That really, for the most part, is the
14 rationale for the kind of participation that is certainly
15 uncommon with respect to automobile insurers, but given
16 our particular role and our particular ability to truly
17 save ratepayer funds, we find ourselves in that
18 situation.

19 MR. ROBERT DAWSON: You'd agree with me
20 that, in general, the cost of staffing individuals at the
21 Department of Justice is usually borne by taxpayers of
22 Manitoba, is that right?

23 MS. MARILYN MCLAREN: Yes.

24 MR. ROBERT DAWSON: And you've just told
25 us that in this case the only way in which you -- the

1 Corporation rather, could ensure that staffing levels
2 were at a sufficient level, was to enter into this
3 agreement and pay money on behalf of policyholders to the
4 Government of Manitoba?

5 MS. MARILYN MCLAREN: The facts of your
6 statement are not really in dispute, but that was not the
7 context of the development of this program.

8 It was a collaborative effort; many people
9 involved. It was not us going to the Department and
10 said, Okay, if you give us cash, will you do this for us?
11 That was not the context.

12 It is always was positioned as a short
13 term initiative; short term funding. Therefore, for
14 those probation officers to really bridge us to a
15 permanent solution for auto theft.

16 MR. ROBERT DAWSON: Just before we move
17 on, you'd agree with me though, that in the end of the
18 day, if the Corporation had not paid this money, we would
19 not have this extra monitoring of young offenders who are
20 at high risk of committing auto theft again?

21 MS. MARILYN MCLAREN: No, I'm not sure I
22 can agree with that. You know, it was presented as a
23 legitimate role for Manitoba Public Insurance to play in
24 this initiative. The Corporation looked at it and agreed
25 to play that role.

1 expenses relating to of -- of the expenses that are
2 listed there, is that right?

3 MR. BARRY GALENZOSKI: It's not rate
4 groups. It's line of businesses that get charged with
5 those expenses.

6 MR. ROBERT DAWSON: And if I -- and am I
7 correct there to see that with respect to the costs of
8 this hearing, Advocates Office and the Automobile Injury
9 Compensation Commission as well as the Rates Appeal
10 Board, 100 percent of the costs of that is charged to
11 basic, is that right?

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

14 MR. ROBERT DAWSON: And basic, extension
15 and SRE share the cost for the Crown Corporation levy and
16 any public review meetings, is that right?

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

19 MR. ROBERT DAWSON: If we could turn now
20 to TI-9. Specifically, TI-9A.

21

22 (BRIEF PAUSE)

23

24 MR. ROBERT DAWSON: The third line from
25 the bottom reveals regulatory and appeal expenses. And

1 you'd agree with me that this is a table that outlines
2 the operating and claims costs, specifically on that
3 line, regulatory and appeal claims costs, starting for
4 the year 2003 and going to the projected year of 2007/08,
5 is that right?

6 MR. BARRY GALENZOSKI: Yes, this is on a
7 corporate level.

8 MR. ROBERT DAWSON: And, of course, in
9 2004 the expense charged there is \$1.8 or \$1.9 million
10 roughly, is that right?

11 MR. BARRY GALENZOSKI: Yes. That's
12 right.

13 MR. ROBERT DAWSON: And then there's an
14 increase of almost 84 percent at 2005/2006 for 3.5
15 million; is that roughly right, subject to check?

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

18 MR. ROBERT DAWSON: And you'd agree with
19 me that in part the reason for the increase -- the
20 substantial increase in that one year, related to the
21 introduction of claims advisors and the advocates office,
22 is that right?

23 MR. BARRY GALENZOSKI: Yes, that's true.

24 MR. ROBERT DAWSON: Prior to the
25 introduction of the programs that resulted in that 84 --

1 roughly 84 percent increase, there would have been a
2 series of costing exercises to make sure that the
3 Corporation could afford it; am I correct?

4 MR. BARRY GALENZOSKI: No.

5 MR. ROBERT DAWSON: You would have just
6 spent the money?

7 MR. BARRY GALENZOSKI: We just get billed
8 this amount of money. We have no control over how the
9 money is -- is spent. For instance, when we look at the
10 Public Utility Board process the Corporation isn't given
11 much leeway with respect to the expenditures that are
12 resulting from these hearings.

13 There is some input with respect to
14 Intervenor's costs. But generally speaking those costs
15 are as billed and they're paid on that basis. Similar
16 for the -- the Appeal Commission. We are just billed
17 those costs with respect to the costs that they incur.

18 MR. ROBERT DAWSON: The costs of the
19 claimants' office, the Claims Advisors' office, that's a
20 cost that's fed separately or is that a cost that's fed
21 through the Appeal Commission?

22 MR. BARRY GALENZOSKI: It's fed
23 separately through consumers and corporate affairs. Both
24 of them are independently billed to the Corporation but
25 they're billed on the basis that we don't really have

1 much say about the billing.

2 MR. ROBERT DAWSON: Let's move on to deal
3 with some quick topics relating to pay as you drive, if I
4 may.

5 Ms. McLaren, you'd agree with me that the
6 Sustainable Development Act, of which we've spoken now
7 and then, provides guidelines that's supposed to guide
8 the Government of Manitoba and its Crown Corporations
9 with respect to sustainable development initiatives, is
10 that right?

11 MS. MARILYN MCLAREN: Yes.

12 MR. ROBERT DAWSON: Would you also agree
13 with me that those guidelines are not specific and do not
14 provide specific targets in any way as to what
15 corporations or government agencies are supposed to do?

16 MS. MARILYN MCLAREN: Yes, I agree.

17 MR. ROBERT DAWSON: Throughout the course
18 of this Hearing there's often been discussion of how this
19 Corporation can, apparently, if we accept some of the
20 premises of the questions, simply go to the Government
21 and have legislation changed or otherwise.

22 To deal with that or address that, could
23 you explain what the relationship between your Crown
24 Corporation is and the Minister that's responsible for
25 the Crown Corporation?

1 MS. MARILYN MCLAREN: Could you perhaps
2 reword that a little bit more specifically? I'm not --
3 it's quite a broad question. I'm not sure really what
4 you're looking for.

5 MR. ROBERT DAWSON: I worded it broadly
6 if only because I was trying to set the context, but let
7 me ask just more specifically.

8 What does the Minister responsible for MPI
9 actually do as far as the Crown Corporation is concerned?

10 MR. KEVIN MCCULLOCH: I'm advising the
11 Witness not to answer that question.

12

13 (LAUGHTER)

14

15 MR. KEVIN MCCULLOCH: No, go ahead, Ms.
16 McLaren.

17 MS. MARILYN MCLAREN: To a significant
18 extent the relationship is specified in legislation. The
19 Crown Corporations Accountability Act specifies that the
20 Minister and the -- the Chair of the Board of Manitoba
21 Public Insurance are -- are to meet regularly. The
22 Minister provides direction on broad policy matters with
23 respect to the Corporation's activities.

24 And depending on the issue at hand there
25 are differing levels and types of advice sought from the

1 Corporation with respect to the Claimants' Advocacy
2 Office. The Corporation wasn't asked for an opinion on
3 whether the legislation should be changed to provide for
4 that office, nor was it asked for an estimate of the cost
5 of -- of operating an office like that. It happened and
6 we responded.

7 With respect to matters that are more
8 specifically our responsibility to administer, generally
9 speaking we would be asked for advice with respect to
10 changes under the Drivers and Vehicles Act with respect
11 to things that we administer related to DVL on behalf of
12 the Government, changes with respect to the Personal
13 Injury Protection Plan coverages; we would be asked
14 generally for input along those lines.

15 MR. ROBERT DAWSON: At some point in the
16 course of this hearing there have been often suggestions
17 relating to pay-as-you-drive that might require
18 legislative changes.

19 Would you agree with me that at most the
20 Corporation could approach the Minister with these as a
21 proposal, but could hardly compel the Minister to create
22 those laws?

23 MS. MARILYN MCLAREN: Certainly.

24 MR. ROBERT DAWSON: Ms. McLaren, in reply
25 to a question that Professor Miller had earlier posed,

1 you described, if I got it correctly, the self-reporting
2 of mileage as problematic. Am I correct in that
3 recollection?

4 MS. MARILYN MCLAREN: Yes.

5 MR. ROBERT DAWSON: And by that, although
6 you were more diplomatic than this, essentially you meant
7 that that policyholders might be inclined to lie to the
8 Corporation and under-report their mileage in order to
9 get lower policy -- or lower rates, is that right?

10 MS. MARILYN MCLAREN: Yes.

11 MR. ROBERT DAWSON: And so the reason why
12 you had said that self-reporting was problematic was that
13 it relied in part upon the honesty of policyholders but
14 also because rate hold -- rate charging or rate setting
15 is an important fundamental part of the way in which the
16 insurance scheme operates, is that correct?

17 MS. MARILYN MCLAREN: Yes.

18 MR. ROBERT DAWSON: You're aware that on
19 the back of Manitoba drivers' licences each year the
20 driver -- vehicle licencing office trusts Manitoba
21 drivers to report whether or not they've had any
22 blackouts.

23 MS. MARILYN MCLAREN: Yes.

24 MR. ROBERT DAWSON: And there's a series
25 of other illnesses that the driver vehicle licencing

1 branch asks drivers to self-report; is that right?

2 MS. MARILYN MCLAREN: Yes.

3 MR. ROBERT DAWSON: And you'd agree with
4 me that if any of those illnesses had occurred, it would
5 potentially affect the driving ability of the person who
6 is now applying for renewal of the driving licence?

7 MS. MARILYN MCLAREN: Potentially.

8 MR. ROBERT DAWSON: At the risk of asking
9 an open-ended question which I never like doing, why do
10 we trust drivers to self-report their illnesses as
11 opposed to policyholders about their mileage?

12 MS. MARILYN MCLAREN: Fundamentally,
13 insurance is a relationship of trust between the
14 policyholder and the insurer. So I'm not -- I'm not
15 suggesting that, you know, this is one (1) particular
16 way, we simply can't trust anybody.

17 It's really related to the question that
18 you asked when we discussed that topic. The two (2)
19 things go hand in hand. The rate making part of it; the
20 expectation on this Corporation to have fair and
21 equitable and statistically sound rating practices is
22 very, very important to the public's ability, Manitobans'
23 ability to have confidence in this Autopac program.

24 There are any number of things that
25 Manitobans must attest to when they renew their driver

1 license and also their vehicle registration.

2 They attest to the fact that they are a
3 Manitoban. They attest to the fact that this is their
4 true address and circumstances; those are registration
5 related declarations which are a key part of the renewal
6 process.

7 So I think it really comes back to the
8 matter of linking the two (2) together. The credibility
9 of the rating system along with the reliability of the
10 self-reported information.

11 MR. ROBERT DAWSON: You'd agree with me
12 that there's a big difference between trusting someone to
13 say whether they're Manitoban or not, and trusting them
14 to say that they might at any moment die of a heart
15 attack and in the process take out five (5) pedestrians?

16 MS. MARILYN MCLAREN: Nobody is asked to
17 state whether they might have a heart attack at any
18 moment and people are asked if some of these events have
19 occurred. That's as simple and straightforward as it is.

20 There are also other players in this
21 matter that you're bringing forward that have a
22 significant responsibility under the Act. Doctors are
23 supposed to report to the driver and vehicle licensing
24 authority.

25 You know, there's provision for those

1 sorts of things to happen. It's not solely dependent on
2 the declaration of the driver.

3 MR. ROBERT DAWSON: But, the fact remains
4 that we do trust the individual who quietly has an
5 episode of dropsy in his basement, to report this fact to
6 the driver licensing vehicle when he or she renews his or
7 her license the next year?

8 MS. MARILYN MCLAREN: If that's one (1)
9 of the things the Government asks to be declared, I guess
10 we do.

11 MR. ROBERT DAWSON: But, when it comes to
12 self-reporting of mileage you're telling me that we can't
13 trust individuals because it's important to have, in your
14 words, "a fair and sound rating practices?"

15 MS. MARILYN MCLAREN: I think it's
16 problematic. I think if you look at the rating structure
17 itself, they are objective -- objective criteria. People
18 have an obligation and responsibility and pleasure if you
19 will, to choose whatever kind of car they want to drive
20 and therefore license and insure, but based on that, we
21 decide what rate group it belongs to. We have determined
22 territories based on the relative risk of claims costs in
23 those different territories.

24 We assess the driver record. We don't ask
25 people to self report whether they have two (2) merits or

1 five (5) merits. So as much as possible, the
2 classification system needs to rely on objective
3 measures.

4 MR. ROBERT DAWSON: Except when it comes
5 to some of the illness that driver vehicle licensing asks
6 you to self declare?

7 MS. MARILYN MCLAREN: Again insurance
8 rating and the responsibilities of individuals under the
9 Highway Traffic Act and the Drivers and Vehicles Act, are
10 two (2) different circumstances.

11 MR. ROBERT DAWSON: They might be two (2)
12 different circumstances, but you'd agree with me that DVL
13 is now part of MPI, isn't it?

14 MS. MARILYN MCLAREN: Yes. But the
15 responsibility for setting the context of who is allowed
16 to operate vehicles and drive on our roadways is not the
17 Corporations.

18 MR. ROBERT DAWSON: Would not DVL be
19 expected to adopt the same approaches toward customers as
20 MPI adopts?

21 MS. MARILYN MCLAREN: With respect to the
22 services that we provide and the individual approach
23 taken by MPI employees, absolutely.

24 But, the context of who has the right to
25 drive and register vehicles is -- the Government makes

1 those decisions; that's the Highway Traffic Act; it's the
2 Drivers and Vehicles Act.

3 And in every jurisdiction for many, many
4 years there has been significant, significant
5 responsibility, under that legislation and similar
6 legislation in other jurisdictions, responsibility placed
7 on the applicant for the driver's license to self-declare
8 things that you're talking about. Whether it is, are you
9 a Manitoban and have you had a heart attack, there is
10 significant responsibility to self-declare. It's the
11 context of that legislation.

12 MR. ROBERT DAWSON: Let's turn to a
13 suggestion of a GPS device which had been mentioned again
14 in the course of the cross-examination by Professor
15 Miller. Just before I get to that, you'll confirm for me
16 that the Corporation does, as you've already described,
17 compel certain vehicles to have an immobilizer installed
18 into them if they wish to be registered, is that right?

19 MS. MARILYN MCLAREN: Not the
20 Corporation, the Government. Those are regulations under
21 the Highway Traffic Act.

22 MR. ROBERT DAWSON: That was going to be
23 my next question of how the Corporation can do that. And
24 that, of course, is exactly as you said, under the
25 current legislative structure there's no way that the

1 Corporation, or even the Government, but the Corporation
2 at this moment, could compel the installation of GPS
3 devices, is that right?

4 MS. MARILYN MCLAREN: Absolutely.

5 MR. ROBERT DAWSON: And broadening it
6 beyond the GPS situation were earlier discussed by
7 Professor Miller to so-called black boxes which somehow
8 record information and then are downloaded from time to
9 time; again, the Corporation has no means to compel any
10 vehicle in Manitoba to install that, correct?

11 MS. MARILYN MCLAREN: Absolutely. We're
12 here to provide guaranteed access to automobile
13 insurance.

14 MR. ROBERT DAWSON: Mr. Chairman, I'm at
15 the Board's direction here. I'm -- I have a series of
16 questions that could carry us another fifteen (15)
17 minutes and then move to SR -- sorry.

18 MR. LEN EVANS: Excuse me. I wonder if I
19 could interject with a supplementary question on this
20 matter of odometer reporting. I just happened to be
21 looking at my own registration document -- vehicle
22 registration card and I notice that there is a
23 requirement that an odometer reading be inserted there
24 plus a statement that you declare that the odometer
25 reading, you know, is accurate, et cetera.

1 So, in effect, there is a procedure now
2 where drivers in Manitoba or vehicle owners have to
3 report odometer readings. And this involves your Autopac
4 brokers as well because they're involved in this process.

5 So I'm just asking if you would confirm
6 that.

7 MS. MARILYN MCLAREN: The part of the
8 registration document that you're looking at is the
9 backside what is called the transfer of ownership
10 document and must be completed if you sell or give that
11 vehicle to another person.

12 At that point you have to complete that
13 part of the process. And at that point you give that
14 piece of your registration card to the new owner. They
15 then bring it to an Autopac agent and that information is
16 part of the transfer of ownership process. Yeah.

17 MR. LEN EVANS: Thank you. I appreciate
18 it's related to the matter of vehicle safety, but I'm
19 just wondering if you wouldn't agree that here is a
20 precedent of reporting odometer readings with a
21 declaration that the reading is correct and is accepted
22 and it's part of the process?

23 MS. MARILYN MCLAREN: It -- it's -- it's
24 not there for anything related to safety. It is there,
25 really, as a consumer protection mechanism. That was

1 included as part of the transfer of ownership process by
2 the Government based on what I understand to be
3 recommendations from the consumer protection people
4 within government liaising with the people in the
5 Department of Transportation; that was about ten (10)
6 years ago that that started.

7 And the reason that they asked the
8 odometer reading to be recorded and then declared that
9 it's true, that they have a documented piece of evidence
10 on the record that, if, in fact, down the road the
11 purchaser finds out that someone was not telling the
12 truth, the odometer had been tampered with, there's a
13 legal mechanism to address that fraudulent activity.

14 It's a consumer protection approach.

15 MR. LEN EVANS: Thank you. Well, I
16 appreciate that. I guess my questioning relates to the -
17 - just the procedure that here's -- here's a request for
18 an odometer reading, and I accept the reasons you know
19 you give, but here is a procedure where the vehicle owner
20 is required to declare an odometer reading and somewhere
21 or other it has to be accepted.

22 So I'm wondering then why would that --
23 why would that procedure not be impossible in -- in
24 another context related to pay-as-you-drive?

25 MS. MARILYN MCLAREN: Anything's

1 possible, right? I mean, you could -- you could decide
2 to require odometer readings and a declaration as to
3 their accuracy before any vehicle registration is renewed
4 in the Province of Manitoba. The Government could decide
5 to do that.

6 And then they could decide what would be
7 the consequences if at some point it was determined that
8 the odometer reading was not true as stated there could
9 be some sort of consequences for that; that could all
10 happen.

11 All I'm saying in this point is that is --
12 the declaration is made to the veracity for consumer
13 protection purpose. There's no real impact on that
14 particular vehicle or that policyholder going forward.

15 If you have a mechanism to self-report
16 odometer readings and then somehow you use that for
17 rating purposes and then later you find out that it
18 wasn't true, do you deny the claim? Do you eliminate the
19 coverage? Do you surcharge them in some fashion?

20 You can have answers to any of those
21 things. All I was saying is that for something as
22 important as Autopac insurance rates, I believe it would
23 be important not to rely on self-reported data.

24 MR. LEN EVANS: Yes, I -- I don't want to
25 delay us any further but I'm just wondering if the

1 Corporation would undertake specifically to look at this
2 private company in Holland that offers pay-as-you-drive
3 insurance which I believe has to rely on some sort of
4 annual odometer reporting.

5 MS. MARILYN MCLAREN: Yeah. I made a
6 note of the Netherlands when you mentioned that earlier
7 in the process. We -- we will check into that over the
8 next months.

9 MR. LEN EVANS: Okay. Thanks very much.

10

11 --- UNDERTAKING NO. 29: MPI to look into the private
12 company in Holland that
13 offers pay-as-you-drive
14 insurance

15

16 THE CHAIRPERSON: Mr. Dawson, just in the
17 lines of time, how much time do you think you're require
18 to conclude your cross-examination?

19 MR. ROBERT DAWSON: Assuming the
20 cooperation of the MPI Panel I would imagine at least
21 half an hour, possibly forty-five (45) minutes.

22 THE CHAIRPERSON: Okay then, we'll
23 probably take our break. Before we do, just in the
24 interest of tying things close together, I've got a
25 couple of questions.

1 Ms. McLaren, could you please confirm your
2 indication in MPI's contract with the police and the
3 Crown are unusual for an auto insurer?

4 MS. MARILYN MCLAREN: Confirmed.

5 THE CHAIRPERSON: Please confirm your
6 indication that MPI with respect to combatting auto theft
7 is acting as a member of a team, the Provincial Auto
8 Theft Task Force rather than alone.

9 MS. MARILYN MCLAREN: Confirmed.

10 THE CHAIRPERSON: Please remind us what
11 agencies or groups are involved in the task force.

12 MS. MARILYN MCLAREN: The Corporation,
13 Winnipeg Police Service, RCMP, some smaller police forces
14 that exist in the Province; I'm not sure exactly which
15 ones are represented. A couple of different branches of
16 the Department of Justice; the Corrections Branch is
17 there as -- as well as Prosecutions are represented. The
18 Corporation itself.

19 Yes, Professor Rick Linden is a key player
20 in the Provincial Auto Theft Task Force. He's a
21 professor of sociology, University of Manitoba and has
22 done a lot of research with respect to things like
23 suppression strategies and -- and the impact of auto
24 theft on communities in -- in a little bit broader
25 context.

1 I believe there has been some recent
2 participation as well from the Department of Family
3 Services of the Government of Manitoba with respect to
4 understanding better some of the, you know, the -- the
5 youth who are involved in auto theft.

6 I will check to see who I have neglected
7 to mention and complete the record after the break.

8 THE CHAIRPERSON: And this group
9 continues to be in force?

10 MS. MARILYN MCLAREN: Absolutely. It --
11 it has -- it's quite a sophisticated, complex structure.
12 There is -- the Provincial Task Force is a senior level
13 steering committee that meets monthly.

14 There is -- because they are the ones who
15 initiated and are overseeing the auto -- the Winnipeg
16 Auto Theft Suppression Strategy they have other groups
17 that meet weekly and biweekly that report monthly to that
18 group. It is working level people at about two (2) or
19 three (3) different levels who meet very frequently,
20 specifically on the Auto Theft Suppression Strategy and
21 report back monthly to the Provincial Task Force.

22 THE CHAIRPERSON: So this gives you --
23 MPI an opportunity to bounce various concepts back and
24 forth and advice presumably is provided by the group not
25 only to MPI but to the other players, as well?

1 MS. MARILYN MCLAREN: Yes, absolutely.

2 THE CHAIRPERSON: Ms. McLaren, while it
3 may be unusual for an insurer to fund the Police and
4 Crown; is it that unusual for a public auto insurance
5 company? For example, doesn't ICBC contribute to BC road
6 improvement?

7 MS. MARILYN MCLAREN: Yes, absolutely.
8 The public auto insurers have a significantly different
9 history in this regard than do private insurers.

10 THE CHAIRPERSON: Does SGI or SAC involve
11 itself in payments that would be unusual for private a
12 insurer?

13 MS. MARILYN MCLAREN: I believe that it
14 continues to be true that the SAC, in particular, funds -
15 - provides some significant funding to people and
16 organizations involved in the greater road safety efforts
17 in the Province of Quebec.

18 Saskatchewan probably does a few things in
19 this regard, you know, they provide funding for high
20 school driver education, as we do. That's one (1)
21 example that you wouldn't find too many private insurers,
22 if any, doing.

23 THE CHAIRPERSON: Thank you very much.
24 Okay. We'll have our break now and return at 10:45.

25 By the way, just for the information, we

1 understand that CAC/MSOS' witnesses have arrived. And
2 that it would be I think, our general intention, to
3 complete the cross-examination of them today.

4 So regardless of the start, we'll try to
5 stay on the schedule we were talking about yesterday.
6 Does that sound reasonable, Mr. Saranchuk?

7 MR. WALTER SARANCHUK: Yes, sir.

8 THE CHAIRPERSON: Very good, we'll come
9 back at 10:45.

10

11 --- Upon recessing at 10:27 a.m.

12 --- Upon resuming at 10:49 a.m.

13

14 THE CHAIRPERSON: Okay. Welcome back
15 everyone. Again, our appreciate to Mr. Dawson who has
16 surrendered his seat in the front row once again. We
17 appreciate that. I can imagine it's certainly --
18 inconvenience involved in getting up to bat and then
19 sitting back again, but I'm sure it's appreciated by all.

20 It will help us in our process today and
21 allow CAC/MSOS to proceed with their witness. The other
22 adjustment that we would make is to shorten our lunch
23 break to one (1) hour from one and a half (1 1/2) hours.
24 And that may also help.

25 So Mr. Williams...?

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(MPI PANEL RETIRED)

MR. BYRON WILLIAMS: Yes, Mr. Chairman,
Members of the Board, good morning. Professors Hum and
Simpson are here after their hour and a half sojourn down
St. Mary's and then up Osborne, I believe.

I'm going to ask Mr. Gaudreau to affirm
the witnesses.

MR. KEVIN MCCULLOCH: While Mr. Gaudreau
is doing that, Mr. Chairman, I wonder if -- could the
Board indicate will lunch be 12:00 to 1:00 or 12:30 to
1:30?

THE CHAIRPERSON: Do you have a
preference?

MR. KEVIN MCCULLOCH: 12:00 to 1:00
please.

THE CHAIRPERSON: So be it.

DEREK HUM, Affirmed

WAYNE SIMPSON, Affirmed

THE CHAIRPERSON: Thank you, Mr.
Gaudreau. Mr. Simpson would you -- Mr. Williams, would
you mind reviewing the credentials of your witnesses?

1 MR. BYRON WILLIAMS: Yes. I'd be happy
2 to and just before starting, Mr. Chairman, and to
3 Professors Hum and Simpson, I'm going to -- they're --
4 it's jointly prepared evidence so I will be speaking to
5 the ubiquitous Hum and Simpson here and they'll --
6 they'll, kind of, intuitively decide who to answer.

7

8 (VOIR DIRE COMMENCED)

9

10 EXAMINATION-IN-CHIEF BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: But Professors Hum
12 and Simpson, we're going to get your qualifications in
13 just one second but I'll draw your attention, you don't
14 need to turn to it, but you -- can you confirm that you
15 prepared a report which was filed on September 8th, 2006
16 on determining an appropriate rate stabilization reserve
17 for MPI, critique of methodology and related issues?

18 DR. WAYNE SIMPSON: Yes.

19 MR. BYRON WILLIAMS: And that report was
20 prepared under your joint direction and control; is that
21 right?

22 DR. DEREK HUM: Yes.

23 MR. BYRON WILLIAMS: And to the best of
24 your knowledge and belief that report is accurate; is
25 that correct?

1 DR. DEREK HUM: Yes.

2 MR. BYRON WILLIAMS: It's going to be
3 like a gong show. Whoever can get to the button first
4 gets to answer the question.

5 DR. WAYNE SIMPSON: Jeopardy.

6 MR. BYRON WILLIAMS: The -- and also can
7 you confirm that -- that you jointly prepared
8 interrogatory responses to Manitoba Public Insurance 1 -
9 7 and to the Public Utilities Board, 1 - 10; is that
10 right?

11 DR. WAYNE SIMPSON: Yes and yes.

12 MR. BYRON WILLIAMS: And those reports
13 were prepared under your direction and control?

14 DR. WAYNE SIMPSON: Yes.

15 MR. BYRON WILLIAMS: We'll get this.

16 THE CHAIRPERSON: You'll get used to it.
17 The secret is the light.

18 DR. WAYNE SIMPSON: Where's the light?

19 THE CHAIRPERSON: Right where you're
20 speaking into it.

21 DR. WAYNE SIMPSON: On here. Okay.

22

23 CONTINUED BY MR. BYRON WILLIAM:

24 MR. BYRON WILLIAMS: Now, Professor Hum,
25 I'm going to turn to you first in terms of your

1 qualifications. And at a -- briefly, I wonder if you can
2 highlight a little bit about your -- your educational
3 background, your current position and your previous
4 relevant experience?

5 DR. DEREK HUM: My educational background
6 is that I studied mathematics and statistics before I
7 became an economist earning a Honours Science Degree in
8 that. Subsequent to that I studied philosophy, political
9 science and economics at a Master's level and after that
10 I gained a Doctorate in Economics at the University of
11 Toronto.

12 My current position, among others, is as a
13 Professor at the University of Manitoba and I have been
14 there for over thirty-five (35) long years.

15 My experience has involved experience in
16 both the university sector as well as the government
17 sector and a wide variety of teaching and research
18 institutions including the Economic Council of Canada,
19 which no longer exists, the Ontario Economic Council,
20 which no longer exists.

21 I'm presently a member of the National
22 Statistics Council, which is a board which advises the
23 Chief Statistician of Canada, Statistics Canada,
24 thankfully, still exists. And I have held a variety of
25 other interim or non-permanent consultancy and advisory

1 positions to a number of economic research organizations.

2 MR. KEVIN MCCULLOCH: Mr. Chairman, if I
3 could, and I don't want to deny Professor Simpson the
4 opportunity to go through his qualifications, but we're
5 certainly willing to admit, based on their academic
6 background, that both of these gentlemen are experts in
7 the field of economics.

8 MR. BYRON WILLIAMS: Mr. Chairman, I
9 always appreciate Mr. McCulloch's assistance. I do,
10 because these are new witnesses before the Board, and we
11 do want to go through, not at a great detail, but give
12 the Board a bit of sense of who these witnesses are and
13 what they can bring to the table in terms of their
14 expertise, with your permission.

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: Professor Hum,
18 again, we will -- I'll get to some of the things you've
19 written in just a second, but you said you've been a
20 Professor at the University of Manitoba for many, many
21 years.

22 What faculty or faculties do you serve in?

23 DR. DEREK HUM: I'm presently in the
24 Department of Economics, Faculty of Arts. I have also
25 been in the past in the -- they've changed the name but

1 you would call it the Faculty of Management Studies the -
2 - instructing MBA students. I have also been a member of
3 the Centre of Aging and I'm also currently a member of
4 the Centre for Higher Education, Research and
5 Development. Those are my current affiliations.

6 MR. BYRON WILLIAMS: Professor Hum, I
7 understand that you've published widely in many areas of
8 economics and written peer-reviewed articles and essays
9 in public admin, statistics, and some other subjects, is
10 that right, sir?

11 DR. DEREK HUM: Yes, that's correct.

12 MR. BYRON WILLIAMS: And I understand
13 you've written or edited seven (7) books, twenty (20)
14 monographs, and more than one hundred (100) journal
15 articles and book chapters?

16 DR. DEREK HUM: That's correct.

17 MR. BYRON WILLIAMS: Just for the purpose
18 of the Board are there any one (1) or two (2) articles
19 that you -- you think might be relevant in terms of your
20 qualifications before this Board?

21 DR. DEREK HUM: Well, I thank -- I thank
22 the gentleman for generously suggesting that we are
23 qualified in some ways, but perhaps the Board might be
24 interested to know as I said, before I became a
25 professional economist I consider myself to have done

1 extensive work in the area of mathematics and statistics.

2 I would offer as evidence of that a
3 journal article published in, say, The Journal of
4 American Statistics Association, which is not immodestly
5 regarded by many as one (1) of the top international
6 journals, peer-reviewed, in the world. There are other
7 journal articles as well but that would be one that would
8 testify to that. Published several chapters on
9 statistics in such areas as missing data, adjustment
10 techniques, measurement methods and so forth.

11 So that while I am a member of the
12 Department of Economics, I regard myself as having some
13 expertise in the area of statistics.

14 I would also draw one (1) other
15 publication that may be of interest and that is my work
16 in the area of unemployment insurance.

17 During the course of this work, as an
18 economist I have had to become very familiar with the
19 literature on optimal insurance design, in terms of the
20 programs, and its application albeit within the
21 particular area of unemployment insurance ,which insures
22 against contingencies of loss of income rather than
23 property damage.

24 So I am familiar with some basic -- the
25 economic literature having to do with the insurance.

1 MR. BYRON WILLIAMS: Professor Simpson, I
2 want a turn from -- from you. I'm hoping we've got the
3 mic figured out now.

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: And I wonder if you
8 can just at a high level again outline your educational,
9 your current position, and your previous relevant
10 experience?

11 DR. WAYNE SIMPSON: Okay. Well, I have
12 also a degree in mathematics from the University of
13 Saskatchewan and a Masters in Science and Economics from
14 the London School of Economics and a PhD from the London
15 School of Economics.

16 I'm presently a press professor and head
17 of the Department of Economics at the University of
18 Manitoba. I've been there less time than Derek Hum but
19 more than twenty-five (25) years.

20 I have -- I also worked for the Bank of
21 Canada and the Economic Counsel of Canada before joining
22 the University of Manitoba.

23 MR. BYRON WILLIAMS: And just -- if I
24 missed that, Professor Simpson, what's your current
25 position at the University of Manitoba?

1 DR. WAYNE SIMPSON: Yeah. I'm a
2 professor of economics and head of the Department of
3 Economics.

4 MR. BYRON WILLIAMS: I understand that
5 you've written and published extensively on a wide range
6 of topics related to economics, is that right, sir?

7 DR. WAYNE SIMPSON: That's correct, yeah.

8 MR. BYRON WILLIAMS: And that you've
9 written or co-authored three (3) books and numerous
10 journal articles, chapters of books, and papers, is that
11 right?

12 DR. WAYNE SIMPSON: Yeah. I don't count
13 them, but there's quite a few.

14 MR. BYRON WILLIAMS: You're too modest no
15 doubt. I -- I wonder if there's any publications that
16 you'd like to highlight for the Board?

17 DR. WAYNE SIMPSON: I've recently been
18 doing some work in health and the issue of health
19 insurance, public health insurance. And I've written
20 three (3) articles; two (2) of which were published in
21 Health Economics which is one (1) of the major journals
22 in that area, and another article on social science and
23 medicine which is another major journal in the area of
24 health economics.

25 Derek Hum and I have written a paper on

1 public training programs and Canada med evaluation which
2 uses or analyses a variety of studies that have used
3 evidence-based program evaluation, which I think is
4 relevant to the kind of work we're doing here.

5 And Derek and I, along with Norman Cameron
6 whom some of you may know, published a paper in the
7 Canadian Journal of Economics about a decade ago, called
8 Stylized Facts and Stylized Dilutions, Inflation and
9 Productivity Revisited; which looked at the relationship
10 between inflation and productivity using fairly
11 sophisticated time series methods.

12 Certainly more sophisticated than the ones
13 we use here in our report, but which illustrate our
14 ability to work with time series data of this -- of this
15 type.

16 MR. BYRON WILLIAMS: And Mr. Chairman,
17 just for the benefit of the Board, the statement of
18 qualifications the witness has set out in that Tab 1 of
19 their report that was provided; Dr. Simpson, in that
20 statement of qualifications it suggested that you're
21 experts in the area of evidence based program evaluation.

22 Either Dr. Hum or Dr. Simpson can answer
23 this, but I wonder if you can tell us a little bit about
24 what you mean by evidence program -- evidence based
25 program evaluation, why you think it's relevant to the

1 task of the RSR and what experience you have in that
2 field?

3 DR. DEREK HUM: I'll start with the
4 general description of program evaluation. It is a
5 recognized field and the discipline -- it's -- cuts
6 across disciplines, it's not peculiar to economics. It
7 embraces sociology, statistics, economics, political
8 science, public administration.

9 To give people who may not be familiar, it
10 has its own set of journals, it has its own professional
11 organization, it has all the trappings of what you might
12 call a mature specialized discipline.

13 A short definition of it, is that it is
14 the application of social science methodology to the
15 analysis of program delivery, public programs generally,
16 increasingly government delivers a wide variety of
17 programs.

18 And this branch of discipline examines
19 these various programs with respect to their
20 effectiveness in terms of achieving the aims as set out
21 by its mandate. The evidence based portion of it,
22 comprises the fact that we don't just go out and say,
23 well, the program must be good because nobody's
24 revolting.

25 We actually look at the evidence of it

1 from the point of view of its cost, from the point of
2 view of its benefits, from the point of view of
3 administration and efficiency of delivery.

4 So some of you may be familiar with the
5 term "cost benefit analysis." Programming evaluation
6 extends much more to that and it can extend to
7 consideration of benefits and costs beyond the balance
8 sheet types of costs and benefits.

9 MR. BYRON WILLIAMS: Professor Simpson,
10 do you have anything to add to that?

11 DR. WAYNE SIMPSON: No, just to add that
12 there are a variety of evaluations of the formative type
13 that look at, you know, ask people essentially how they
14 like programs.

15 But our -- our specialization is what
16 we've termed evidence based which is also referred to as
17 summative evaluations of programs, and that's where we
18 apply both social science techniques and statistical
19 techniques to these problems.

20 DR. DEREK HUM: And just to -- just to
21 make sure that distinction is important, the two (2)
22 branches, in economics you probably heard of micro and
23 macro; in program evaluation one (1) speaks of formative
24 and summative.

25 Formative is typically involving people in

1 this discipline before the program goes to field. You
2 sort of want to know on a test basis, whether this will
3 work or what are some of the unintended consequences that
4 you may not have planned for; that's called formative.
5 That's usually done at the pre-throwing the switch field,
6 in order to help the program delivers.

7 Summative is the intervention or research
8 by people like us, after the program has been in
9 operation for a time in which you want to ask the
10 question, well how has it done, and what can we do that's
11 better? So, its afterwards.

12 MR. BYRON WILLIAMS: Thank you, Professor
13 Hum.

14 Just finally in this area, in terms of the
15 work that you've done in evidence based program
16 evaluation, I wonder, Dr. Simpson, if you have anything
17 to -- some examples of some the work that you've done?

18 DR. WAYNE SIMPSON: We have been involved
19 in the evaluation of the National Child Benefit, which is
20 a major public program in Canada. We've also been
21 involved in a number of the labour market training
22 program evaluations, the Labour Market Development
23 Agreement in Saskatchewan and the earlier labour market
24 training programs under the auspices of the Human
25 Resources Development Canada or one of its many other

1 names.

2 And these have been our primary areas of
3 responsibility but we've widely read in the area of
4 program evaluation and are fairly familiar with the --
5 with the primary issues.

6 MR. BYRON WILLIAMS: I wonder if we
7 could, Mr. Chairman, just -- we've gone through their
8 qualifications. We're seeking to qualify Professors Hum
9 and Simpson as experts in economics and statistical
10 research and as experts in the area of evidence-based
11 program evaluation?

12 THE CHAIRPERSON: Thank you, Mr.
13 Williams. I've got two (2) small questions.

14 Professors, what do you consider to be the
15 similarities or major differences between your areas of
16 expertise and actuarial science?

17 MR. DEREK HUM: Well, there are
18 differences. We don't claim to be expert actuaries. I
19 would believe, and I would hope -- well, no, I know
20 actually that actuarial sciences uses principles of
21 statistics so, in many ways, they are a specialized
22 application of the principles of statistics.

23 I would hope that an actuary and an
24 economist or a statistician, such as we are sometimes,
25 would not differ in the calculation of the expected value

1 of a group of data. But the uses to which this data or
2 these calculations are put in terms of interpretation
3 depends upon the application.

4 For example, an actuary may very well be
5 interested in the probability of individuals surviving to
6 a certain point in time before they die. In some of our
7 work in another piece we were interested in the
8 actuarial, I hate to use that word, the statistical
9 probability calculations of individuals until such point
10 as they experience a major disability, they did not die.

11 But the principles involved in terms of
12 the statistical calculations would be the same. I'm
13 pretty sure an actuarial person would take the same data
14 and say, rather than project to death, project to
15 disability. I would hope that he and I would come to the
16 same conclusion.

17 So it's really the application of the data
18 of similar general principles of statistics.

19 THE CHAIRPERSON: Professors, is the
20 mathematics employed in the actuarial field within your
21 base of knowledge?

22 MR. DEREK HUM: I'm sorry?

23 THE CHAIRPERSON: Is the mathematics
24 employed, their approaches, in their -- in the actuarial
25 field within your base of knowledge?

1 MR. DEREK HUM: That's a loaded question
2 because I wouldn't claim total ignorance but I don't want
3 to basically give the impression that everything that
4 actuaries do and know, that I know as well.

5 I mean, if you could be specific then I
6 could say whether I know that piece or not.

7 MR. BYRON WILLIAMS: Perhaps the Chairman
8 could clarify by mathematics which specifically he's
9 referring to? Statistical technique?

10 MR. DEREK HUM: Probability, calculating
11 odds --

12 THE CHAIRPERSON: He is doing fine.

13 MR. DEREK HUM: -- calculating odds.
14 Working out the probability of compound events.
15 Calculating whether data sets -- where the data reveal
16 themselves over time, we call that time series; have
17 biases of various sorts, meaning tending to be up or
18 down, how widely spread or dispersed the range.

19 These things we do know about if even
20 applied to applications that are in the actuarial field,
21 but there may very well be some specific applications of
22 the -- well, there are, that we do not know about it and
23 we are not claiming expertise.

24 I would hope that when an instance of that
25 arises we will be forthright and say, we don't know.

1 THE CHAIRPERSON: Thank you. Does any of
2 the Intervenors have any questions or comments?

3 Mr. Oakes...?

4 MR. RAYMOND OAKES: Not at this juncture,
5 Mr. Chairman. We accept their qualifications.

6 THE CHAIRPERSON: Anyone else?

7 Okay. The Board's fine. We accept the
8 Witnesses as experts in the fields that they have
9 indicated.

10

11 (VOIR DIRE CONCLUDED)

12

13 EXAMINATION-IN-CHIEF MR. BYRON WILLIAMS:

14 MR. BYRON WILLIAMS: Mr. Chairman, just
15 by way of where we're going now I'm going to ask the
16 Witnesses, they're going to present a bit of a narrative,
17 a high level look at their report and then I'm going to
18 go back through and ask them a few questions on specific
19 references in their report and then we'll talk a little
20 bit about their recommendations.

21 DR. DEREK HUM: We tossed a fair coin and
22 I lost, so, I will be speaking.

23 Our report started out with a particular
24 question that was framed to us which was examine the
25 calculation and amount of the RSR. And I'm assuming that

1 those letters are well familiar to this audience. And in
2 particular to examine particular techniques that have
3 been used in the past to calculate it.

4 So we started off by asking as usual, in a
5 program evaluation research context, what is it you're
6 trying to do? And for that we're not insiders in the
7 industry so we simply looked at the textual evidence of
8 what the PUB -- I'm going to use all these initials
9 assuming you know what they are -- said it was for and
10 what MPI said it was for. And the literature search was
11 limited in the sense it looked at the latest statements,
12 not necessarily what was said many years ago.

13 And we found that to be -- to provide for
14 the contingency of unforeseen or unanticipated events
15 that do not recur on a frequent basis. So we took that
16 as the objective.

17 Then we examine two (2) approaches, the
18 risk analysis approach and the MCT approach or -- and
19 also its cousin the DCAT approach. Everybody should know
20 these acronyms and if not please interrupt me. And so we
21 looked at that.

22 The risk analysis approach essentially
23 calculates so-called risk margins. Again, this is not a
24 language we would use for operational risk and investment
25 risks, combines them. It uses the historical data on the

1 discrepancies between forecasts and actual amounts. I
2 say "discrepancies"; the accountant literature says
3 variances throughout. There's going to be hopefully --
4 I'll be conscious of it, but I may lapse in the sense
5 that these same terms are used differently in the
6 statistical literature as it is in the other literature.

7 And from what we were able to gather from
8 the instructions or suggestions of the PUB that these
9 exercises were to be done with and without correlation
10 and for two (2) confidence levels, 95 percent and 97.5
11 percent, and operating costs maybe alternative included
12 or excluded. So there was a wide variety of options.

13 The -- it's -- it's good to know that the
14 implicit thinking behind this is that past historical
15 experience is not a bad guide for assessing, not
16 particularly what anything will happen in the future, but
17 for -- from a statistical point of view assessing the
18 distribution of possible errors that may occur in the
19 future.

20 And the major risk to be considered
21 involve operation and investment risk and the risk margin
22 should be calculated to provide for the contingency of a
23 large unforeseen non-recurring event.

24 Now, the definition of an unforeseen non-
25 recurring event which is in the PUB language is given

1 substance, we interpret, by specifying of the confidence
2 level. For example, crudely put, if you say 97.5 percent
3 confidence, that corresponds in English to an event that
4 would occur about one (1) in forty (40) years.

5 So we took the specification of the
6 confidence levels as a guide to the degree of definition
7 of what something that's unexpected or unforeseen or
8 unanticipated.

9 I hope I'm clear on that. I mean it's not
10 that it won't happen, it's just not going to happen that
11 often.

12 But what does that often mean? Well, in
13 statistical parlance you've given us that guide. So we
14 then ask a number of questions of it, the risk analysis,
15 and compared it with the minimal capital test.

16 So, from the risk analysis from the point
17 of view of the operational risk, which is the main source
18 of it according to the MPI data, the lost cost -- I'm
19 sorry -- let me rephrase it -- the lost cost component is
20 the main source of that.

21 One might restate the problem in English
22 as; what sort of an unforeseen kind of loss events must
23 the RSR level be able to accommodate? Okay. I'm
24 assuming you're going to have one (1).

25 So that is the context in which we began

1 our work. We also examined the MCT as a tool that could
2 be used to answer this question, although we are very
3 clear to point out that it was suggested that it was used
4 as an indicative analysis tool only.

5 And that the target level of the MCT would
6 not be necessarily at whatever the rate that the
7 supervising agency is for private competitive insurers.
8 50 percent was the number that was used or talked about
9 in the literature that we received.

10 While it was acknowledge by MPI that the
11 MCT was not designed with risk related to deviations from
12 forecasts for a Crown corporation, such as MPI, which
13 provides on a monopoly basis, mandatory insurance
14 products.

15 I mean, you've probably have heard these
16 criticisms or arguments many times. We wanted to stress
17 that that is absolutely crucial in terms of our
18 understanding of our tasks.

19 In other words, we believe that these
20 features, these institutional features, for an economist
21 are not trivial; they're very, very important. A
22 monopoly does not have to worry about losing market
23 share, which every none monopolist firm does.

24 You also don't have to worry about -- even
25 if I'm a monopoly, a lot of people may choose not to

1 consume my product at all. Well, I suppose that's
2 literally true if they decide not to drive or own an
3 automobile, but if you do decide it, insurance is not an
4 option, it's compulsory.

5 So you're not only a monopoly, you
6 actually have a product that the individual must buy;
7 it's not a choice. And we also made the assertion that
8 MPI is unlikely to be allowed to go bankrupt by the
9 Manitoba Government. I can't give you a textual citation
10 for that, but that is our assumption.

11 Therefore, we believe that adjustment of
12 an MCT standard set for a private sector competitive
13 industry, applied to a monopoly situation of a Crown
14 corporation, with guaranteed 100 percent market shares
15 selling a compulsory product, there's no magic formula.

16 There's no evidence based adjustment
17 procedure for that, okay. That doesn't mean it's
18 impossible to do, it just means that you can't go look at
19 a bunch of statistics and say, here's the number.

20 A perhaps somewhat whimsical way of doing
21 this, and I have to confess when I wrote this I had in
22 mind that I'd be talking to not statisticians, but mainly
23 lawyers and people in the public service, in the
24 industry; I thought maybe one (1) way of sharpening this
25 would be to say how much lower should the MCT be, if all

1 of the sudden a private sector insurance company were to
2 be -- someone were to come along and say, look I can make
3 it happen, your market share is guaranteed 100 percent,
4 okay.

5 And I'll make you an offer you can't
6 refuse. And you will be able to set prices, at any level
7 you wish without having any competitors because I'm not
8 going to allow competitors. And you can't go bankrupt.
9 And furthermore, they got to buy your product.

10 Now, if this all happens, you may want to
11 say I'll adjust my MCT. But you're still going to be
12 faced with the possibility, open to the risk, that there
13 could be a large unanticipated, unforeseen, non-recurring
14 event. I mean, you've still got to operate the business;
15 tremendous hail storm or something; you've still got to
16 pay the claims.

17 You're still going to have to have this
18 requirement even though you're a monopoly. You can't go
19 bankrupt and you have no competitors. So, I guess if we
20 were actually trying to sell a company like this lawyers
21 would probably put on the balance sheet goodwill and
22 other such nothings, okay.

23 Now, I realize economists don't normally
24 have the same obsession with double-entry bookkeeping
25 that accountants do, but that is how an accountant would

1 structure that. In economics we would say that invisible
2 goodwill has a value. It's an asset. If not,
3 rhetorically, would MPI like to give it up?

4 We then looked at the evidentiary basis of
5 the MCT test as performed by Mr. Christie -- for Ernst &
6 Young, conducted by Mr. Christie. And I think you
7 already have read what we have done with that. So I will
8 just highlight very briefly.

9 We simply make two (2) points, which is
10 that this type of exercise is very useful and I ought to
11 say right at the beginning I have no difficulty with this
12 test. It is a good -- it is a -- it is a good test.

13 The trouble with any test, it depends upon
14 the persuasiveness of plausibility or relevance of the
15 assumptions that one builds in. After all, the computer
16 is -- it doesn't have a mind of its own.

17 We examined -- we examined all of that
18 report but we chose, in our report, simply to highlight
19 the two (2) most extreme results that were obtained by
20 Mr. Christie. Perhaps I'll pass over one (1) which was
21 the -- the -- what Mr. Christie calls the catastrophic
22 large scenario which he, for the sake of narrative,
23 phrased as terms of the large hail storm, giving rise to
24 damages twice the level ever experienced before by MPI
25 for a hail storm, together with a difficulty with the

1 reinsurer, Lloyds, in fulfilling their commitment. So
2 that was just a narrative technique.

3 But he finds that with that the MCT
4 remains above the 50 percent level. And so my suggestion
5 is that an event like this, if you do adopt the 50
6 percent MCT ratio, is something that -- that MPI can
7 withstand with that criteria.

8 A greater difficulty was with the one in
9 which he suggested -- he called the inflation scenario.
10 It's the most extreme. So I guess my strategy is if I
11 can convince you that the most extreme is not that
12 extreme then maybe the less extreme you would also say
13 was every proportionately less extreme.

14 This one gives rise to a negative retained
15 earnings ratio and a projected MCT ratio that's negative.
16 And on the basis of this simulation or exercise Mr.
17 Christie concludes that the future financial condition of
18 MPI basic is not satisfactory.

19 I -- I do not come to that conclusion
20 myself and it is not because I argue with the arithmetic
21 of Mr. Christie. It is that I believe, as I said, you
22 can't disprove anyone's assumptions. I think the
23 assumptions that underlie that for me as an economist,
24 are totally implausible.

25 You could tell me that it isn't, but that

1 would be fine. I would accept that. He -- he, for
2 example, obtains results by suggestion, among other
3 things, there is an unanticipated inflation rate of 3
4 percent. That is, to be very clear, inflation is 3
5 percent more than what one would expect from their best
6 forecasts.

7 Well, I suppose that it's possible. But
8 in today's context in which the Bank of Canada has made a
9 pledge to inflation target within a band of one 1 to 3
10 percent, so even if you're at the bottom of it you would
11 be at one (1), to have it an unanticipated three (3)
12 means it was four (4) which means that David Dodge at the
13 Bank of Canada was really, really not -- well, it's
14 possible the Bank of Canada will not do what they do.

15 I -- I -- well, okay, it's possible. On
16 the other hand the empirical evidence of the Bank of
17 Canada in terms of the consensus forecasts of -- of what
18 inflation would be certainly would not lead to a -- a
19 range that is above that. So that's one (1).

20 The second one really has to do more
21 deeply with the way in which economists build these kinds
22 of models if you like. We believe in building models in
23 which there are behavioural reactions of the players or
24 agents, to use our jargon, on the basis of what we
25 believe is the information they have at hand.

1 In other words, what do you know and when
2 do you know it? And on that basis when we examine Mr.
3 Christie's assumption of the adjustment by MPI to this
4 inflation we find it fairly implausible. We find that in
5 the face of negative returned earnings and projected MCT
6 ratios that are negative, these sort of hold to the
7 notion that the only rate increase that they'll bother
8 the PUB about is of a magnitude that we think, on the
9 face of what the evidence must be, totally unrealistic.

10 Bearing in mind MPI would have at this
11 time the results of this DCT information. They would
12 have the results although it is not in Mr. Christie's
13 report of whatever forecast their forecasting department
14 would come up with and we find that incredulous. Well, I
15 find it -- well, we find it incredulous that this type of
16 behavioural response would give rise to a conclusion on
17 the basis of that that the -- MPI Basic's financial
18 condition isn't -- not satisfactory.

19 As an editorial remark this has -- is
20 particularly pernicious because the first scenario of a
21 hailstorm -- that's fine, a hailstorm comes and goes.
22 It's not an event that would eat away.

23 But inflation is the example Mr. Christie
24 chose which has this invidious effect that it may be
25 small in a given year, but left unattended it just sort

1 of gnaws at you and it really, really, creates problems
2 for your balance sheets. So we -- speaking as a citizen
3 of Manitoba I would hope MPI's response would not be as
4 Mr. Christie outlined it.

5 We also then examined the data that -- and
6 this is MPI data and I say at the outset we have not
7 verified it or independently audited the data; we took it
8 at face value.

9

10 (BRIEF PAUSE)

11

12 DR. DEREK HUM: Yeah, okay. I -- I think
13 it's quite possible that you're tired of my voice so I'm
14 going to allow my colleague now to -- to go to this part.

15 DR. WAYNE SIMPSON: Okay, yeah. We took
16 the -- the data that MPI had presented and we conducted
17 what we called our -- our forensic statistical
18 assessment.

19 First of all, we looked at this question
20 of the use of correlations in risk assessment and I think
21 the -- the simplest way of looking at this is to simply
22 aggregate the costs. The net underwriting income in
23 terms of revenues minus costs is the -- the objective of
24 the forecasting exercise and on face -- on the face of it
25 we immediately said, well, it certainly doesn't look

1 right to ignore the correlations because this process
2 which we now know better than we did then, but says that
3 you forecast your costs.

4 You try to convince the PUB to reflect
5 that in its rate adjustments and therefore you've built
6 in a strong correlation between your costs and revenues.
7 In other words you intend as a not-for-profit
8 organization that these are going to move in lockstep.

9 So to ignore this correlation between
10 costs and revenues which is going to be high is going to
11 inflate your estimates of the variance of the difference
12 between revenues and costs; that's a standard kind of
13 statistical principle.

14 And when we calculated the correlation
15 between net revenue earned and costs, in fact, we were
16 not surprised to see that it was almost one (1); it was
17 zero point nine four (0.94).

18 And the effect of that is, if you ignore
19 correlations you are always going to overstate the actual
20 variability in your -- in your underwriting, net
21 underwriting income, which is the difference between
22 those two (2) magnitudes, revenues and costs.

23 So, we certainly applaud the PUB for
24 enforcing the use of correlations in risk assessments.
25 On the other questions, we took a -- we broke down the --

1 our assessment, our forensic assessment into a number of
2 categories.

3 One (1) was the question of forecast bias,
4 in which we simply noted from MPI's own figures -- we did
5 no calculations here, I replicated their calculations to
6 make sure I had the right numbers and so on. So it was
7 kind of an editing check.

8 But, we simply noted that the effect of
9 their forecast over the years was to overstate their --
10 or I'm sorry to understate their revenue. And in fact,
11 the amount of the understatement was eight hundred and
12 forty-six thousand dollars (\$846,000) per annum, which
13 amounted to about \$10 million over twelve (12) -- over
14 twelve (12) years.

15 And that forecast bias we noted would be
16 sufficient to offset, for example, any forecast future
17 effects of inflation which are actually very low at the
18 moment.

19 Then we looked on our own calculations at
20 issues we thought might be relevant. One (1) is the
21 question of serial correlation and the MPI forecast.
22 Because one (1) of the problems in a lot of economic data
23 is that the outcomes tend to be what we call, positively
24 serially acorrelated.

25 That is to say, if you get a big error one

1 (1) year, you'd tend to get a big error the next year
2 because there's -- inertia is built into the system.

3 Now, that's not necessarily the case with
4 something like a forecasting exercise like this, where
5 you expect that MPI is going to try to accurately
6 forecast its costs and come in more or less on balance.

7 So the first question we wanted to look at
8 is, whether in fact this is the case, that if they
9 forecast a large error one (1) year, that's likely to
10 feed into their forecasts the next year and so on.

11 They've talked about the lags, regulatory
12 lags and so on. So that it's plausible there could be
13 some serial correlation but, in fact, we don't find any.
14 And interestingly, we find that actually the forecast
15 error is negative.

16 It probably easiest, as in fact, people
17 have discussed to say it's zero. If it's zero that just
18 means that the forecast error is the differences between
19 the forecast of net underwriting income and the actual
20 outcomes, are independent from year to year; that if you
21 have this so called one (1) in forty (40) loss in one (1)
22 year, that the chances of it occurring in the next are
23 again only one (1) in forty (40).

24 And looking two (2) years ahead, the
25 probability of it occurring in two (2) successive years

1 is one (1) in sixteen hundred (1,600). And so the
2 combination of those two (2) things led us to the
3 conclusion that, in fact, the RSR in the current range of
4 50 to 80 million, was in fact adequate to deal with their
5 -- what we would likely observe as an anticipated and
6 non-recurring losses that might occur over time.

7 The other issue, was this issue of
8 historical cost adjustment. And --

9 DR. DEREK HUM: Explain how you got this
10 -- where we got the fifty (50) --

11 DR. WAYNE SIMPSON: Yeah, we're using --
12 we're using their -- we're using their numbers. The 50
13 million corresponds to the 95 percent confidence level.
14 And the 80 million actually corresponds to a 99.5 percent
15 confidence level which is a one (1) in two hundred (200)
16 year event. So, it actually exceeds their own
17 stipulation guideline, 97.5 percent confidence, and would
18 in fact be somewhat lower than \$80 million.

19 The historical cost adjustment as put
20 forward by MPI is a fairly simple formula. It says that
21 if you go back and reflect in the current numbers the
22 volume of business that we now have, you reflect that in
23 the past numbers, what you're going to do, is you're
24 going to inflate the variation in past outcomes and
25 that's going to yield a higher variability in your net

1 underwriting income.

2 What that does -- we've termed that naive
3 because what it does is it ignores the other things that
4 might be going on in MPI's business and in their
5 forecasting exercises.

6 And if, for example, over time other
7 aspects of the business were becoming more predictable --
8 I think I've heard it said by MPI that since '71 the
9 business has become more predictable because they get
10 better at what they do. And I suspect also there was a
11 period of learning from the 1994 institution of the PIPP
12 and that learning would also lead to more predictable
13 forecasts in more recent years.

14 Those kinds of things would work in the
15 opposite direction. So our approach was to say, well,
16 let's look at the actual evidence. In other words, is
17 the variability of the forecasts that MPI is producing
18 becoming greater over time.

19 And when you look at the evidence we have,
20 the twelve (12) years that have been used for the
21 operational risk assessment, in fact, you find that not
22 to be the case. I mean, both visually we have a figure
23 in our report, figure 2, visually which shows no
24 particular pattern over time in the variability of the
25 forecasts.

1 And in terms of a statistical test, the
2 so-called British Pagan test which is a standard one in
3 the econometrics literature to test for this, we find,
4 again, that there's no evidence of variability.

5 So that, again, suggests to us that there
6 is no argument for making the kinds of historical cost
7 adjustment MPI has made. And from that perspective we,
8 again, would argue that the existing RSR bounds at 50 to
9 80 million based on the criteria set by the Board are, in
10 fact, adequate for the -- for the needs of the RSR as
11 they are stated.

12 MR. BYRON WILLIAMS: Professors Hum and
13 Simpson, I have a few questions for you. You don't talk
14 a lot in your report about the issue of investments.

15 I wonder if you have any brief comments on
16 that subject?

17 MR. DEREK HUM: My comments are brief.
18 It -- it may not even be looked upon sympathetically by
19 the PUB but we had a limited amount of time and resources
20 to fulfil what we were asked to do and when we got into
21 it we -- we had a -- we felt we should concentrate on
22 doing, as completely as we could, the particular portion
23 that would be helpful.

24 So we concentrated on the operational
25 risk. We did examine the investment risk and we have not

1 given it a, what I would call, the real thorough kind of
2 going over we would like. But we did learn enough about
3 it to know that this is something that is -- was going to
4 require a lot more time than we had.

5 Now, I realize you can say, well, take the
6 time, but -- well, as I said, we -- we had limited
7 resources, limited time constraints.

8 We learned enough about it to reach a
9 judgment which we didn't put in our report but I would be
10 willing to discuss if asked, that we don't find the value
11 at risk test or calculations to be very helpful. And,
12 again, for that reason, we did not concentrate a lot of
13 energies to establish something that we had initially,
14 and hopefully can defend, as not helpful.

15 MR. BYRON WILLIAMS: I do have a couple
16 of brief questions in follow up. First of all, and this
17 I'll put to Professor Simpson and then I'll come back to
18 you, Professor Hum.

19 In terms of the purpose of the RSR I just
20 wonder, Professor Simpson, if you have some comments
21 about if you're looking at the investment questions what
22 -- whether it's the same question you might ask?

23 DR. WAYNE SIMPSON: Yes. The stated
24 purpose of the RSR is to deal with unanticipated and non-
25 recurring losses. And what strikes us from --

1 MR. DEREK HUM: Events. It doesn't have
2 to be a loss.

3 DR. WAYNE SIMPSON: Events. We're
4 concerned about the losses. Events. What strikes us
5 about the investment side is that in choosing a
6 portfolio, choosing essentially a combination of equities
7 and -- and bonds, short-term and long-term, marketable
8 and non-marketable, we come up with a -- we come up with
9 a -- an outcome which is relatively predictable in the
10 following sense.

11 It's predictable in terms of the rate of
12 return we can expect and it's also predictable in terms
13 of the volatility of that return over time. We speak to
14 financial consultants and they can give us information on
15 that; that is to say, they can tell us that if we add
16 equities to our portfolio, yes, our expected rate of
17 return will go up, yes, the volatility of that return
18 will also go up.

19 Perhaps the starkest way to contrast this
20 with the operating side where there are events that are
21 truly unanticipated and nonrecurring is to say that on
22 the investment side, I'm not advocating this, but on the
23 investment side one can completely control the risk. One
24 could choose an entire portfolio of nonmarketable bonds
25 which would yield a perfectly predictable return over

1 time which would be lower than the return that is now
2 obtained by assuming some risk.

3 That is not an option that's available on
4 the operation side where you can't say, Well, we shall
5 have no hailstorms. Things happen on the operational
6 side that impose risk on the investment side. The risks
7 are assumed and they're assumed for a purpose of
8 obtaining higher returns.

9 So there is a distinction that we would
10 note there in terms of the investment side versus the
11 operational side.

12 MR. BYRON WILLIAMS: Dr. -- or Professor
13 Hum, just in terms of -- let's assume that one was -- was
14 trying to get some measure of fluctuations in investment
15 income.

16 Can you comment on -- on whether or not
17 the -- and -- and that effect on the bottom line? I
18 wonder if you could comment on whether or not you would
19 see the VAR as the best measure of that?

20 DR. DEREK HUM: I regard that as an
21 invitation to answer two (2) questions.

22 If I -- if I had more time I would
23 certainly answer the question by saying, Well, let me
24 take a look at your specific portfolio, whoever asks me
25 that question, and tell me what proportion you want in

1 bonds, what proportion you want in equity, what
2 proportion you want in derivatives because you can't
3 simply say, How's my portfolio going to do?

4 I would have to look at it and on the
5 basis of that, I would also calculate what are the
6 historical rates of returns traditionally on these
7 classes of instruments? I would also calculate or ask
8 you when -- what is your intention in terms of how long
9 you're going to hold each of these, what we call the
10 holding period.

11 And on the basis of this, there are
12 standard theory and formulas for calculating what the
13 rate of return of the portfolio is. As My Colleague
14 says, we would get an estimate of the expected rate of
15 return over time and we would get an estimate of the
16 range of volatility of this portfolio over time. Notice
17 I said, "portfolio", not a particular stock or not a
18 particular bond.

19 If that's what you want; that's fine.
20 Now, if you ask me another question which is, No, I don't
21 want that, I don't need that, I'm living off my children.
22 I don't need that. I just want to know what the
23 variability of my portfolio is on a year-to-year basis.

24 Now, that's a different question. That's
25 the variation in the total value of your portfolio from

1 year to year. The value at risk measure -- answers that
2 second question. It doesn't mean the first question I
3 couldn't calculate it given the time and the information,
4 but the value at risk answers the second question.

5 Well, it answers it in a slightly
6 different way. It says what's the probability of the
7 value of this portfolio becoming negative, meaning, you
8 lose money for a given time period at a given confidence
9 level which is not the same as what is the rate of
10 return, sort of a -- sort of an income flow you're going
11 to get and how does it vary?

12 Now, I hope I haven't confused anybody,
13 but the very -- the value at risk measure doesn't address
14 what I consider to be the formulation that is necessary
15 for determining what -- and a budget cycle should be in
16 terms of the income that's at risk coming to MPI.

17 MR. BYRON WILLIAMS: Thank you.

18 DR. DEREK HUM: I hope I haven't confused
19 everybody.

20 MR. BYRON WILLIAMS: Actually you helped
21 -- helped clarify things for me, so, I'm going to assume
22 you did it for others in the room.

23 I just have a few questions about from --
24 from the actual report of the Witnesses themselves I'd
25 like to take them to, Mr. Chairman, so if Members of the

1 -- the Board and if the Witnesses want to have their
2 actual reports near at hand that would be good.

3

4

(BRIEF PAUSE)

5

6

MR. BYRON WILLIAMS: And I'm going to
7 shorten up a few of the questions to the witnesses,
8 because I think you've covered some of them.

9

10

But, turning to page 24 of your evidence
and, in particular, the second paragraph which states --
11 Professor Simpson, I'm going to ask you to just read that
12 second paragraph and then just discuss it a little bit.

13

14

I think this is Professor's Simpson
evidence.

15

16

DR. WAYNE SIMPSON: This is the paragraph
beginning with the operational risk assessment?

17

MR. BYRON WILLIAMS: That's right, yes.

18

DR. WAYNE SIMPSON: Yes.

19

20

21

22

23

24

25

"The operational risk assessment is
concentrated on the size of the
forecast errors and, in particular,
the size of prospective negative
forecast error outliers that might
exceed the RSR. It is this concern
that constitutes the primary

1 rationale for the RSR."

2 MR. BYRON WILLIAMS: I wonder if you can
3 elaborate on the point you're trying to make there?

4 DR. WAYNE SIMPSON: The issue is what is
5 termed unanticipated and non-recurring and implicitly
6 large because if they're small enough you don't notice
7 them, you don't notice, right? So we're talking here
8 about things that can happen, particularly in terms of
9 loss claims, which is the major source of volatility
10 regarding the weather and other things that can't be
11 controlled that can produce unexpectedly large loss
12 claims.

13 But, even on the operational side,
14 unanticipated difficulties with an operating system or
15 some other event that leads to losses that would exceed
16 what would normally be considered the norm, however,
17 that's defined.

18 MR. BYRON WILLIAMS: Thank you. I'd like
19 you to turn to page 27 of your evidence.

20 And at a high level, you're discussing how
21 the second alternative, so called improvement to the risk
22 analysis, that Manitoba Public Insurance is proposing
23 which is to involve adjusting historical loss costs
24 revenues and expenses to reflect current dollar values on
25 volumes of business.

1 And I wonder if you can discuss briefly
2 your concerns at a bit more detail about what they're
3 doing.

4

5 (BRIEF PAUSE)

6

7 DR. WAYNE SIMPSON: Well, as I said
8 before one can make an argument that as the volume of
9 business grows, the volatility of outcomes might increase
10 and adjusting the scale of past business is going to
11 produce that effect in the historical figures.

12 And that's what MPI has done. And that's
13 -- illustrates an argument. But, of course, the question
14 is: What else is happening at the same time?

15 And if the only thing that's happening is
16 that the volume of business is changing and this is
17 making outcomes bigger and, therefore, more volatile than
18 their argument is correct.

19 But, we don't know that that's the only
20 thing that's happening. And the only way that we have at
21 present of examining that issue is to look at the
22 evidence that's available to us for the operational risk
23 assessment.

24 And it suggests to us that, in fact, there
25 isn't greater volatility over time. So, there probably

1 are other things going on that are offsetting the effects
2 of the rising volume of business on volatility.

3 MR. BYRON WILLIAMS: Thank you. And then
4 Professor Hum, I just want you to turn to page 32.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: And on the -- on the
9 second and third bullets of that page, you talk about the
10 question that is asked by the RAA, the Public Utilities
11 Board risk analysis approach versus the DCAT question.

12 And I wonder if you can read in your two
13 (2) bullets and then discuss that?

14 DR. DEREK HUM: You want me to read them?

15 MR. BYRON WILLIAMS: Yeah and then
16 discuss them or you can just discuss it.

17 DR. DEREK HUM: No, no, I'll --

18 MR. BYRON WILLIAMS: Okay.

19 DR. DEREK HUM: Sorry. You don't want me
20 to read in this introductory paragraph, okay. Bullet 1:

21 "At this point it is useful to
22 clarify the nature of the question
23 that the DCAT asks and contrast it
24 with the question asked by the PUB
25 RAA approach."

1 The RAA asks, essentially, what is the
2 level of reserves necessary to withstand an unanticipated
3 loss by MPI given past patterns of historical occurrences
4 of an infrequent event?

5 Bullet number 2. The DCAT asks,
6 essentially, how much capital must MPI have in order not
7 to suffer complete insolvency in the sense that all
8 liabilities must be covered from firm assets within one
9 (1) year? The one year restriction is implicit is the
10 emphasis on liquid assets rather than total assets
11 including the intangible asset of a government guarantee
12 against insolvency and a market power associated with its
13 monopoly status in marketing a mandatory product. End of
14 bullet.

15 The last part may not -- was really in
16 reference to my notion of -- of the fact that MPI is a
17 monopoly Crown Corporation and we accountants what we --
18 I'm sorry, what we economists would call a full
19 accounting net worth, it would be on the asset side of a
20 balance sheet.

21 I apologize to all the accountants in the
22 room.

23 MR. BYRON WILLIAMS: Let me just finish.
24 I want to make sure that I'm clear on the recommendations
25 of you on the area that you've paid particular attention

1 on which is the operational side of the risk analysis.

2 First question is: Manitoba Public
3 Insurance has suggested that in terms of setting an RSR
4 the Board would be better advised to use the MCT as a
5 replacement for the risk analysis. I wonder what your
6 conclusions would be on that point?

7 MR. DEREK HUM: I hope everybody
8 remembers exactly what question you asked and if I
9 remember it correctly the -- my answer would be, no, I
10 would not use the MCT, I would use the risk analysis.

11 But, just in case everybody didn't hear it
12 the way I did, I'm not saying the MCT is not a good test
13 for the purpose for which it was designed and applied in
14 the way -- you know, practitioners apply it.

15 I'm just saying -- or I am saying, for the
16 purposes of the RSR, as I have carefully outlined my
17 understanding of its purpose, it is not the best tool.

18 Maybe an analogy would help. I'm not
19 going to argue whether the six iron or the seven iron is
20 the best club to use when on the fairway. I don't play
21 golf by the way. But, the situation is you're eighteen
22 (18) feet from the hole, so, it's really the putter that
23 should be used. That's -- I am agnostic as to what iron
24 you should use on the fairway. But you have a lovely set
25 of irons. Even Tiger Woods wouldn't use it six (6)

1 inches from the hole. Maybe everybody didn't hear the
2 question as I heard it.

3 MR. BYRON WILLIAMS: The -- Mr. Chairman,
4 I just note that I didn't seek to qualify Professor Hum
5 as a golf expert.

6 The -- the second question I want you to
7 specifically address two (2) adjustments to the risk
8 analysis that Manitoba Public Insurance has proposed.
9 One was -- I'm going to shorthand it as the readjustment
10 of historical features to current numbers, the other one
11 is the treatment of reinsurance.

12 And I wonder if you have any comments on
13 that in terms of recommendations?

14 DR. WAYNE SIMPSON: On the historical
15 cost adjustment, I think we've clearly argued that it's
16 but -- but one (1) of -- of many possible factors that
17 may have influenced the variation in forecast errors over
18 time and that we don't think that the historical cost
19 adjustment, based on the evidence that has been
20 presented, which is the twelve (12) years of data,
21 captures that -- that -- sorry, that unnerved me,
22 captures that effect.

23 MR. BYRON WILLIAMS: We're entertaining
24 as well as informative today, Professor Simpson. Do you
25 have any comments on the reinsurance?

1 DR. WAYNE SIMPSON: No. This is really
2 outside our purview and I would prefer to simply say that
3 we don't see it as relevant to the -- the issue at hand.

4 MR. BYRON WILLIAMS: Last is, in terms of
5 the appropriate range for the -- for the risk analysis I
6 just wonder if you'd could confirm your recommendations?

7 DR. WAYNE SIMPSON: Based on the
8 information available and the confidence level stipulated
9 which are the 50 and -- the 95 and 97.5 percent
10 confidence levels, the range of 50 million corresponds to
11 the 95 percent confidence level based on existing data
12 and the \$80 million corresponds to more than a 97.5
13 percent confidence level, it corresponds to roughly a
14 99.5 percent confidence level and we view that to be
15 adequate to deal with unanticipated and nonrecurring
16 events of the sort the RSR is directed towards.

17 MR. BYRON WILLIAMS: Thank you. And we
18 brought that in just under an hour, Mr. Chairman, so
19 we'll allow MPI to get to their twelve o'clock
20 appointment I hope.

21 THE CHAIRPERSON: Okay. Just before we
22 adjourn I just have one (1) question.

23 The question of the RSR level is quite
24 important to this Hearing and your views and Mr.
25 Christie's appear to differ.

1 I'm just wondering, do you have any
2 professional relationships with an actuary -- actuaries?

3 DR. DEREK HUM: I don't.

4 DR. WAYNE SIMPSON: No.

5 DR. DEREK HUM: No.

6 THE CHAIRPERSON: Would you suspect that
7 an economist, with your expertise, could agree with an
8 actuary in a matter such as that that's before us?

9 DR. DEREK HUM: Given enough time, I
10 think the differences are not that great. Well, I'm an
11 optimist. I always believe that if persons of goodwill
12 from different disciplines will sit down and that they
13 would stop this variation of language that divides us,
14 we'd come to some understanding or at least we'd have a
15 better appreciation where we disagree.

16 I think part of what I am -- think we are
17 trying to do is that when we disagree with a position of
18 the MPI or one (1) of their witnesses I am always asking
19 myself, are they simply asking a different question than
20 I'm asking? And maybe there's no disagreement. And
21 maybe it partly is the different of question and partly
22 is the confusion of language.

23 For example, accountants use "variance" in
24 an entirely different way than a statistician use the
25 variance which is why I went at great lengths to give a

1 definition of why we're using it this way.

2 And if we don't bother to learn each
3 other's language and models it creates a lot of confusion
4 because how many people automatically in everyday English
5 say, Variance, oh, yeah, you really mean the sum of the
6 square of every deviation point from its collective value
7 so that I can calculate the standard deviation by taking
8 its square root, you know?

9 So yeah, exactly. I mean, there are times
10 when what divides us is language and I -- I mean this in
11 a professional way because I was hoping to convey at some
12 great pains I don't regard myself as just a mere
13 economist, I regard myself as being a reasonably -- and
14 My Colleague -- we've been reasonable well versed in
15 other disciplines.

16 We take great pains to understand the
17 perspective of a different angle of vision and I -- we're
18 trying to provide you with ours in the sense that an
19 economist would certainly put under goodwill and other
20 such nothing this thing which is of great value, having a
21 monopoly and no risk of market share. Whether it shows
22 up on MPI's balance sheet or not, this is an economist's
23 perspective. It's -- it's worth something. It's worth a
24 great deal actually.

25 THE CHAIRPERSON: Well, this process is

1 not -- it's intention is not to prove one (1) party
2 right or wrong as opposed to the other, it's to arrive at
3 what --

4 DR. DEREK HUM: Yeah, we're -- we're
5 giving a particular perspective.

6 THE CHAIRPERSON: I think I know the
7 answer to this but I'll just ask it just to close off
8 this morning.

9 Have you had any direct conversations with
10 Mr. Christie to work out your differences?

11 DR. DEREK HUM: At -- at the last --
12 after everything was concluded I went over and introduced
13 myself and said hello on the basis that we have the same
14 alma mater, but we have no other professional
15 relationship before and after this hearing probably since
16 or ever; but no, we -- we went to the same school, a very
17 good school.

18 THE CHAIRPERSON: I'm glad to hear that
19 and it's probably a striking endorsement of that
20 particular university.

21 DR. DEREK HUM: For one of us.

22 THE CHAIRPERSON: We'll adjourn until
23 1:00. Thank you.

24 MR. KEVIN MCCULLOCH: Mr. Chairman, if I
25 could before we adjourn, to get on the record. In light

1 of a certain newspaper article yesterday, I want to
2 ensure the panel that the reason I was asking as to when
3 the lunch break would take was because Ms. McLaren has a
4 meeting scheduled for 12:00, it had nothing to do with
5 wanting to get into the room to have lunch.

6 THE CHAIRPERSON: Very good.

7

8 --- Upon recessing at 12:01 p.m.

9 --- Upon resuming at 1:05 p.m.

10

11 THE CHAIRPERSON: Okay, welcome back
12 everyone. Before we turn matters over to Mr. McCulloch,
13 I have one brief moment that's come from looking through
14 our stuff at lunch. I'm sure, like the rest of you, we
15 try and catch up during these periods of time, and Mr.
16 Evans has a couple of questions for the professors.

17 Mr. Palmer, just a very small point but
18 when you were reviewing the allocation of various costs
19 against the various classifications, one in which no
20 operating costs was allocated against was the off-road
21 vehicles and the trailers.

22 You don't have to do it right now but if,
23 as an undertaking, if you wouldn't mind reminding us how
24 this came about. And we realize the Board had a role in
25 it. If you could remind us as to its reasonableness at

1 this point in time. No rush.

2 MR. DON PALMER: This came up in hearings
3 probably, I'm sort of guessing, maybe six (6) or seven
4 (7) years ago. The point was that even though everybody
5 agreed that allocating operating costs on a per vehicle
6 basis was probably a reasonable thing to do just because
7 all renewals cost the same and we have to do the
8 paperwork and all of that regardless of -- of type of
9 vehicle.

10 That amount of operating expense, round
11 numbers is about sixty (60) bucks a vehicle. When you
12 compare that to the loss cost that we're actually
13 assuming for off-road vehicles and for trailers, it was
14 probably then about twenty (20) bucks a vehicle.

15 And the Board, at that time, thought that
16 it was a real disconnect to insure someone for a
17 potential cost of twenty (20) bucks a vehicle and charge
18 them sixty (60) bucks for the privilege of doing it.

19 And because of that disconnect, it was
20 deemed by the -- the Board at that time that probably a
21 wise move to -- to remove the operating costs from the
22 calculation of the required rate for those two (2) types
23 of vehicles.

24 Because there is some dislocation in doing
25 that because you don't get rid of the costs, you just

1 allocate them to the rest of the vehicles. We did it in
2 stages, so the first year we took off 25 percent of that
3 cost, the second year we took an additional 25 and so on
4 until the entire administrative cost was removed from --
5 from the calculation.

6 THE CHAIRPERSON: So this phase out is --
7 is finished?

8 MR. DON PALMER: More or less. And I --
9 and I say --

10 THE CHAIRPERSON: Does it get caught by
11 the caps on the change?

12 MR. DON PALMER: It gets caught by the
13 caps.

14 THE CHAIRPERSON: Thank you, sir. We
15 were just reflecting on sort of similar situations with
16 hydro and gas where -- where the actual customer account,
17 if you work it out numerically, it would be 'X' and
18 because of the problems for certain customer loads it was
19 basically a judgment call to levy a very low fee just to
20 acknowledge the fact that there were basic monthly
21 charges but not at that level.

22 Mr. Evans...?

23 MR. LEN EVANS: Thank you, Mr. Chairman.
24 Just very briefly, yesterday Mr. Christie in his evidence
25 and questioning and our discussions, two (2) items were

1 raised. Two (2) topics were raised: One was inflation
2 and the other was interest rates, interest rate changes.

3 And so I have a couple of questions. Do
4 you have any -- could you give us your views on the
5 volatility of interest rates in our recent history? I
6 mean, how volatile have interest rates been? I know it's
7 a very general question but how volatile have interest
8 rates been in your opinion in our recent economic
9 history?

10 DR. WAYNE SIMPSON: Well, I -- I'll
11 preface this by saying neither of us is, what you would
12 call, a specialist in macro-economics but we do follow
13 the issues as economists and there's two (2) parts to
14 interest rates.

15 One is what we would call the inflation
16 part and the other is the -- is the real part after
17 inflation. And we have to make that distinction. The
18 part due to inflation has not fluctuated very much
19 because inflation hasn't fluctuated very much. The Bank
20 of Canada has done a good job of keeping inflation within
21 that target band of 1 to 3 percent and, in fact, pretty
22 tightly around 2 percent for most of that period. So
23 there's not much volatility there.

24 Now, to do that, in modern macro-economics
25 parlance, what they do is they react to what they

1 perceive to be inflationary pressures by adjusting,
2 effectively, the real part of the interest rate. Making
3 it more expensive to borrow in order to tighten demand
4 and that's how they ease off inflationary pressures. And
5 that part can potentially be more volatile and we've seen
6 recently a run up in -- in what would be the real
7 interest rate, essentially to choke off that.

8 So, interest rates have not been very
9 volatile and the volatility that's coming is coming from
10 the Bank of Canada taking preemptive action against
11 inflation. It's difficult to predict how that will
12 evolve into the future but I wouldn't expect a great deal
13 more volatility than we've already seen; probably less.

14 MR. LEN EVANS: I guess it really touched
15 on my second question, which is related. Very simply
16 put, is there any danger, in your view, of excessive
17 inflation in the foreseeable future?

18 MR. DEREK HUM: Well, I'll give my half.
19 In the foreseeable future, and I don't see very far, I
20 would not rate it very high. Although this is not our
21 area of specialization, we both teach in this area and
22 I'm going to say a few things, for the sake of informing
23 members here just how complicated things are.

24 I take your question at face value. But
25 if I were to give a more complete answer I would say,

1 over the last period, when we have witnessed reasonably
2 stable inflation and not remarkably great volatility in
3 interest rates, you can't discount the fact that
4 simultaneous with this period over the history the
5 exchange rate has changed dramatically.

6 And I don't want to get into the details
7 of it but in economic theory -- well, most economists
8 believe there is a fundamental relationship between the
9 two (2) and I don't really want to get into what that is
10 now, but I want to remind you that the Canadian Dollar
11 has appreciated substantially over the last period.

12 At the same time, there is also another
13 relationship that many people believe is quite founded
14 empirically which is the size of the federal and
15 provincial budgetary surpluses combined.

16 Let's leave aside Alberta for the time
17 being, but even so, again, the empirical evidence shows
18 that this has a dramatic effect on capital markets and
19 interest rates. I know it sounds like an economist
20 evading the question, but the point is, as your question
21 stands, you omitted, I think, two (2) very considerable,
22 what we would call, facts to consider.

23 I mean, we are -- we claim to be fact-
24 driven in our analysis and I do want to point out these
25 two (2) things would condition my answer to you: the

1 exchange rate and the budgetary surpluses.

2 MR. LEN EVANS: Thank you, Professor Hum.
3 I appreciate it's very complicated and who knows, I mean,
4 and we are a junior partner on the North American
5 continent and there are unpredictable things that could
6 happen in the USA and who knows, there's such a thing as
7 war and so on.

8 But I raise them because, obviously, when
9 you're running an insurance company you're concerned
10 about your reserves and are they going to be adequate and
11 you're living in an economic atmosphere which -- you
12 must, therefore, be concerned about trends in interest
13 rates and inflation that you may or may not have to deal
14 with.

15 MR. DEREK HUM: Just -- just -- this is
16 strictly gratuitous, but MPI is actually in a little
17 better position in the sense that the exchange rate
18 affect will probably not be a factor because I was
19 answering your question generally because as far as I
20 know, you know, MPI does not really -- it's not really
21 affected greatly by that.

22 As far as the other things that happen in
23 the United States and the world, yes, they're obviously
24 going to have a factor because the North American market
25 is a very integrated and efficient capital market. We

1 are not going to be allowed to have our interest rate too
2 far away from what the North American market rates
3 dictate.

4 MR. LEN EVANS: Thanks very much.

5 THE CHAIRPERSON: Mr. McCulloch..?

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

8

9 CROSS-EXAMINATION BY MR. KEVIN MCCULLOCH:

10 MR. KEVIN MCCULLOCH: Professors Hum and
11 Simpson, at the outset I want to reflect a comment that
12 Mr. Williams made. It's something of an unusual
13 situation to have two (2) witnesses both answering or
14 choosing to answer a question. I'm not going to try to
15 address my questions to one (1) or the other of you
16 unless it's an obvious second question in -- in response
17 to an answer you have given. And perhaps we'll all try
18 to judge the effectiveness of my cross-examination by how
19 quickly and who jumps to the button.

20 I'm interested in hearing exactly how you
21 came to be retained to provide this analysis on the DCAT
22 and RAA and the MCT. Were -- how were you --

23 DR. DEREK HUM: Yeah, I'll answer that.
24 Well, my intelligence and his good lucks, but seriously
25 we were contacted by Mr. Williams, unsolicited, asking

1 about this particular project or -- it wasn't described
2 this way.

3 We had previously on one (1) occasion
4 before acted as a consultant for the Public Interest Law
5 Centre. On the sole occasion it had to do with an issue,
6 it had nothing to do with this, it had to do with
7 employment insurance. It's called employment insurance
8 now but most people still sometimes think of it as
9 unemployment insurance.

10 MR. KEVIN MCCULLOCH: A rather famous
11 case that Mr. Williams had I believe if -- if it's the
12 same incident that I'm thinking about.

13 DR. DEREK HUM: I'm not sure what -- how
14 famous it was.

15 MR. BYRON WILLIAMS: There's two (2)
16 famous ones and this is the second one. We won.

17 DR. DEREK HUM: Well, we are the second
18 famous.

19

20 CONTINUED BY MR. KEVIN MCCULLOCH

21 MR. KEVIN MCCULLOCH: All right. And am
22 I correct in assuming that the retainer was in the July -
23 - June/July timeframe?

24 DR. WAYNE SIMPSON: I'm just trying to
25 remember the exact sequence. It would be -- oh, I should

1 be able to figure this out by my own summer activities.

2 It would have been the end of July, start of August.

3 MR. KEVIN MCCULLOCH: And your report is
4 dated the 8th of September so we'd be looking, if we take
5 end of July, at approximately six (6) weeks' work for you
6 to produce this report?

7 DR. WAYNE SIMPSON: Portions of six (6)
8 weeks, yes.

9 MR. KEVIN MCCULLOCH: There might have
10 been some vacation time in that six (6) weeks as well?

11 DR. WAYNE SIMPSON: And other things,
12 yes.

13 DR. DEREK HUM: Possibly.

14 MR. KEVIN MCCULLOCH: Can you tell me,
15 once you were retained, what material -- and you don't
16 have to be overly specific, but what sort of material
17 were you provided by Mr. Williams?

18 DR. DEREK HUM: I gave, in answer, a
19 complete list of all the documents we looked at. Now,
20 from memory, I got annual reports of MPI; I got various
21 press releases of MPI, but really the significant
22 documents, if I may edit, I got the material relating to
23 a rate application to the PUB by -- I got the, what I
24 call, the Christie Report. Oh, I have it here.

25

1 All right. I got the Todd Report and I
2 got operational and in this -- and investment risk
3 analysis report. I got an investment policy statement,
4 claims forecast data book, value at risk study, pre-filed
5 testimonies of various officials of MPI, notice of public
6 hearing, various memos. In particular one labelled
7 'Discussion of the Rate Stabilization Reserve' and
8 Various Information Requests Round I.

9 MR. KEVIN MCCULLOCH: So would it be fair
10 to say that with the exception --

11 DR. DEREK HUM: And Round II. Sorry.

12 MR. KEVIN MCCULLOCH: Would it be fair to
13 say that with the exception of the Todd report, which I
14 believe is dated September 2005, the bulk of the material
15 that you received would be in relation to this year's
16 General Rate Application, the rate application that the
17 Board is hearing now?

18 DR. DEREK HUM: That's -- that would be
19 correct.

20 MR. KEVIN MCCULLOCH: And one other
21 question on the retainer and I don't mean to be
22 impertinent here, but can you explain how it is that we
23 got two (2) economists preparing this report? To use a
24 wrestling analogy, are you the academic equivalent of a
25 tag team?

1 DR. DEREK HUM: We're the legal
2 equivalent of two (2) co-counselors. If you examine our
3 work history and list of publications, you will notice
4 that we have been colleagues over some twenty (20)
5 twenty-five (25) years. We have worked together in the
6 sense that we have jointly authored like, I can't really
7 count, but I can tell you three (3) books, several
8 monographs and fifty (50) sixty (60) professional
9 articles. And we have been active together in various
10 consultancy projects for various levels of government.

11 We work together because -- this is going
12 to be tricky to answer, but we believe we -- in many
13 cases share an approach to the analysis of economic
14 problems and we both have what I would call complimentary
15 and similar technical skills, so we're able to talk to
16 each other. I think that's a useful thing.

17 It's -- it's always hard to give an answer
18 why Gilbert and Sullivan worked together. I understand
19 they actually couldn't stand each other but we
20 occasionally, you know, go out together.

21 MR. KEVIN MCCULLOCH: Well, we won't go
22 down that road. But with respect to Mr. Todd's evidence,
23 it's fair to say that --

24 DR. DEREK HUM: Oh, Todd's.

25 MR. KEVIN MCCULLOCH: -- yeah, the

1 September 2005 evidence. It's fair to say that that
2 evidence was designed and -- and in fact does provide a
3 somewhat historical retrospective view of the development
4 of RSR, RAA and to some extent MCT before these hearings,
5 is that correct?

6 DR. DEREK HUM: I would -- I would
7 characterize Mr. Todd's report, in the main, as that,
8 yeah, that's correct.

9 MR. KEVIN MCCULLOCH: And is it fair to
10 assume that in doing your -- your research and -- and
11 preparing your report, you didn't go back and -- and
12 check all of the PUB orders that Mr. Todd referred to or
13 all of the evidence that he referred to, basically,
14 because it was received as evidence by this Board, you
15 were operating on the information contained in Mr. Todd's
16 report as being correct?

17 DR. DEREK HUM: Yes, that's correct. And
18 I've so indicated in our report, we were relying on that.

19 MR. KEVIN MCCULLOCH: Now my
20 understanding is that, again paraphrasing, the -- the
21 intention and -- and the purpose of your report was to
22 look at the various measures that are being placed or --
23 or put before this Board in relation to RSR, namely, the
24 MCT, the RAA and the DCAT and to examine the relative
25 merits of -- of those approaches and to provide some

1 direction and opinion to the Board on those approaches.

2 Is that correct?

3 DR. DEREK HUM: I think that's correct,
4 yes.

5 MR. KEVIN MCCULLOCH: And prior to July
6 of 2006, had you had any reason or opportunity to examine
7 DCAT and MCT?

8 DR. DEREK HUM: No.

9 MR. KEVIN MCCULLOCH: And going through
10 your -- both of your rather lengthy resumes, is it a fair
11 observation that there's no disclosure of any connection
12 or consultation or work with a property and casualty
13 insurer? Is that correct?

14 DR. DEREK HUM: Could you rephra -- I
15 think I understand your question and I will say yes.
16 But --

17 MR. KEVIN MCCULLOCH: I'll try to --

18 MR. DEREK HUM: I've appeared as a
19 witness against MPI on several occasions in court.

20 MR. KEVIN MCCULLOCH: No. That would be,
21 I presume, in respect to a specific injury claim but in
22 dealing with the operations of property and casualty
23 insurance as a whole, have you had any prior involvement
24 in that area?

25 MR. DEREK HUM: No.

1 MR. KEVIN MCCULLOCH: And that applies
2 for both?

3 DR. WAYNE SIMPSON: Yes.

4 MR. KEVIN MCCULLOCH: Starting with the
5 MCT and, in particular, the purpose or the intention of
6 the MCT, would you agree that the MCT is intended to
7 balance capital required to capital available on a risk-
8 adjusted basis?

9 Would that fit your understanding of the
10 MCT?

11 MR. DEREK HUM: Yeah, I -- as a general
12 description. Yes.

13 MR. KEVIN MCCULLOCH: And would you also
14 agree that in and of itself the MCT is not a solvency
15 test?

16 MR. DEREK HUM: I don't know what "in and
17 of itself" is, but if it goes down to zero then, not
18 speaking as an accountant, I would say you're in such
19 trouble that it's a -- you're in insolvency.

20 MR. KEVIN MCCULLOCH: Perhaps I should be
21 clear. What I'm suggesting to you is that there is a
22 difference between the test or the measure, which is the
23 MCT, and the application or the target that a company
24 might choose as a result of performing the MCT analysis?

25 MR. DEREK HUM: And what's the definition

1 of insolvency here?

2 MR. KEVIN MCCULLOCH: I didn't use the
3 word "insolvency" in that question.

4 MR. DEREK HUM: Well, you did in the
5 previous question that you asked me, that's why I got
6 confused. But I -- I accept your second question that
7 there is a distinction between the test and what I might
8 call the criterion for application of the test.

9 MR. KEVIN MCCULLOCH: That will do for --
10 for these purposes. I now want to talk to you, dealing
11 with definitions, the purpose of the RSR.

12 And although it's been discussed many
13 times by many people I think that we have reached an
14 agreement that the description contained on page 4 of
15 your evidence that -- dealing with the purpose of the
16 RSR:

17 "That it's intended to protect
18 motorists from rate increases made
19 necessary by unexpected events and
20 losses arising from recurring -- or
21 from non-recurring events or factors."

22 And that's the description set out in your
23 evidence and I believe that's the description that you
24 accept; is that correct?

25 DR. WAYNE SIMPSON: Yes.

1 MR. DEREK HUM: Yes.

2 MR. KEVIN MCCULLOCH: Now, would you
3 agree that large, unpaid claim reserve adjustments on
4 prior claim reserves -- prior year reserves, especially
5 IBNR, could be classified as an unexpected event?

6 MR. DEREK HUM: Well, depends whether MPI
7 expected it or not. I mean, I don't want to pick points
8 with you but, you know, I confess I do not have a
9 detailed working knowledge of the mechanics. And we've
10 established that I am fairly vague and ignorant of the
11 past history of the operations of MPI. And, sir, I'm
12 willing to concede all that.

13 So a specific question about a particular
14 item about which I acknowledge I know nothing, I don't
15 know whether you expected it or not. And I'm not trying
16 to play games here. So I acknowledge my ignorance of
17 past history of particular events affecting MPI.

18 If you describe me the context of that,
19 I'd be willing to comment but I'm just doing it on a
20 best-effort basis.

21 MR. KEVIN MCCULLOCH: I appreciate that.
22 But what I'm -- what I'm asking you here is you've been
23 asked to -- to look at what would achieve an appropriate
24 level for an RSR, and you have a working definition of an
25 RSR, and I'm asking you then what is your understanding

1 of what would constitute an unexpected event or a large
2 loss for a company such as MPI?

3 DR. DEREK HUM: That's fair enough.
4 That's fair enough. That's fair enough.

5 DR. WAYNE SIMPSON: The -- the IBNR
6 refers to an actuarial review; is that correct?

7 MR. KEVIN MCCULLOCH: The IBNR refers to
8 a reserve that's established for incurred but not
9 reported losses.

10 DR. WAYNE SIMPSON: So -- so these would
11 -- if unexpected, would fall into the RSR, yes.

12 MR. KEVIN MCCULLOCH: But specifically
13 because we have to try to identify for the purposes of
14 establishing the RSR what constitutes an unexpected loss
15 and -- and in your report to some extent you talk about
16 large losses and what "large" might be.

17 Can you tell me whether you believe an
18 increase to unpaid claims on prior years' claims reserves
19 would constitute the type of event that would -- that the
20 RSR would have to respond to?

21 DR. DEREK HUM: Oh, I can answer that.
22 Did you fully anticipate it when you say there was this
23 change? Did you expect it? Did you forecast it or did
24 you simply say, I thought it was going to be this, but
25 now it's not?

1 MR. KEVIN MCCULLOCH: Let's move on and
2 ask whether you believe that large investment losses --

3 DR. DEREK HUM: I'm sorry, I didn't get
4 the answer to that question.

5 MR. KEVIN MCCULLOCH: I'm asking the
6 questions. I'm not answering them and if I didn't give
7 you a sufficient definition in my question, then it's
8 quite proper for you to --

9 DR. DEREK HUM: Okay.

10 MR. KEVIN MCCULLOCH: -- identify that.

11 DR. DEREK HUM: I'm not trying to be
12 difficult here. I'm -- I'm trying to ask so I can
13 understand the question. I mean, to be fair, sir, to
14 give me an acronym that I've never heard of, I think a
15 reasonable person would say, What do the initials stand
16 for? What does it mean? I already confessed that I'm
17 ignorant of past initials and practices of MPI.

18 MR. KEVIN MCCULLOCH: Well, let's try to
19 simple it to the point where if a company is required for
20 an unexpected reason to make significant adjustments to
21 the reserves that it had set aside for prior claims, is
22 that the type of an event that you would expect the RSR
23 to respond to?

24 DR. DEREK HUM: As -- as I understand it,
25 I would say, yes.

1 DR. WAYNE SIMPSON: Yes.

2 DR. DEREK HUM: Yes. Yes.

3 MR. KEVIN MCCULLOCH: And would large
4 investment losses fall into the same category?

5 DR. DEREK HUM: Did you expect these
6 losses? I mean, I've indicated if you were to say, I'm
7 making a large -- I'm not saying MPI's doing this, but
8 I'm making a large investment in mining stocks listed on
9 the Vancouver Stock Exchange and you have a big loss, I'm
10 not so sure I would say that the RSR was intended for the
11 covering of that.

12 I would have said that as I said in my
13 direct testimony, that has to be looked at in terms of
14 what you calculate and expect your rate of returns to be
15 on your portfolio of assets. And you control that to
16 some extent.

17 So if it's unexpected, is it unexpected
18 out of the range of where the normal volatility would be
19 or is it not expected because you had expectation that
20 year by year the rate of return would never deviate from
21 its average?

22 And I was careful to make the -- my
23 colleague was very careful to say, If you decide to
24 invest in equities, you will almost guarantee to have
25 variations in the rates of return. You can expect it,

1 from what I know about the financial markets.

2 So if you're asking me -- I'm not sure
3 what you're asking me now, you've got me so confused,
4 sir.

5 MR. KEVIN MCCULLOCH: I understand your
6 answer to be that anybody who invests in mining stocks on
7 the Vancouver Exchange should expect to lose their money
8 and therefore --

9 DR. DEREK HUM: Should lose --

10 MR. KEVIN MCCULLOCH: -- it wouldn't be
11 an unexpected loss.

12 DR. DEREK HUM: Should not be surprised
13 to.

14 DR. WAYNE SIMPSON: Well, no, let's
15 correct that. They could also make a lot of money. They
16 don't expect to lose their money; they wouldn't make the
17 investment otherwise; not rationally anyway.

18 DR. DEREK HUM: It's not guaranteed.

19 MR. KEVIN MCCULLOCH: Let's move to page
20 27 of your report. And I believe that -- other than viva
21 voce evidence that you gave this morning, I believe this
22 is the -- the main area where you deal with investment
23 income.

24 Is that correct? Have I missed something
25 else in your report where you deal with the issue of

1 investment income?

2 DR. DEREK HUM: I don't think we deal
3 with it at all.

4 DR. WAYNE SIMPSON: We don't deal
5 extensively with investment income anywhere in the
6 report.

7 MR. BYRON WILLIAMS: Are you referring to
8 footnote 24, Mr. McCulloch? Just to assist --

9 MR. KEVIN MCCULLOCH: Yes, I am.
10 Footnote 24 on page 27.

11 DR. DEREK HUM: Oh, footnote 24, sorry.

12 DR. WAYNE SIMPSON: We refer to -- yes,
13 we refer to investment time horizon. Yeah.

14

15 CONTINUED BY MR. KEVIN MCCULLOCH:

16 MR. KEVIN MCCULLOCH: Now the investment
17 time horizon referral, as I understand it, is a comment
18 on one of the three (3) so-called improvements that MPI
19 was suggesting to the existing RAA, namely a change in
20 the investment time horizon. Is that correct?

21 DR. DEREK HUM: That was VAR, wasn't it?

22 MR. KEVIN MCCULLOCH: VAR is part of the
23 RAA --

24 DR. DEREK HUM: Okay.

25 MR. KEVIN MCCULLOCH: -- we'll -- we'll

1 get to all the acronyms -- get them straightened out.

2 DR. WAYNE SIMPSON: Yes, I -- I'll
3 accept that it is correct, yes.

4 MR. KEVIN MCCULLOCH: Now I'm going to
5 give you a little history of my own here and I don't know
6 whether you picked it up from -- from reading Mr. Todd's
7 evidence.

8 But I think it's fair to say that the
9 development of the RAA is something that has evolved over
10 time in these Board Hearings and that the risk analysis
11 was first introduced by the Corporation around the year
12 2000. Are you with me on that?

13 DR. WAYNE SIMPSON: Yes.

14 MR. KEVIN MCCULLOCH: And when the risk
15 evaluation was introduced, it had two (2) main
16 components. It had an operating risk component and a
17 value at risk component.

18 MR. BYRON WILLIAMS: Just on that point -
19 and I don't want to be interfering but - my recollection
20 of history might be a little different from Mr. McCulloch
21 and so I just want to be clear here. If memory serves me
22 right, we might have dealt with the risk analysis
23 individually in the first year and then come back with a
24 VAR in the second year.

25 So I don't want -- if -- if -- it just

1 seems to me that what you're putting towards the
2 witnesses may not be quite historically accurate.

3

4 CONTINUED BY MR. KEVIN MCCULLOCH:

5 MR. KEVIN MCCULLOCH: All right. If we
6 accept the correction that by the second year of
7 presentation, the risk analysis had a -- had two (2)
8 pillars. The operational risk and the investment risk
9 which was reflected in the VAR.

10 And I believe it's fair to say from --
11 from your evidence, which was very straightforward both
12 this morning and -- and this afternoon, that you haven't
13 had an opportunity to assess the investment risk that the
14 Corporation faces?

15 DR. WAYNE SIMPSON: Not in detail, no.

16 DR. DEREK HUM: Not in detail.

17 DR. WAYNE SIMPSON: And since we'd like
18 to focus on situations in which we're very familiar with
19 the evidence we -- we would only have limited comments to
20 make because we have not looked at it extensively.

21 MR. KEVIN MCCULLOCH: So if, and this is
22 supposition, if investment risk reflected in the VAR was
23 a significant factor in considering an appropriate RSR
24 level, you would have to admit that your report doesn't
25 deal with that risk?

1 DR. DEREK HUM: That's right.

2 DR. WAYNE SIMPSON: It doesn't deal with
3 that risk, no. Although we've taken pains to
4 differentiate the risk on the operational and investment
5 sides.

6 MR. KEVIN MCCULLOCH: And when you come
7 up with a suggested range for the RSR, as you do in your
8 report of \$50 to \$80 million, again it would follow that
9 if there was an element of investment risk that you
10 hadn't identified, that would have to be looked at and
11 added to your range?

12 DR. WAYNE SIMPSON: Yes, if it were
13 unanticipated and non-recurring.

14 MR. KEVIN MCCULLOCH: We're going to move
15 to page 24 and 25 of your report and I apologize for
16 jumping around but cross-examination doesn't always
17 follow the numbered pages in the report. Twenty-four and
18 25, and what I want to talk to there is, your comments on
19 the forecasting error at MPI, in particular, the net
20 underwriting income error.

21 And I've prepared a sheet that is taken
22 from AI-16, Exhibit 3, Appendix A. I've provided copies
23 to Mr. Williams. I believe he's been able to distribute
24 that.

25 MR. DEREK HUM: Yeah, we have that.

1 note that that's the case based on their own figures.

2 Yeah.

3 MR. KEVIN MCCULLOCH: Now, based on this
4 exhibit, if you would exclude the last fiscal year,
5 2005/2006, and that's shown in the last three (3) columns
6 on this document that I've passed out, the mean average
7 becomes negative seven hundred and seventy-two thousand
8 dollars (\$772,000); are those figures correct?

9 DR. WAYNE SIMPSON: That looks
10 approximately correct. Yes.

11 MR. KEVIN MCCULLOCH: And if you had been
12 providing this assessment based only on eleven (11)
13 years' experience, would you have made a finding that
14 there was a positive bias on the part of the Corporation
15 when it forecast net underwriting income?

16 DR. WAYNE SIMPSON: No.

17 MR. KEVIN MCCULLOCH: You would have said
18 that it was a negative bias?

19 DR. WAYNE SIMPSON: Yes. But I have
20 twelve (12) years of evidence and I don't know why I
21 would throw away the most recent evidence. It probably
22 would be given the greatest weight, if there were weights
23 attached.

24 MR. KEVIN MCCULLOCH: You didn't attach
25 any weights to your findings?

1 DR. WAYNE SIMPSON: No. We didn't. No.

2 MR. KEVIN MCCULLOCH: The other point
3 that I would put to you is in looking and making a
4 comment as to a finding of positive bias, did you
5 contrast the accumulated positive experience of some
6 10.16 million against the entire premium for that same
7 period of time?

8 DR. WAYNE SIMPSON: No. We contrasted it
9 with the objective which is net underwriting income in
10 terms of risk assessment.

11 MR. KEVIN MCCULLOCH: And assuming that
12 my calculations are correct, if the Corporation's net
13 premium written over the same twelve (12) year time
14 period amounted to 5.8 billion, would your interpretation
15 of that \$10.1 million positive bias be any different?

16 MR. DEREK HUM: No.

17 DR. WAYNE SIMPSON: I think what you're
18 getting at is that MPI does a pretty good job of
19 forecasting on the whole in terms of its actual net
20 underwriting income and I wouldn't -- I wouldn't disagree
21 with that.

22 MR. KEVIN MCCULLOCH: And perhaps I'll --
23 I'll put to you what I'm getting at. What I'm getting at
24 is that a variance of plus \$10 million on a premium base
25 of 5.8 million really constitutes neither a negative nor

1 a positive bias?

2 DR. WAYNE SIMPSON: It's an amount that's
3 gone into the RSR I would understand and it's not
4 insignificant.

5 MR. KEVIN MCCULLOCH: I'm now going to
6 move to page 26.

7

8 (BRIEF PAUSE)

9

10 MR. KEVIN MCCULLOCH: Are we ready?
11 Okay. Moving to page 26 and with some trepidation I'm
12 going to delve into Mr. Williams' perfect die example
13 from -- "perfect" wasn't the word, but the fair die
14 example.

15 And in particular, I want to direct your -
16 - yes, page 26, the paragraph numbered 5.4 starting five
17 (5) lines up where you make the statement that:

18 "A one (1) in forty (40) year
19 catastrophic loss, if it occurs, is
20 very unlikely to be followed by a
21 second catastrophic loss the following
22 year."

23 Is that really what you intended to say in
24 that paragraph?

25 DR. WAYNE SIMPSON: If you're asking me

1 to write this scientifically, I think, if you're
2 interpreting if it occurs as a conditional statement then
3 I would say, no, we're simply indicating that this is an
4 unlikely event and it could occur one (1) year, but it's
5 less likely to occur the next year.

6 MR. KEVIN MCCULLOCH: Well, let's take it
7 a step further and if we take the meaning that I'm
8 putting on "if it occurs", I'm suggesting to you that if
9 you have a one (1) in forty (40) catastrophic loss that
10 occurs in 2006, the odds of that loss occurring in 2007
11 is one (1) in forty (40) and not one (1) in sixteen
12 hundred (1,600)?

13 DR. WAYNE SIMPSON: That's true,
14 condition -- that's true, conditional on it having
15 happened and what we're trying to convey here is that in
16 2005 if someone says that what is the probability of a
17 one (1) in forty (40) loss in 2006 and a one (1) in forty
18 (40) loss in 2007, it's one (1) in sixteen hundred
19 (1,600).

20 MR. KEVIN MCCULLOCH: Absolutely. I was
21 only taking the -- the wording in -- in the sentence here
22 to concede that the loss had occurred.

23 DR. WAYNE SIMPSON: Words are imprecise.

24

25

(BRIEF PAUSE)

1 DR. WAYNE SIMPSON: Professor Hum thinks
2 you're taking exception to his language. I'm simply
3 saying that words are imprecise.

4 DR. DEREK HUM: I would write this --
5 your interpretation if I had to put it in these words,
6 let's say a one (1) in forty (40) year catastrophic loss
7 had it occurred as opposed to if it -- as I said, English
8 is imprecise.

9 What we are -- we don't want to get into
10 statistical jargon but I think in plain language before
11 the event occurs, if you say what are the likelihood,
12 odds, or probability, whatever language you choose of it
13 occurring two (2) years in a row consecutively, we would
14 stand by the statement or estimate that is one over one
15 sixty (1/160).

16 MR. KEVIN MCCULLOCH: And you'd have no
17 argument from me, sir, it appears that we are -- we are
18 truly dealing with the words.

19 DR. DEREK HUM: I told you we could get
20 past language.

21 MR. KEVIN MCCULLOCH: It was you who
22 wrote the report?

23 DR. DEREK HUM: Yes, but you read it.

24 MR. KEVIN MCCULLOCH: I want to move to
25 page 10.

1 (BRIEF PAUSE)

2

3 MR. KEVIN MCCULLOCH: Actually I'll have
4 to check that reference. Just give me a second, please.

5

6 (BRIEF PAUSE)

7

8 MR. KEVIN MCCULLOCH: Yes, it's actually
9 footnote 10 on page 11. And -- and before going to the
10 footnote I want to refer you to the -- the last regular
11 paragraph on that page, again an observation that is
12 identified as being perhaps whimsical.

13 You're talking about certain assets of MPI
14 that you believe should be taken into account in the MCT
15 calculation; is that correct?

16 DR. DEREK HUM: I didn't mean assets in
17 the financial sense, I'm using ordinary English language
18 here -- assets.

19 MR. KEVIN MCCULLOCH: In the -- in the
20 footnote, though, you use the phrase:

21 "How much should the asset side of the
22 balance sheet reflect these three (3)
23 intangible [quotes] "goodwill" and
24 other such nothings?"

25 So is that bringing it closer to a

1 financial definition of asset?

2 DR. DEREK HUM: Yes.

3 MR. KEVIN MCCULLOCH: In any event and --

4 DR. DEREK HUM: But it's not marketable.

5 I mean is -- you know, I don't want -- I'm using a
6 metaphor and I hope you don't want to push me to the
7 exact, you know, definition in all respects.

8 MR. KEVIN MCCULLOCH: No, it's probably
9 that I have to go these step by step because you're
10 dealing with someone who doesn't have a PhD in economics.

11 DR. DEREK HUM: No, you're dealing with
12 someone who's not legally trained; that's me.

13 MR. KEVIN MCCULLOCH: The -- the way you
14 identify these goodwill or other elements, you're talking
15 about the fact that MPI's market share would always be
16 100 percent, that it could set prices at any level it
17 wished without fear of competition, and that it could
18 never go bankrupt.

19 You then get more precise in the footnote
20 and you say --

21 MR. BYRON WILLIAMS: Excuse me one (1)
22 second, Mr. McCulloch, and I don't mean again to be --
23 but just out of fairness he's not -- you said "MPI" and -
24 - and the words used by Mr. -- Professor Hum is a private
25 sector company, so just out of fairness to the Witness.

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CONTINUED BY MR. KEVIN MCCULLOCH:

MR. KEVIN MCCULLOCH: I wasn't quoting. I was suggesting that -- and we'll -- we'll ask you whether you think these apply to MPI.

You're -- you're saying that if a private sector company were to be suddenly guaranteed with certainty of these three (3) items; do you believe that MPI is guaranteed with certainty to be able to operate under these three (3) conditions?

DR. DEREK HUM: I don't know if this is supposed to be a legal answer but I think rough and ready my interpretation is that they operate under roughly these three (3) circumstances. Its market share is 100 percent, certainly for Basic, I should clarify that. It sets its price without fear of competition. I firmly believe that. And it could not go bankrupt. I firmly believe that and I could be wrong in the facts.

MR. KEVIN MCCULLOCH: Well, let's -- maybe it's clearer because in the footnote you're clearly identifying these as assets of MPI and the way you state them there is number 1, it has a monopoly charter and number 3 a legislative enactment requiring all of its citizens to purchase its product.

So that would cover the mandatory

1 insurance supplied by a monopoly insurer; is that
2 correct?

3 DR. DEREK HUM: That's what I meant,
4 yeah. I didn't mean literally there is an enactment.

5 This is a fanciful metaphor. I think you
6 should understand I meant it in that context to try to
7 help understanding of the concept I'm trying to put
8 forward that these are things, in rough and ready
9 language, are valuable things an enterprise has; that's
10 all.

11 MR. KEVIN MCCULLOCH: Well, what -- what
12 were you referring to in point number 2 when you were
13 suggesting that MPI has a co-signatory against default?

14 DR. DEREK HUM: Meaning that the Manitoba
15 Government won't let it go bankrupt or default on its
16 liabilities.

17 MR. KEVIN MCCULLOCH: And that's a belief
18 on your behalf?

19 DR. DEREK HUM: It's a belief. It's a
20 belief.

21 MR. KEVIN MCCULLOCH: And it would be
22 unfair for me to use legalistic language to suggest to
23 you that if you use the phrase a co-signatory against
24 default, you could be taken as referring to some
25 agreement between MPI and the government that had been

1 signed that would guarantee no default on the part of
2 MPI; would that be unfair for me to suggest that these
3 words --

4 DR. DEREK HUM: Well, you could suggest
5 it and it wouldn't be unfair, but I will confess I did
6 not mean it in that sense. And I'm sorry you read it in
7 that way.

8 MR. KEVIN MCCULLOCH: So my next question
9 to ask you to produce the document would be consider
10 whimsical?

11 DR. DEREK HUM: Well, it would be
12 considered -- I don't know what I would characterize it.
13 I'm so careful in my language now. I know what I think
14 it would be.

15 MR. KEVIN MCCULLOCH: In that regard, are
16 you familiar with the situation that occurred in the mid-
17 '90s where MPI had a deficit for retained earnings on the
18 basic program of approximately \$50 million?

19 DR. DEREK HUM: No, I'm not. I've
20 already said that any historical facts of detail about
21 MPI, I confess I do not have this information. So, I
22 mean, I'm not -- I'm not defensive about it. I just
23 never took the time to -- to find out before.

24 MR. KEVIN MCCULLOCH: So then you'd also
25 be unable to tell me whether, faced with that deficit,

1 our co-signator stepped up and made the deficit good?

2 DR. DEREK HUM: I don't know.

3 MR. KEVIN MCCULLOCH: And if I would
4 suggest to you, sir, that the ratepayers of Manitoba,
5 through RSR surcharges applied for a number of years
6 commencing in the mid-'90s, the ratepayers of Manitoba
7 were charged with the responsibility of making up that
8 deficit, you couldn't disagree with that?

9 DR. DEREK HUM: I can't disagree with
10 something I don't know about.

11

12 (BRIEF PAUSE)

13

14 MR. KEVIN MCCULLOCH: When you were
15 preparing your report I know from reading it and -- and I
16 have to admit from not being able to understand a lot of
17 it, you were -- you were relying on a number of economic
18 and statistical analyses and approaches that you would be
19 aware of because of your extensive training; is that
20 correct?

21 DR. DEREK HUM: Well, we're aware of
22 them. Yes.

23 MR. KEVIN MCCULLOCH: And -- and you
24 apply certain theories and formulae that had been proven
25 in the economic science to certain facts as you see them?

1 DR. DEREK HUM: That's correct.

2 MR. KEVIN MCCULLOCH: And would you agree
3 with me, sir, that throughout your report, and throughout
4 your experience as -- as an economist, you're required to
5 make personal professional judgment with respect to many
6 issues?

7 DR. DEREK HUM: Absolutely.

8 MR. KEVIN MCCULLOCH: And would you agree
9 with me that in this context judgment is -- is certainly
10 not a dirty word, if you would, but an absolutely
11 essential word when you're doing analysis such as you do?

12 DR. DEREK HUM: In general, yes.

13 MR. KEVIN MCCULLOCH: I want to go to
14 page 35 of your report. And looking at the last
15 paragraph just above the disclaimer section and in the
16 middle of that paragraph you make the statement that:

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

20 Is that correct?

21 DR. DEREK HUM: I believe so.

22 MR. KEVIN MCCULLOCH: And at the end of
23 that paragraph you make the finding that:

24 "MCT simply does not address the
25 primary issue at hand, namely, how much

1 liquidity is required to finance an
2 unexpected, non-recurring loss event."

3 That's your statement; correct?

4 DR. DEREK HUM: I believe so. Yes. Yes.

5 MR. KEVIN MCCULLOCH: And, further, in
6 response to PUB/CAC/MSOS-I-10 the Board asked you to
7 provide a description of the liquidity requirement and to
8 describe how MCT fails to address this; do you have that
9 reference?

10 DR. DEREK HUM: Yes. I do.

11 MR. KEVIN MCCULLOCH: And as part of your
12 explanation, and looking down towards the second last
13 paragraph, you say:

14 "In the context of a reserve to fund
15 unexpected losses the liquidity
16 requirement or amount is tantamount to
17 having sufficient liquid funds to
18 finance loss claims without triggering
19 sales of other assets that would incur
20 large losses arising from their
21 illiquid nature."

22 Is that correct?

23 DR. DEREK HUM: Yes. I wrote that.

24 MR. KEVIN MCCULLOCH: Now, correct my
25 understanding please if I'm wrong, but I understand this

1 -- these statements combined to express your view that
2 when an unexpected loss occurs the Corporation has to
3 respond quickly, if not immediately, and therefore
4 requires liquid assets to respond to that unexpected
5 loss; is that right?

6 DR. DEREK HUM: What was the first part
7 of the sentence? I agree with the second part to some
8 extent. But what was the first part of the question,
9 rather?

10 MR. KEVIN MCCULLOCH: The first part was
11 that when an unexpected loss occurs the Corporation must
12 respond, in your view, either --

13 DR. DEREK HUM: Okay.

14 MR. KEVIN MCCULLOCH: -- quickly or
15 immediately and therefore needs to have liquid assets to
16 meet that unexpected loss?

17 DR. DEREK HUM: I meant that statement in
18 terms of a general sense but if it's -- I'm not sure
19 whether you mean there's -- would I be so inflexible as
20 to say that it'd have to be done this quarter or this
21 month. I wouldn't have wanted it interpreted literally
22 that way.

23 But I meant within a fairly short time
24 horizon such as -- one (1) or two (2) budgeting cycles.
25 It's not something that could be ignored or should be

1 ignored and deferred for, make it a rough example, five
2 (5) or six (6) years.

3 MR. KEVIN MCCULLOCH: So when you were
4 preparing your report were you operating on the
5 understanding or expectation that these unexpected
6 losses, for which the RSR was meant to protect against,
7 were such that they had to be responded in a timeframe no
8 longer than five (5) years?

9 DR. DEREK HUM: Oh, actually, I had in --
10 I had no such figure in mind. I had what -- what --
11 maybe I was too literal. I had in mind the notion that
12 there was a period of time in which MPI would have to
13 come to the PUB to ask for a rate increase or a rate
14 change.

15 And within that period of time that is
16 what I would have called the planning or business
17 decision cycle and you wouldn't want to say I'm not going
18 to deal with this unanticipated loss and don't tell the
19 PUB about it until sometime in the next three (3) or four
20 (4) years.

21 It's within that particular planning cycle
22 that involves rate changes because, as I said, I read,
23 perhaps too literally, that the purpose of it has an
24 impact on rate changes.

25 So it's in that context of the requirement

1 and if you tell me that the requirement for rate
2 alterations is neither immediate, then I guess I must
3 have misinterpreted what is the normal process by which
4 MPI applies for rate increases.

5 I thought it's -- that's my focal
6 definition of a reasonably short time period. It was a
7 strictly pragmatic operational...

8

9 (BRIEF PAUSE)

10

11 MR. KEVIN MCCULLOCH: Let me give you an
12 example then. If, due to required increases to claim
13 reserves, the Corporation was required to post a further
14 \$75 thousand -- or \$75 million in reserve but was not
15 required to pay those claims out until a time frame of
16 fifteen (15) or twenty (20) years, you wouldn't need a
17 liquid asset to respond to that --

18 DR. DEREK HUM: No.

19 MR. KEVIN MCCULLOCH: -- unexpected
20 event.

21 DR. DEREK HUM: No. No. I -- I -- when
22 you give me a concrete situation like that, I understand.
23 You would not do that and I wasn't -- I was never
24 intending that that interpretation be made to it but I
25 would say unless you tell me that you intend to fully set

1 aside and fund and appropriate that provision in the one
2 PUB cycle period, which you didn't say.

3 MR. KEVIN MCCULLOCH: The second part of
4 that question is that the Corporation, even though not
5 required to pay out that \$75 million, is required to
6 disclose it on its income statement.

7 DR. DEREK HUM: Yeah.

8 MR. KEVIN MCCULLOCH: And therefore, it
9 does become an issue that must be responded to by an RSR.

10 DR. DEREK HUM: I'm -- I'm not an
11 accountant, I'm not going to -- to challenge your
12 accounting procedures. If your accounting convention is
13 to take this out of RSR, that's fine.

14 If your corporate strategy, I'm not
15 talking about accounting now, would be to say we have --
16 we had fully anticipated this from bringing it -- we're
17 now going to implement a corporate strategy by which we
18 will put aside capital provisions for these future
19 liabilities over the next three (3) year periods and
20 would the PUB approve that so we don't have to take it
21 out of our RSR --

22 I'm a Democrat. If this is the process
23 that MPI and the PUB is comfortable with, I have no
24 objection as either an economist or a citizen. I mean
25 I'm -- I'm not really an accountant and if your

1 accounting convention is that this must come out of RSR,
2 then I'm not going to disagree with your convention.

3 MR. KEVIN MCCULLOCH: Then I gather from
4 your answer, Professor, that it would be unfair of me to
5 ask you whether the generally accepted accounting
6 principles or actuarial -- accepted actuarial practice
7 require you to reflect that loss in the current fiscal
8 year; it would be unfair for me to put that question to
9 you because you don't have that expertise?

10 DR. DEREK HUM: That's true.

11 MR. KEVIN MCCULLOCH: There's a quick
12 issue that I want to raise in the response filed to MPI,
13 CAC/MSOS number 3, and this is largely to get this on the
14 record, but do you have that -- that response?

15 MR. BYRON WILLIAMS: Mr. McCulloch, that's
16 MPI number 3?

17 MR. KEVIN MCCULLOCH: Yes.

18

19 (BRIEF PAUSE)

20

21 CONTINUED BY MR. KEVIN MCCULLOCH:

22 MR. KEVIN MCCULLOCH: Now, in that
23 question the Corporation was asking for clarification on
24 a passage from your report which is identified in your
25 answer which indicates that the Corporation had only

1 partially complied with direction that it had received
2 from the PUB in a previous order; is -- is that
3 understanding correct?

4 DR. DEREK HUM: Yes.

5 MR. KEVIN MCCULLOCH: And in your
6 response you state that this was an editorial oversight
7 and, in fact, you weren't intending to suggest that the
8 Corporation had failed to comply with an order from the
9 PUB?

10 DR. DEREK HUM: That's correct.

11 MR. KEVIN MCCULLOCH: And --

12 DR. DEREK HUM: And I apologized.

13 MR. KEVIN MCCULLOCH: And just for
14 clarification, Professor, I just want to assure you that
15 the Applicant is -- is very sensitive to suggestions of
16 failing to comply with regulatory orders and that was the
17 reason that I wanted to put that on the record.

18 DR. DEREK HUM: Thank you very much and
19 in that spirit I, again, hereby apologize again publicly.

20 DR. WAYNE SIMPSON: Coming to Professor
21 Hum's defence on that, he never said they failed to
22 comply. He said -- he referred to partly comply which
23 would not be failure to comply.

24 MR. KEVIN MCCULLOCH: Again semantics;
25 part failure, full failure. I think we've clarified the

1 issue.

2 DR. DEREK HUM: Well, I give a full
3 apology if that helps, you, sir.

4 DR. WAYNE SIMPSON: Not a part apology.

5 DR. DEREK HUM: But I can't speak for My
6 Colleague.

7 DR. WAYNE SIMPSON: My apology is only
8 partial.

9 MR. KEVIN MCCULLOCH: I want to spend
10 some time addressing your responses to the adverse
11 scenarios that had been posed by Mr. Christie in
12 preparation of his DCAT analysis and in particular your
13 comments on the inflationary adverse scenario that he had
14 included in his DCAT.

15 And I'm just looking for the -- the page
16 reference in -- in your report, Professors, and I'll give
17 it to you in a moment.

18 MR. BYRON WILLIAMS: You're probably
19 referring to pages 18 to 20, Mr. McCulloch, if that will
20 help you work your way through it.

21

22 (BRIEF PAUSE)

23

24 MR. KEVIN MCCULLOCH: Mr. Williams, could
25 -- oh, you provided me with a page number and I wasn't

1 listening.

2 MR. BYRON WILLIAMS: I'm sorry, Mr.
3 McCulloch, if you're looking for the -- Dr. Hum's
4 discussion of the inflation scenario it's Section 4.22
5 starting at page 18 and moving through to page 21.

6

7 CONTINUED BY MR. KEVIN MCCULLOCH:

8 MR. KEVIN MCCULLOCH: Thank you. Now,
9 I'm not sure whether you were here all of yesterday for
10 Mr. Christie's evidence, Professor Hum and Professor
11 Simpson, but I undertake -- or I understand from reading
12 this report that you reject out of hand the adverse
13 scenario that Mr. Christie puts forward in his DCAT in
14 relation to inflation; is that correct?

15 DR. DEREK HUM: I'm sorry. You've got me
16 so careful. I don't know what I'm going to answer.

17 I did not object out of hand. I had
18 difficulty with believing some of his assumptions to be
19 useful or plausible and I made it very clear in my report
20 that everyone is entitled to their assumptions because
21 they cannot be proved or disproved. I did not dismiss,
22 to use your phrase, "out of hand" his work.

23 In fact I actually praised it in a passage
24 saying that there's nothing wrong with his work, it was
25 the particular assumption he used that I find -- well, my

1 judgment implausible.

2 MR. KEVIN MCCULLOCH: And as I understand
3 Mr. Christie's evidence yesterday he stated that certain
4 adverse scenarios were mandated by the actuarial
5 standards of practice when actuaries are preparing DCAT
6 analysis.

7 Do you recall him giving that evidence?

8 DR. DEREK HUM: Actually I was not here
9 all of yesterday. So I -- I -- I undertake to accept
10 your characterization of that statement as accurate.

11 MR. KEVIN MCCULLOCH: And, sir, if I were
12 to suggest to you that the directions and educational
13 notes from the Canadian Institute of Actuaries has
14 specific direction to actuaries, for example, in using or
15 applying an adverse scenario on the rate of inflation
16 directing the actuary that a sustained increase in trend
17 of at least 3 percentage points per annum over those in
18 the base scenario for five (5) consecutive years must be
19 used, you wouldn't dispute that?

20 DR. DEREK HUM: I wouldn't dispute that
21 as a fact that that this is mandated. I would comment as
22 to whether it's relevance -- relevant to reality but I
23 suppose you don't want me to say that.

24 MR. KEVIN MCCULLOCH: If you want to
25 suggest that the standards imposed by the Canadian --

1 DR. DEREK HUM: I didn't say that, sir.
2 I don't want to really -- you -- you seem to want to get
3 into an argument with me. I'm trying to help us all out
4 here.

5 I don't disagree with the quality of the
6 work. I -- I just seem to be having personal difficulty
7 in accepting some of the assumptions are plausible. And
8 if they are mandated to be an assumption, then I still
9 don't think is plausible, but I don't disagree that it
10 could be mandated.

11 MR. KEVIN MCCULLOCH: And if it mandated,
12 would you agree with me that criticizing the inclusion of
13 that adverse scenario in the DCAT would also be unfair on
14 your part since it was mandated?

15 DR. DEREK HUM: No. I don't think so. I
16 still think I -- it's implausible and not helpful.

17 MR. KEVIN MCCULLOCH: Absent asking your
18 opinion whether you felt it was plausible or not, I think
19 it's still fair to ask you the question that if it's an
20 imposed standard, it's not something that the actuary can
21 choose to apply or not apply.

22 Would you agree with that?

23 DR. DEREK HUM: Well I -- I accept -- I
24 accept your -- I accept your instructions on this. But
25 I'm not an actuary, sir. And I can comment on it which

1 is what I'd just decided to do.

2 I -- I really apologize if I sound
3 antagonistic but I -- I really, you know, come into this
4 with good spirit. I'm trying to give you my professional
5 perspective and I'm not claiming to be an actuary.

6 MR. KEVIN MCCULLOCH: And all I was
7 trying to do, sir, was to get more information on --
8 concerning the basis on which you had criticized Mr.
9 Christie's use of that scenario and I think we've --
10 we've achieved that.

11 DR. DEREK HUM: Oh, I don't think so,
12 sir. You misunderstood me. I don't know whether -- I
13 said I didn't think it was plausible. I didn't criticize
14 his inclusion of it as his professional duty as an
15 actuary.

16 So I -- I don't want to be antagonistic
17 but I don't want you to misinterpret my position.

18 MR. KEVIN MCCULLOCH: Well, let's turn to
19 your pithy summary on page 21, middle of the page.

20 "To give a pithy summary the Christie
21 report does not so much demonstrate the
22 inadequacy of the future financial
23 situation of MPI than it outlines what
24 management absolutely should not do if
25 it encounters unanticipated inflation

1 of 3 percent."

2 And you're telling me that I shouldn't
3 read that as a criticism of the inclusion of that adverse
4 scenario in Mr. Christie's DCAT report?

5 DR. DEREK HUM: Yes, I am. I am -- I'm
6 not criticizing his inclusion of it, I'm criticizing the
7 fact that his interpretation of this included example as
8 to what he interprets its substantive implication which
9 is that MPI's future financial situation is precarious.

10 I draw from that same example, which he
11 included and I read, a different interpretation. I'm not
12 arguing about the inclusion. I'm arguing about the
13 implication drawn from the example, whatever the cause of
14 its inclusion.

15 MR. KEVIN MCCULLOCH: So that I
16 understand what you are saying, are you suggesting that
17 Mr. Christie applied improper actuarial judgment in the
18 way he treated this adverse scenario?

19 DR. DEREK HUM: No, no. Look, you're
20 getting argumentative. This is not a criticism of Mr.
21 Christie. This is a criticism of the content --
22 informational content of this exercise and what lesson to
23 be drawn from it.

24 If it were an exercise mandated by Stephen
25 Harper, I would still criticise the content of the

1 implication to be drawn from it without necessarily
2 saying anything about my preferences for Prime Minister
3 or otherwise. It's -- it's not Mr. Christie. It's not
4 the report. It's the criticism of the lesson drawn from
5 that exercise. I hope -- I hope that's a clear statement
6 of my position.

7 MR. KEVIN MCCULLOCH: If I changed my
8 categorization of your comments as -- from criticism to
9 disagreement with Mr. Christie's use of that scenario
10 would that sit better with you?

11 DR. DEREK HUM: If it sits better with
12 you, it sits better with me. I -- yes, I disagree that -
13 - in a critical way with the instructions drawn from that
14 example.

15 MR. KEVIN MCCULLOCH: I need some other
16 clarification. Page 11 in your report. Again, talking
17 about the monopoly status and in the middle of that first
18 paragraph you make the statement:

19 "A monopoly incurs no restraint on
20 setting prices (premiums) from
21 competing suppliers although the PUB
22 monitors the rates set."

23 I'll give you an opportunity to explain
24 what you meant by the PUB "monitoring the rates set"?

25 DR. DEREK HUM: Well, there's another

1 grovelling apology. It's an unfortunate choice of words.
2 The PUB does not monitor the rate set it actually sets
3 the rates.

4 MR. KEVIN MCCULLOCH: Thank you for that.

5 There was evidence prior at this hearing
6 with respect to certain time constraints or time factors
7 that impact the actions that are open to MPI to respond
8 to financial issues that arise.

9 And I'm referring to regulatory lag,
10 forecasting lag and insurance year lag. Were you
11 present, sir, for any of those discussions?

12 DR. DEREK HUM: I was present for some.
13 I can't claim I was present for all. Yes, I heard -- and
14 I don't even recognize or remember who, but I heard -- I
15 heard those -- I heard discussion.

16 MR. BYRON WILLIAMS: Mr. McCulloch, just
17 so you understand Professor Hum, he wasn't here for day 1
18 of the hearing but I believe he reviewed the first --
19 your direct -- the MPI direct, if that helps you.

20 MR. KEVIN MCCULLOCH: Thank you.

21

22 CONTINUED BY MR. KEVIN MCCULLOCH:

23 MR. KEVIN MCCULLOCH: And I just want to
24 get this to see what your understanding is of the system
25 here at MPI and we'll deal with what we call the

1 insurance year lag first.

2 You're aware that an application for rates
3 is normally made in the -- the June timeframe and I'm --
4 I should have corrected myself. I'm talking about not
5 the insurance year lag but the policy year lag. The
6 policy year of the policies that MPI issues.

7 So my question was: Do you -- are you
8 aware that the application is normally filed in June and
9 hearings in October?

10 DR. DEREK HUM: Yes, I was here during
11 that part of somebody's testimony.

12 MR. KEVIN MCCULLOCH: And you also
13 understand that the order approving rates which normally
14 issues in the November/December timeframe doesn't take
15 effect until March of 2007 in this example?

16 DR. DEREK HUM: Yes, I -- I was here
17 during that portion of -- when that information was -- or
18 testimony was given.

19 MR. KEVIN MCCULLOCH: And you're also
20 aware that there are staggered renewals --

21 DR. DEREK HUM: Yes.

22 MR. KEVIN MCCULLOCH: -- at MPI?

23 DR. DEREK HUM: Oh, yes. I live in
24 Manitoba.

25 MR. KEVIN MCCULLOCH: So that somebody

1 whose renewal is due in January or February of each year
2 will not pay the November 6th -- or sorry, November '06
3 approved rate until January or February of 2007 -- sorry,
4 2008.

5 DR. DEREK HUM: Yes, they're staggered.
6 Yeah.

7 MR. KEVIN MCCULLOCH: And that the policy
8 that's issued to that individual will run until January
9 or February of 2009 because it's a twelve (12) month
10 policy and that the Company can only earn that premium
11 over the policy period. So the full premium that is paid
12 in January or February of '08 won't be fully earned by
13 the Corporation until January or February of 2009.

14 Do you understand that?

15 DR. DEREK HUM: Hmm hmm.

16 MR. KEVIN MCCULLOCH: And looking at this
17 policy year lag, does that have any impact on your
18 comments or expectations for the Corporation to respond
19 to a significant loss or unexpected loss that might
20 occur, say, in March or April of 2007?

21 DR. DEREK HUM: Well, there's obviously a
22 time lag to which you can respond to it. You know,
23 depending on exactly when this particular unanticipated
24 event occurs, the time lag for your next earliest
25 opportunity could be short or long without necessarily

1 getting into a detailed micro-analysis of when it occurs
2 in each month and so forth.

3 I mean, if your point is that there is a
4 lag, I certainly believe that's to be the case. It -- it
5 is not an immediate adjustment that is open to MPI.

6 MR. KEVIN MCCULLOCH: I want to move to
7 your response to MPI/CAC/MSOS-4. And in that Information
8 Request you were asked to provide a list of risks faced
9 by a P&C insurer. You were asked to explain which risks
10 are altered by the monopoly status of MPI and how.

11 Now, your response is:

12 "No list can be exhaustive. Rather
13 it's sufficient to note that the
14 monopoly status of MPI shelters it from
15 any particular, and all risks arising
16 from or associated with loss of market
17 share. Any economic episode, market
18 condition or event that would
19 potentially give rise to loss of market
20 share for a private market competitor
21 insurer is not -- not problematic for
22 MPI."

23 Was that your response?

24 DR. DEREK HUM: That was my response as
25 best that I could make it.

1 MR. KEVIN MCCULLOCH: You would agree
2 with me then that your response only addresses the market
3 risk and the effect that a monopoly has on the potential
4 market risk for MPI?

5 DR. DEREK HUM: Yes. Yes.

6 MR. KEVIN MCCULLOCH: You would agree
7 with me would you not, sir, that there are many other
8 risks common to property and casualty insurers that also
9 apply to MPI?

10 DR. DEREK HUM: Oh, absolutely.

11 MR. KEVIN MCCULLOCH: And if I were to
12 quickly suggest that investment risk, systems risk, legal
13 and legislative risk, credit risk, weather-related risks,
14 reinsurance risks, risks of fraud, risk of volatility and
15 economic conditions are all risks that the Corporation,
16 even though it's a monopoly, faces.

17 DR. DEREK HUM: I won't ask you to repeat
18 the list, but I agree with all of that and my -- and
19 perhaps the short answer is that there are risks that are
20 common to private sector insurers and monopoly insurers.

21 I -- I never -- I don't recall ever saying
22 that that couldn't be the case.

23 MR. KEVIN MCCULLOCH: Mr. Chairman, if we
24 could consider a short break at this point, I'll be able
25 to come back at the completion of that break and windup

1 my cross-examination in a relatively short time; no more
2 than ten (10) minutes.

3 THE CHAIRPERSON: Professors, when do you
4 have to be gone by?

5 DR. DEREK HUM: I -- I have to leave at
6 3:00 for a medical thing. So if -- if -- I'm quite
7 willing to go on but I do have -- I cannot miss my
8 medical treatment.

9 MR. BYRON WILLIAMS: And I -- I believe,
10 Professor, we're at the liberty of the Board. Professor
11 Simpson's here --

12 DR. DEREK HUM: Oh, yes.

13 MR. BYRON WILLIAMS: -- and can answer --

14 DR. DEREK HUM: I'm leaving a hostage.

15 MR. BYRON WILLIAMS: -- yeah, there's a
16 hostage. He's able --

17 DR. WAYNE SIMPSON: I'm prepared to stay
18 all night, but under protest.

19 THE CHAIRPERSON: Okay. We'll hold you
20 to that because it's -- it's important to the process
21 that the other intervenors have an opportunity to consult
22 with you. Thank you very much.

23 And okay, we'll have a break and then when
24 we come back, Professor Hum, you're able to stay until
25 3:00?

1 DR. DEREK HUM: I can stay until 3:00 a
2 little bit.

3 THE CHAIRPERSON: Okay. Based on Mr.
4 McCulloch, that should work out, Mr. McCulloch?

5 Okay. We'll be back at quarter to 3:00.
6 Give everyone a break.

7

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

9 --- Upon resuming at 2:45 p.m.

10

11 THE CHAIRPERSON: Taking note of
12 Professor Hum's need to leave at 3:00, I think we'll get
13 going again.

14 Mr. McCulloch...?

15 MR. KEVIN MCCULLOCH: Mr. Chairman, one
16 of the benefits of coffee breaks is it allows time for
17 reflection and I can advise the Panel that I've concluded
18 my cross-examination.

19 THE CHAIRPERSON: Oh, very good. I
20 shouldn't say very good. I didn't know what was coming
21 next but it certainly takes a bit of pressure off of
22 Professor Hum. So I guess we'll move on then.

23 We're going on to CMMG. Mr. Oakes...?

24 MR. RAYMOND OAKES: Thank you, Mr.
25 Chairman.

1

2 CROSS-EXAMINATION BY MR. RAYMOND OAKES:

3 MR. RAYMOND OAKES: Good afternoon, sir.

4 I'd like to ask a question starting with the use of
5 confidence limits in risk management.

6 And, sir, can you tell me what the
7 importance of using confidence limits and risk management
8 would be?

9 DR. WAYNE SIMPSON: It's my turn, hey?
10 Well con -- confidence limits is a -- a standard device
11 in statistics that's used to characterize a range of
12 values within which you can expect a random event to
13 occur.

14 And from the standpoint of risk, it then
15 identifies those cases that are unlikely to occur but
16 which still could occur.

17 MR. RAYMOND OAKES: So it would help take
18 care of unexpected events then?

19 DR. WAYNE SIMPSON: That's correct.
20 Insofar as it can be characterized, yes.

21 MR. RAYMOND OAKES: And as far as you're
22 aware, does the MCT approach use confidence limits?

23 DR. WAYNE SIMPSON: Not at all, no.

24 MR. RAYMOND OAKES: If we're comparing
25 the RAA and the MCT, when comparing the two methods would

1 it be fair to characterize the RAA as an approach based
2 on statistical tools and techniques while the MCT is more
3 of a formula-driven or recipe card approach?

4 DR. WAYNE SIMPSON: I wouldn't be so
5 ungenerous as to characterize it as a cookbook or recipe
6 but it certainly is a -- a different approach that we
7 don't think addresses the issues in the way that the RAA
8 does.

9 MR. RAYMOND OAKES: Would you agree that
10 it's more of a formulaic-driven approach?

11 DR. WAYNE SIMPSON: I think it's been
12 said that it's very -- fairly relatively easy to
13 calculate although anyone with a decent amount of
14 statistical training wouldn't have trouble calculating
15 the RAA either. But certainly, yeah, in that sense it's
16 formulaic, yes.

17 MR. RAYMOND OAKES: If I might move to
18 asking some questions about the nature of a monopoly.

19 If there is only one (1) firm that
20 provides a product that would indicate that there's a
21 monopoly for that product, is that correct?

22 DR. WAYNE SIMPSON: Yes.

23 DR. DEREK HUM: That's the definition.

24 MR. RAYMOND OAKES: And if one of the
25 outcomes of a monopoly or -- is one of the outcomes of a

1 monopoly that the price charged is often above what would
2 occur if there were many competitors?

3 DR. WAYNE SIMPSON: Yes.

4 MR. RAYMOND OAKES: Is another likely
5 outcome that the cost structure of the monopolistic firms
6 is greater than if the market were competitive?

7 DR. WAYNE SIMPSON: There's a line of --
8 of literature that suggests that that is true, yes.

9 MR. RAYMOND OAKES: And in monopoly
10 situations, what are the typical remedies that an
11 economist would recommend?

12 DR. WAYNE SIMPSON: Well, the standard
13 one is what we referred to as monitoring and that is an
14 encompassing term which we used I guess almost
15 reflexively in this case which would include things from
16 rate setting to rate review to other forms of simply
17 requiring the monopolist to -- to bring their rates to a
18 -- a particular body.

19 But there are a variety of -- of review
20 mechanisms set up by -- in the interest of the public
21 sector to limit the ability of a monopoly to price a
22 product above what a group of competitors would charge.

23 MR. RAYMOND OAKES: So to understand your
24 answer, one of the remedies that an economist might put
25 forward is regulating that part of the market?

1 DR. WAYNE SIMPSON: That's correct, yes.

2 MR. RAYMOND OAKES: And looking at your
3 report; I'm looking at footnote 9 on page 11. And the
4 question is: Given the situation that MPI has over 80
5 percent market share on its competitive lines of
6 business, would you classify that as a monopoly as well?

7 DR. DEREK HUM: The textbook definition
8 of a monopoly is 100 percent. Economists loosely use the
9 term "near monopoly" sometimes when it is not strictly
10 100 percent but quite some distance from zero. So I'm
11 using the -- we're using the term, "near monopoly". If
12 we were trying to be very precise as economists here, we
13 would actually calculate something called a concentration
14 index.

15 Obviously, if there is only one (1) firm
16 the industry is concentrated in one (1) so that would be
17 one (1) extreme. The other extreme, if it's concentrated
18 among so many suppliers that -- that we would say
19 approaches perfect competition, would be at the other
20 end.

21 So typically a concentration index might
22 be the percentage of the market share controlled by or
23 served by successively one (1), two (2), three (3), four
24 (4), five (5) largest firms in descending order of size
25 and then you can see how we get to that concept. So a

1 near monopoly is encompassing, loosely here for the
2 purpose of this testimony, not quite a hundred (100) but
3 nearby.

4 MR. RAYMOND OAKES: And if I give you
5 the fact situation as in Manitoba where MPI doesn't have
6 a compulsory lock, if you will, a monopoly on Extension
7 coverage like theft coverage, but if I give you the fact
8 that no other company is underwriting theft coverage for
9 motorcycles in Manitoba, would that be -- those facts be
10 reflective of a monopoly on that Extension or theft
11 coverage?

12 DR. WAYNE SIMPSON: Yes.

13 MR. RAYMOND OAKES: Just moving to
14 questions of dynamic capital adequacy testing, the DCAT,
15 in terms of statistical theory based on your review,
16 would you consider the DCAT analysis to be a stochastic
17 or a deterministic approach?

18 DR. WAYNE SIMPSON: Deterministic.

19 MR. RAYMOND OAKES: And, sir, could you
20 briefly describe the differences?

21 DR. WAYNE SIMPSON: Stochastic approach
22 is to introduce element of randomness into the process to
23 see how the randomness matters in terms of the
24 variability of outcomes. And that wouldn't be the case
25 in the scenarios that we're familiar with.

1 MR. RAYMOND OAKES: And would -- is it
2 fair to say that the stochastic approach is more
3 statistical than a deterministic approach?

4 DR. WAYNE SIMPSON: It's certainly more
5 statistical, yes.

6 MR. RAYMOND OAKES: And I'm not sure
7 whether you were present for this particular part of Mr.
8 Christie's examination, but I had asked Mr. Christie
9 questions and the testimony was to the extent that
10 different actuarial firms' DCAT models may result in
11 different results.

12 Were you aware of that fact, sir?

13 DR. WAYNE SIMPSON: I -- I think I did
14 hear that testimony, yes.

15 MR. RAYMOND OAKES: With respect -- with
16 respect to the risk analysis, would the results be
17 duplicable by two (2) different analysts who had the same
18 data?

19 DR. WAYNE SIMPSON: Yes. Yes.

20 MR. RAYMOND OAKES: And in terms of
21 research methods is duplicability of the results by
22 different researchers an important part of scientific
23 evaluation?

24 DR. WAYNE SIMPSON: Certainly we place
25 value on replaceability. In terms of the -- of the DCAT,

1 for example, one issue that might differ for different
2 actuaries is what they assume about the reaction function
3 of management in the face of these adverse scenarios
4 which was precisely the point of the -- of our report.

5 MR. RAYMOND OAKES: As well as the --
6 what we talked about in terms of the different DCAT
7 models that different firms might have?

8 DR. WAYNE SIMPSON: Right. But for the
9 same scenario of say 3 percent inflation, you might
10 assume different things about how management would react.

11 MR. RAYMOND OAKES: Just moving to
12 questions about PFAD and the RSR; the PFAD of course
13 being the Provision for Adverse Deviation. MPI according
14 to the evidence before this Board this year, carries
15 about \$212 million in risk related funds called this
16 provision for Adverse Deviation in the event that future
17 claim liabilities have been underestimated.

18 And the evidence before this Board that I
19 -- state for you is that it represents about 22 percent
20 of the total loss costs.

21 Do you have any comments with respect to
22 those particular reserves?

23 MR. BYRON WILLIAMS: I -- I believe that
24 might be outside the area of my client -- or my witness'
25 expertise. If they want to walk there they can but...

1 DR. WAYNE SIMPSON: Do -- do you want us
2 to speculate in the sense it was defined yesterday by Mr.
3 Christie?

4 MR. RAYMOND OAKES: No. I -- I prefer
5 that, based on those facts, if you have any comments that
6 you could make about the fact that the Corporation has
7 these additional reserves.

8 DR. WAYNE SIMPSON: No. No, I -- I think
9 -- I think we'll leave that.

10 MR. RAYMOND OAKES: Had you considered
11 any probability that those reserves have been mis-
12 estimated? Is there some comment you'd like to make in
13 that respect?

14 DR. WAYNE SIMPSON: Mis-estimated. I
15 have no reason to believe that MPI's forecast are
16 anything but of the highest standard.

17 MR. RAYMOND OAKES: If we could talk
18 about the issue of correlation. When calculating a
19 correlation co-efficient between variables, would you
20 expect the co-efficient to change if the data changed?

21 DR. WAYNE SIMPSON: Yes.

22 MR. RAYMOND OAKES: And suppose you were
23 calculating the correlation between revenues and
24 operating costs for a company and the company changed its
25 approach to accounting for certain operating costs which

1 resulted in certain of these costs being reported
2 elsewhere, would you expect the correlation, co-efficient
3 between revenues and operating costs to change?

4 DR. WAYNE SIMPSON: Yeah. You might
5 expect the correlation between revenues and operating
6 costs to be lower -- weaker, yeah.

7 MR. RAYMOND OAKES: And some questions
8 about equity risk premium. Are you familiar with that
9 term?

10 DR. WAYNE SIMPSON: Yes.

11 MR. RAYMOND OAKES: And is this an area
12 where econo -- economists have been involved over a long
13 period of time?

14 DR. WAYNE SIMPSON: Yes. Economics and -
15 - and finance overlap here, yeah.

16 MR. RAYMOND OAKES: Based on your
17 expertise, would the premium for equity investments
18 typically be greater than zero?

19 DR. WAYNE SIMPSON: Yes.

20 MR. BYRON WILLIAMS: I hate to interrupt,
21 Mr. Oakes.

22 Mr. Chair, with your permission, Dr. --
23 Dr. Hum will -- will leave with -- with thanks.

24 THE CHAIRPERSON: Thank you, Dr. Hum, we
25 appreciate your participation --

1 DR. DEREK HUM: Thank you very much.

2 THE CHAIRPERSON: -- and your attendance
3 today. Thank you very much.

4 DR. DEREK HUM: Thank you, everybody,
5 it's been very interesting. I'm leaving you a hostage.

6 DR. WAYNE SIMPSON: I'll let you know how
7 it goes.

8 THE CHAIRPERSON: We promise to let him
9 out by tomorrow.

10

11 (WITNESS DEREK HUM STANDS DOWN)

12

13 CONTINUED BY MR. RAYMOND OAKES:

14 MR. RAYMOND OAKES: And speaking about
15 the role of econo -- economists in regulation, with
16 respect to regulatory policy is this an area where
17 economists have been legitimately involved for many
18 years?

19 DR. WAYNE SIMPSON: Yes.

20 MR. RAYMOND OAKES: And is one (1) of the
21 reasons that economists have been involved related to
22 market conduct; that is how firms operate in a market?

23 DR. WAYNE SIMPSON: Yes, that would be
24 their primary area of expertise in this area.

25 MR. RAYMOND OAKES: And as well, would

1 one (1) of the areas that they've been involved in for
2 many years be the area of risk analysis as it relates to
3 companies?

4 DR. WAYNE SIMPSON: Yes, that -- that
5 overlaps between finance and regulation, yeah.

6 MR. RAYMOND OAKES: Given this, is it the
7 view of -- is the view of economists quite unique in that
8 the scope of their analysis is broader in nature, for
9 example, than a technical specialist such as an engineer
10 or some other technical specialist?

11 DR. WAYNE SIMPSON: Yes.

12 MR. RAYMOND OAKES: Mr. Chairman, those
13 are all my questions.

14 THE CHAIRPERSON: Thank you. Thank you,
15 Mr. Oakes.

16 Mr. Roberts, for the Manitoba Used Car
17 Dealers' Association?

18 MR. NICK ROBERTS: Mr. Chairman, I have
19 no profound questions to ask the Witness, so, I'll defer
20 to Mr. Dawson.

21 THE CHAIRPERSON: CAA has nothing?

22 MS. JEANNIE DALMAN: No question, thank
23 you.

24 THE CHAIRPERSON: Thank you.

25 Mr. Dawson...?

1 MR. ROBERT DAWSON: I'd like the
2 direction of the Chair. I have one (1) question which
3 relates to something that the Chairman had asked in the
4 course of MPI's cross-examination by the Board and it's a
5 point that I also raised yesterday with the actuary.

6 Unfortunately this is a question that's
7 best suited for Dr. Hum. Do I understand that Dr. Hum's
8 not returning?

9 THE CHAIRPERSON: That's my
10 understanding.

11 MR. BYRON WILLIAMS: I should have
12 tackled him. I apologize, Mr. Dawson. If we're
13 finishing today, he's not returning. I don't know
14 whether he could return tomorrow.

15 THE CHAIRPERSON: Could we pose a
16 question to him in written form?

17 MR. BYRON WILLIAMS: Yeah.

18 MR. ROBERT DAWSON: That was going to be
19 my alternate -- so what I'll do is I'll read in the
20 question and if we could then have an undertaking from My
21 Learned Friend Mr. Williams to provide an answer shall we
22 say by Monday, the end of Monday?

23 MR. BYRON WILLIAMS: Once -- once we hear
24 the question, we'll let you know if we can file it on
25 Monday, but that should be satisfactory.

1 THE CHAIRPERSON: We'll have to take into
2 account the possibility of when we were going to have
3 closing statements. So we'll take it all into the mix
4 after we hear the question.

5 MR. ROBERT DAWSON: The question was
6 this:

7 "Comment upon the following. It is the
8 very essence of any insurance scheme
9 that rates paid by today's
10 policyholders may go towards benefits
11 received by tomorrow's insured and that
12 benefits received by today's insured
13 may be paid for only by tomorrow's
14 policyholders?"

15 And that ties into the question that the
16 Board had asked and as yesterday's reference to inter-
17 generational inequities.

18 And the reason why I'm not posing this
19 question to Professor Simpson is simply that in reviewing
20 his CV it seems that his only recent experience if any
21 experience in the relationship with general insurance is
22 two (2) articles on health insurance in Vietnam. Whereas
23 I note that Dr. Hum actually teaches a course on Canadian
24 economic policy in which, and I'm quoting from the
25 website here:

1 "The students are being trained to
2 examine various aspects of economics
3 within the Canadian context. It will
4 require not only economic theory and
5 empirical evidence but also be
6 necessary to review legislation,
7 policy, programs, et cetera, as the
8 need arises."

9 Assuming that the teacher has the skills
10 that he expects of his students, I'm guessing that Dr.
11 Hum is the best person to answer this question.

12 MR. BYRON WILLIAMS: I -- I suspect that
13 both could but I don't -- we -- we won't have any problem
14 I think in asking Dr. Hum to answer that. We'll check in
15 -- in terms of whether he can have it available by
16 Monday, but that should be fine.

17

18 --- CAC/MSOS UNDERTAKING NO. 1:

19 CAC/MSOS to ask Dr. Hum to comment upon
20 the following for CBA/MBA. 'It is the
21 very essence of any insurance scheme that
22 rates paid by today's policyholders may go
23 towards benefits received by tomorrow's
24 insured and that benefits received by
25 today's insured may be paid for only by

1 tomorrow's policyholders.'

2

3 THE CHAIRPERSON: Very good. Anything
4 else, Mr. Dawson?

5 MR. ROBERT DAWSON: No, that's fine. I
6 -- the only reason I had selected Monday as the deadline
7 is to give us, shall we say, at least one (1) day ahead
8 of whenever final argument might be scheduled.

9 THE CHAIRPERSON: Well, I'm just
10 concerned if final argument is Tuesday and if the answer
11 is pertinent, it would be nice to get it earlier than
12 that. But we'll leave it with Mr. Williams and he can
13 confer with Professor Simpson as well.

14 MR. ROBERT DAWSON: Thank you for that
15 direction, Mr. Chairman. In light of your -- your ruling
16 I have no questions for this Witness.

17 THE CHAIRPERSON: Thank you.

18 Ms. Reilly...?

19 MS. PAMELA REILLY: I have no questions,
20 Mr. Chairman.

21 THE CHAIRPERSON: Thank you.

22 Mr. Sousa is not here. Neither is
23 Professor Miller.

24 Mr. Saranchuk...?

25 MR. WALTER SARANCHUK: Thank you, sir.

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CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Professor Simpson, in dealing with the responses by Professor Hum to questions posed by Mr. Williams, in the direct evidence Professor Hum indicated that in respect of the investment risk and the value at risk and the relevance to setting RSR target levels, he indicated, and I'm quoting from the transcript, quote:

"That you learned enough about it to reach a judgment." End of quote.

And the second quote was:

"We don't find the value at risk test or calculations to be very helpful."

That's the second quote. The third quote was, and granted this is from Professor Hum, quoted from the transcript from the evidence this morning:

"I just want to know what the variability of my portfolio is on a year to year basis. Now, that's a different question. That's the variation in the total value of your portfolio from year to year. The value at risk measures -- sorry, the value at risk measure answers that second

1 question." End of quote.

2 Let me ask you, sir, appreciating that
3 this is Professor Hum's testimony, I take it though that
4 you adopt it, is that correct?

5 DR. WAYNE SIMPSON: I'm not sure what you
6 mean by I -- we "adopt it?"

7 MR. WALTER SARANCHUK: You don't have any
8 quarrel with it?

9 DR. WAYNE SIMPSON: No.

10 MR. WALTER SARANCHUK: So let me ask you,
11 is the variability in the value of the portfolio of
12 reference to setting an RSR target level?

13 DR. WAYNE SIMPSON: Well, again, we drew
14 a distinction which we would draw as economists, between
15 risks that someone takes on and risks that one can't
16 avoid. And you know, when an individual makes
17 investments they make decisions about the amount of risk
18 that they want to take on.

19 On the other hand, you can't control if
20 you're going to slip on ice and fall and break nine (9)
21 bones. These are different kinds of risks. And -- and
22 the operating risk is more of the latter category, some
23 of it, and the investment risk is more of the former
24 category.

25 So they are distinct. And to simply add

1 them together, we would think, doesn't recognize that.

2 MR. WALTER SARANCHUK: In terms of the
3 value of the investment portfolio to setting an RSR
4 target level, is the value at risk relevant or isn't it?

5 DR. WAYNE SIMPSON: Well, the value at
6 risk tells you whether you will, over a period of time,
7 likely have a loss, right? You -- that you're -- you're
8 portfolio will lose value and that's related information
9 but it isn't the only part of the question you'd want.

10 What you would want to know is the -- the
11 -- characterize the expected return and the expected
12 deviations from that return or the -- the variance of
13 that return. That's -- that's what you want to know, and
14 then you can do simulations.

15 MR. WALTER SARANCHUK: So can I interpret
16 your answers, rather than being yes or no, as meaning
17 that effectively it has some relevance?

18 DR. WAYNE SIMPSON: From the limited
19 amount we've looked at this question it has some
20 relevance -- some limited relevance, yes.

21 MR. WALTER SARANCHUK: In your research,
22 sir, did you assess the reasonableness of MPI's proposed
23 alternative scenario for the risk analysis to shorten the
24 time -- the investment time horizon in the value at risk
25 analysis?

1 DR. WAYNE SIMPSON: No, we simply noted
2 what was stated and what we would know from our own
3 dealings with the investment community, that that was
4 inconsistent with what most investment analysts would
5 suggest.

6 MR. WALTER SARANCHUK: I'm assuming that
7 you have a general familiarity with the VAR or value at
8 risk. Can you now offer a view in that -- in that
9 respect?

10 DR. WAYNE SIMPSON: You mean that one (1)
11 year is too short?

12 MR. WALTER SARANCHUK: Yes. Or that two
13 and a half (2 1/2) years is too long.

14 DR. WAYNE SIMPSON: I would venture that
15 one (1) year is too short. I wouldn't venture that two
16 and a half (2 1/2) years is too long, or too short, or
17 not just right.

18 MR. WALTER SARANCHUK: With respect to
19 alternative Scenario 3 adjusting claims history to
20 reflect current reinsurance terms, in your report at page
21 27, at footnote 24, if you could just take a look at
22 that, sir?

23 And paraphrasing the response you've
24 indicated that the other scenarios involve shortening the
25 investment time horizon and adjusting historical loss

1 costs and relevant -- and revenues to reflect current
2 reinsurance terms, quote:

3 "We find neither of these adjustments
4 pertinent and do not discuss them
5 here."

6 In your direct evidence this morning I
7 believe you said that you didn't see it as relevant to
8 the issue at hand.

9 Do you recall saying that, sir?

10 DR. WAYNE SIMPSON: Yes.

11 MR. WALTER SARANCHUK: Could I ask you,
12 sir, what are the reasons for your holding that view?

13 DR. WAYNE SIMPSON: With respect to the -
14 - the RAA and -- and the -- the size of the -- the RSR,
15 the focus is on unanticipated and nonrecurring events as
16 we've heard over and over.

17 There may be elements of reinsurance that
18 fall into that category but they aren't ones that -- that
19 we would -- we would know of. But we don't think they're
20 very large. I would say, I don't think they're very
21 large.

22 MR. WALTER SARANCHUK: And on what do you
23 base that supposition?

24 DR. WAYNE SIMPSON: That the Board makes
25 a -- that MPI makes a decision on its reinsurance given -

1 - given its knowledge of the industry and what's
2 available in terms of reinsurers and makes decisions on
3 the basis of its business plan.

4

5

(BRIEF PAUSE)

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7

MR. WALTER SARANCHUK: If you restate the
8 history to reflect the current insurance terms --

9

DR. WAYNE SIMPSON: Hmm hmm.

10

MR. WALTER SARANCHUK: -- doesn't that
11 make it more relevant?

12

DR. WAYNE SIMPSON: Are you describing
13 some sort of review which results in an unanticipated and
14 nonrecurring hit on your books for new reinsurance? Is
15 that what you're describing? Because then I would say
16 that it belongs in the RSR in the year in which it was --
17 occurred. You'd have to make provisions for it.

18

19

(BRIEF PAUSE)

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21

MR. WALTER SARANCHUK: If you have a
22 hypothetical situation that the Company has years and
23 years of reinsurance --

24

DR. WAYNE SIMPSON: Hmm hmm.

25

MR. WALTER SARANCHUK: -- then suddenly

1 stops with the fact that there's no more reinsurance,
2 then what would that impact have?

3 DR. WAYNE SIMPSON: Well, no -- no
4 reinsurance is -- is a form of reinsurance policy.
5 You've made a conscious decision to -- to not pay
6 reinsurance premiums and, therefore, not to have a
7 policy. That would increase the prospective volatility
8 of -- of claims.

9 MR. WALTER SARANCHUK: And if you restate
10 the -- the history to reflect that volatility, doesn't
11 that then have some relevance?

12 DR. WAYNE SIMPSON: I'm not sure where
13 you're going with this. I -- they are not going to a
14 policy. They have re-insurance and -- and they may be
15 changing their re-insurer or the re-insurer may be
16 changing the coverage or their -- the costs, but either
17 way, that's something that MPI would accept and reflect
18 on and reflect in their cost structure.

19 MR. WALTER SARANCHUK: With reference to
20 your report then at page 9 at the bottom, the bottom
21 paragraph, you state in the last sentence that:

22 "The evidence offered in support of the
23 MCT approach is largely contained in a
24 report by James Christie of Ernst &
25 Young; Universal Compulsory Automobile

1 Insurance 2005 Dynamic Capital Adequacy
2 Testing, September 23rd, 2005."

3 You were after the Christie report. To
4 what extent do you believe that the adverse scenario
5 testing and the DCAT report is relied on by MPI in
6 forming its recommendation of setting the RSR target
7 range based on 50 percent and 100 percent of the MCT
8 ratios?

9 MR. BYRON WILLIAMS: Just -- Mr.
10 Saranchuk, just -- I'm not sure that the Witness can
11 testify to what he believes MPI relies upon. If you want
12 to try and rephrase it.

13 MR. WALTER SARANCHUK: Well, let me start
14 it off this way then. Is it your understanding that the
15 adverse scenario testing in the DCAT report is relied on
16 by MPI?

17 DR. WAYNE SIMPSON: They've received the
18 report and --

19 MR. WALTER SARANCHUK: For purposes of
20 the setting of the RSR target range based on 50 percent
21 and 100 percent MCT ratios.

22 DR. WAYNE SIMPSON: I believe the -- I
23 believe they've received the report and the report tells
24 them that under an adverse scenario, an inflation
25 scenario which has been discussed, the opinion is that

1 the Corporation would not have adequate capital.

2 But that has no particular bearing on the
3 RSR unless, you know, you directly link what's happening
4 in this particular scenario to the RSR in terms of -- of
5 the basis for the RSR.

6 But it has a direct bearing on the
7 adequacy of the capital of the Corporation which is
8 presumably what they're concerned about.

9 MR. WALTER SARANCHUK: Are you aware that
10 an MCT approach to setting of the RSR target level has
11 been adopted by other monopoly Crown corporation,
12 automobile insurers in Canada?

13 DR. WAYNE SIMPSON: You mean BC,
14 Saskatchewan and Quebec. I heard that yesterday, yes.

15 MR. WALTER SARANCHUK: And in your
16 assessment of the MCT approach, did your research
17 encompass the rationale for these other Crown companies
18 adopting an MCT approach?

19 DR. WAYNE SIMPSON: No.

20 MR. WALTER SARANCHUK: In the exchange
21 that you had with Mr. Oakes and discussing the question
22 of the MCT and the use of confidence limits, you've
23 indicated I think, sir, in response to one of his
24 questions that -- that not all are utilized or -- I'm
25 sorry, that they're not utilized at all.

1 Is it possible that the consensus basis
2 for the selection of the MCT capital factors may have
3 given consideration to confidence limits?

4 DR. WAYNE SIMPSON: I don't see why you
5 couldn't design a -- a set of scenarios which would allow
6 for random variations in the things that you think are
7 random in the books of MPI, but that's not what they've
8 done.

9 The adverse scenarios don't arise out of
10 building in stochastic components. They arise out of --
11 out of choosing adverse scenarios. And they're -- I
12 could add that Mr. Christie has characterized a
13 particular scenarios one (1) in one hundred (100), I
14 think that relies on -- on someone's judgment -- his
15 judgment and actuarial convention or something. It
16 doesn't rely on the definition of a 99 percent confidence
17 level in the sense that that's understood in statistics
18 in the way for example, it is in the RAA.

19 MR. WALTER SARANCHUK: Professor Simpson,
20 I wasn't referring to the DCAT report. I was talking
21 about the possibility that the consensus basis for the
22 selection of the MCT capital factors --

23 DR. WAYNE SIMPSON: Hmh hmm. Yeah.

24 MR. WALTER SARANCHUK: -- may have given
25 consideration to the confidence limits?

1 DR. WAYNE SIMPSON: No.

2 MR. WALTER SARANCHUK: And what are your
3 reasons for that conclusion, sir?

4 DR. WAYNE SIMPSON: If there's a link it
5 has escaped me and you'll no doubt pursue this if you
6 have one.

7 MR. WALTER SARANCHUK: The question was
8 whether it was a possibility and your answer is quite
9 definitive. And all I'm saying --

10 DR. WAYNE SIMPSON: Not as the MCT has
11 been described to me and as I have read about it, no.

12

13 (BRIEF PAUSE)

14

15 MR. WALTER SARANCHUK: Well, I don't want
16 to pursue this unduly, but let me just ask you, when you
17 talk in terms of your understanding of the MCT, in light
18 of that answer, that in a nutshell can you give us what
19 your understanding of the MCT is?

20 DR. WAYNE SIMPSON: The MCT is -- is --
21 well, it's a formula for adding up a set of assets,
22 right? So where is the random element in that?

23 MR. WALTER SARANCHUK: I guess it's the
24 selection of the capital factors that have been selected.

25 DR. WAYNE SIMPSON: Well, if they're

1 selected they're not random.

2 MR. WALTER SARANCHUK: Thank you, sir.

3 I will now proceed with your -- further
4 with your report at pages 24 and 25 and this was dealt
5 with earlier. This dealt with the forecast bias
6 reference and the forensic assessment conclusion that the
7 MPI forecast has a positive bias.

8 And you went into some calculation taking
9 the total of the annual estimates or underestimates
10 accumulating to something in excess of \$10 million; do
11 you recall that, sir?

12 DR. WAYNE SIMPSON: Yes.

13 MR. WALTER SARANCHUK: And as you may
14 recall or may have heard, Mr. Palmer, the actuary for
15 MPI, in his direct evidence, and this was at page -- or
16 is at page 76 of the transcript, asserted that the same
17 forensic assessment of forecast bias if done in one (1)
18 year would have concluded that there was a negative
19 forecast bias of about seven hundred thousand dollars
20 (\$700,000) per year.

21 Have you confirmed that calculation?

22 DR. WAYNE SIMPSON: Well, I think I
23 understand now what he's saying. But, as I said before
24 on another issue, words are imprecise. You can't
25 determine bias on the basis of one (1) year.

1 But what he means is that taking out one
2 (1) year, which is removing the most recent year,
3 '05/'06, if you only had one (1) year, one (1)
4 observation you wouldn't attempt to characterize bias
5 because you simply don't have enough information.

6 MR. WALTER SARANCHUK: And accepting his
7 calculation for the moment, what are the implications for
8 MPI having a negative forecast bias?

9 DR. WAYNE SIMPSON: The -- the bias --
10 the -- I'm -- we simply noted in the information we were
11 given for the twelve (12) years that the bias was
12 positive; not large, but in terms of the net underwriting
13 about 5 or 6 percent.

14 We didn't do a sensitivity analysis of
15 dropping observations as MPI has done and I accept that
16 point. I mean, it's just a straightforward calculation.
17 You could drop other years and get different results.

18 And if you said to me which years would be
19 more important to drop, I would think you would drop
20 earlier years rather than later years in terms of
21 assessing the bias of current forecasts at MPI because
22 the conditions change and they get better at is as they
23 go along probably.

24 And that would lead to different results
25 again. So I'm not going to comment on dropping any

1 particular year because we know that as you start
2 selectively dropping years you can get positive or
3 negative values. That wasn't the point of the
4 observation.

5 MR. WALTER SARANCHUK: Well, again
6 accepting Mr. Palmer's calculation how should the Board
7 interpret the apparent volatility of these forecast bias
8 assessments from one (1) year to the next?

9 DR. WAYNE SIMPSON: If the Board really
10 wanted to assess the volatility, then there are
11 statistical techniques given those twelve (12)
12 observations that would allow you to assess that
13 volatility; techniques known as, bootstrapping.

14 Dropping an observation would not be an
15 accepted statistical practice but I do take the point
16 made there that it is sensitive to what observations you
17 include. I took the twelve (12) observations that were
18 presented as the data.

19 MR. WALTER SARANCHUK: But the point is
20 that you're going from one (1) year to the next year or
21 one (1) review to the next review --

22 DR. WAYNE SIMPSON: Hmm hmm.

23 MR. WALTER SARANCHUK: -- and you have an
24 opposite result.

25 DR. WAYNE SIMPSON: Hmm hmm.

1 MR. WALTER SARANCHUK: So then how is the
2 Board then to deal with that and what are they to learn
3 from that or what is it to learn from that?

4 DR. WAYNE SIMPSON: That the -- well, you
5 could say this before you knew the number that the -- the
6 bias is -- is like other things in statistics volatile,
7 it varies. It -- it has some mien which we're trying to
8 discover and some degree of volatility which we're also
9 trying to discover.

10 And if you asked me if I conducted a
11 statistical test with the information there, would I
12 conclude that the forecast bias was positive, negative,
13 or zero under a formal statistical test which we didn't
14 ask -- we didn't ask this question, I'm phrasing this
15 question; I would say the test would likely say it was
16 zero.

17 MR. WALTER SARANCHUK: Thank you, sir.
18 Moving on to page 25 of your report and the section on
19 serial correlation, can you confirm your forensic
20 assessment conclusion that, quote:

21 "MPI forecast errors for net
22 underwriting income have a negative
23 serial correlation of minus zero point
24 one six (0.16)." End of quote.

25 DR. WAYNE SIMPSON: Yes.

1 MR. WALTER SARANCHUK: And within what
2 range do serial correlations value -- correlation values
3 vary?

4 DR. WAYNE SIMPSON: Correlations value
5 between minus one (1) and plus one (1).

6 MR. WALTER SARANCHUK: And what does the
7 observed value of minus point one six (.16) tell us about
8 the relative strength of the negative serial correlation
9 relationship, say compared a value of minus zero point
10 eight four (0.84)?

11 DR. WAYNE SIMPSON: It's closer to zero
12 than zero point eight (0.8) -- minus zero point eight
13 four (0.84) and therefore, it's closer to independence
14 than minus zero point eight four (0.84) is.

15 MR. WALTER SARANCHUK: And so --

16 DR. WAYNE SIMPSON: Where is the minus
17 zero point eight four (0.84) from? Where does that
18 number come from?

19 MR. WALTER SARANCHUK: It's just a
20 number.

21 DR. WAYNE SIMPSON: Oh, it's one (1)
22 minus zero point one six (0.16). Okay. All right.

23 Okay. It's just a number then. Sure.

24 MR. WALTER SARANCHUK: In your research
25 did you examine the persistency of the observed negative

1 serial correlation over time, say by determining what
2 value would have resulted had the assessment been done
3 one (1) year ago with the data available at that time?

4 DR. WAYNE SIMPSON: No. I think the --
5 the interesting issue there to come back to my earlier
6 comment about the forecasting bias, to speculate if you
7 will, if -- if I went back a year I'd be very surprised
8 to find that it was large and positive given that it's
9 negative the next year.

10 So if you said that it was highly
11 positively correlated, which is the thing that presumably
12 the PUB would be concerned about, because if there were
13 positively correlated errors over time, then a forecast
14 error would be compounded by another forecast error.

15 If for example -- economists often talk
16 about this in the context of lags. We've heard a lot
17 about lags and one (1) expectation you might have about
18 lags is they would lead to forecast errors that are
19 compounded over time.

20 What we're saying in our results is that
21 our evidence doesn't support this and in that context we
22 don't see that forecast lags are a problem in the nature
23 of the forecast they're producing.

24 MR. WALTER SARANCHUK: Thank you, sir.
25 I'll now proceed with some questions on the

1 homoscedasticity of forecast errors and in particular
2 your report, page 29, and the assessment that you made at
3 the beginning of the -- I'm sorry, at the end of the
4 first paragraph.

5 Can you confirm that conclusion, quote:

6 "A variance in forecast errors is not
7 changing with time." End of quote.

8 And that you see quote:

9 "No basis for the MPI adjustment to
10 reflect current magnitudes in
11 alternative scenario 2." End of quote.

12 DR. WAYNE SIMPSON: Yes, that's correct.

13 MR. WALTER SARANCHUK: In simple terms,
14 can you please explain the meaning of homoscedasticity?

15 DR. WAYNE SIMPSON: Homoscedasticity
16 arises when the variance of the errors, in this case the
17 -- what they call the forecast differences, say, using a
18 -- a linear trend if those variances of the errors or
19 forecast differences, those forecast differences squared
20 essentially, if that shows a pattern over time related to
21 some variable in your data set.

22 In this case, the only variable that we're
23 concerned about is time because the allegation is that --
24 that the forecast differences should be increasing over
25 time because the volume of business is increasing.

1 MR. WALTER SARANCHUK: Is MPI's
2 alternative scenario 2 appropriate if, and only if, the
3 forecast errors are not found to be homoscedastic?

4 DR. WAYNE SIMPSON: The scenario is
5 relevant in the sense that it proposes one (1) reason why
6 errors might be heteroscedastic. But one can look at the
7 evidence to see whether, in fact, that conjecture is
8 borne out and we find it isn't.

9 MR. WALTER SARANCHUK: And given that it
10 isn't, in your view, is the alternative scenario 2
11 inappropriate?

12 DR. WAYNE SIMPSON: It's -- it inflates
13 the -- it inflates the variance of forecast errors and
14 forecast differences that -- that -- that it -- appears
15 from the data as opposed to what they would calculate.
16 Because the natural consequence of the historical cost
17 adjustment is to inflate the variances.

18 MR. WALTER SARANCHUK: In your --

19 DR. WAYNE SIMPSON: Well, that -- that's
20 shown in the MPI report that it does increase the -- it
21 does increase the risk. I mean, that -- that's -- that's
22 known before you start.

23 MR. WALTER SARANCHUK: In your research
24 did you examine the persistency of the observed
25 homoscedasticity over time, say, by making the same

1 assessment using the data available one (1) year ago?

2 DR. WAYNE SIMPSON: No. However, you can
3 look at figure 2 in our report and drop off the last year
4 if you like. I -- I doubt it'll change people's view
5 that the -- there's no apparent pattern with time.

6

7 (BRIEF PAUSE)

8

9 MR. WALTER SARANCHUK: Given your
10 rejection of the three (3) alternative scenarios, in
11 respect of the risk analysis, do you have any views, sir,
12 on how it can be improved?

13 DR. WAYNE SIMPSON: Given -- given the
14 fairly precise definition of the RSR and the supposition
15 we have that the things that can be expected and -- and
16 often because they are recurring are things that are
17 incorporated in the forecast, this seems to be the best
18 way to go about it.

19 So, I can't say that we would recommend
20 any changes as it stands. I understand that, in fact,
21 one or more of my former students has -- have been
22 instrumental in constructing this and it seems to me
23 they've done a fairly good job.

24 MR. WALTER SARANCHUK: They were well
25 taught in other words?

1 DR. WAYNE SIMPSON: By someone.

2

3 (BRIEF PAUSE)

4

5 MR. WALTER SARANCHUK: My Learned Friend
6 Mr. McCulloch dealt with this briefly with you in his
7 cross-examination essentially dealing with the unexpected
8 non recurring event which say is, my wording, RSR
9 responsive.

10 It's an occurrence that would be expected
11 to be covered off by the RSR. And that was with respect
12 to a form of an adjustment to the provision for unpaid
13 claims which will emerge over many years in the future.

14 DR. WAYNE SIMPSON: This was the IBNR,
15 yeah.

16 MR. WALTER SARANCHUK: Yes, sir. What
17 does that say to your conclusion that the liquidity
18 requirement must be met?

19 DR. WAYNE SIMPSON: The -- the IBNR is
20 incurred but not reported. I suggested that was the
21 result of an actuarial review because I understood that
22 to be the basis of it.

23 So let me construct a scenario that may
24 not be exactly correct but illustrates the point.

25 The -- an actual review reveals that there

1 are liabilities incurred that have not been accounted for
2 and by convention those have to be reflected in the --
3 MPI's books as they're incurred I guess, and therefore
4 provisions have to be made for them.

5 Insofar as those claims are into the
6 future, they don't have to have immediate cash on hand
7 but they have to make provision for those in the money
8 that they have on hand currently for the current
9 liabilities and in the future for future liabilities.

10 MR. WALTER SARANCHUK: So what -- what
11 bearing does that have on your conclusion regarding the
12 liquidity requirement?

13 DR. WAYNE SIMPSON: The -- the liquidity
14 reference was trying to draw a distinction between the --
15 the need for -- to make available funds for a particular
16 liability versus the -- the balance sheet financial
17 position of the Corporation which is something that the
18 MCT addresses.

19 So -- I could refer to it as a shorthand.

20 MR. WALTER SARANCHUK: Thank you, sir.
21 Those are all my questions, Mr. Chairman.

22 THE CHAIRPERSON: Thank you, Mr.
23 Saranchuk.

24 Mr. Williams, we're back to you for any
25 cross?

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RE-DIRECT EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Just two (2) questions and -- and it flows just from there might have been some confusion in terms both with Mr. McCulloch and Mr. Saranchuk. So I want to -- to try this.

Just -- first of all, I'm going to read to you, with a couple of edits, from a Board Order, Dr. Simpson, and I'm going to ask you whether you think that this would be appropriate for the purposes of a rate stabilization reserve as an --

"In 1995/'96 the variance between initial forecasts and actual results increased significantly due [and I'm going to add these words] to the unexpected 50.3 million incurred but not recorded IBNR actual [and I'm going to insert the word] actuarial adjustment of claims incurred to reflect adverse developments affecting the runoff of pre-personal injury protection plan tort claims. And that this was booked as in the 1995/'96 income statement."

Is that something that you would think

1 would be an appropriate subject for the rate
2 stabilization reserve? Was that how it was contemplated?

3 DR. WAYNE SIMPSON: As -- as you've
4 described, yes.

5 MR. BYRON WILLIAMS: Okay. Second
6 question. You suggested using liquidity as a shorthand
7 and -- and Dr. Hum certainly talked about in the context
8 of a -- what he was speaking of, hopefully without doing
9 injustice to his words, of -- of a -- within the context
10 of a rate application.

11 If you were to -- could you conceive of a
12 different word rather than liquidity that you might --
13 might use.

14 DR. WAYNE SIMPSON: You would have to
15 make financial provision for.

16 MR. BYRON WILLIAMS: Okay.

17 DR. WAYNE SIMPSON: That would be a
18 general term without getting into the accounting
19 specifics.

20 MR. BYRON WILLIAMS: So without
21 necessarily worrying about whether it's cash on hand,
22 what you're talking about is a financial provision for
23 within the context of the -- the regulatory year?

24 DR. WAYNE SIMPSON: Yes. And -- and --
25 that's right. Done in that year with some of the claims

1 running out into the future, yes.

2 MR. BYRON WILLIAMS: Those are just my
3 questions of clarification, Mr. Chairman. I think we had
4 a -- the word "IBNR" created some confusion. It
5 certainly has for me for years. And I think the use of
6 liquidity is an unfortunate shorthand reference.

7 THE CHAIRPERSON: Thank you, Mr.
8 Williams.

9 Well, thank you very much, Professor
10 Simpson. We appreciated your attendance and your
11 contribution. Thank you very much.

12

13 (WITNESS WAYNE SIMPSON STANDS DOWN)

14

15 THE CHAIRPERSON: So I think now we'll
16 take advantage of our time to return to Mr. Dawson. If
17 he can recall where he was in his cross when we
18 interrupted him for the start of the testimony and
19 examination of CAC/MSOS' witnesses.

20 MR. ROBERT DAWSON: I'll be happy to move
21 to the front after the witness is cleared out. I seem to
22 have become the George Gobel to Mr. Saranchuk's version
23 of Johnny Carson. I remember that on "The Tonight Show"
24 whenever they had a guest who cancelled at the last
25 minute or an open slot they'd call Gobel to fill in for

1 them. So that's what I feel like today.

2 THE CHAIRPERSON: Well, we're thinking of
3 you, sir, for some water and sewer engagements, maybe a
4 couple on the cemeteries. We're giving it a lot of
5 thought.

6

7 (MPI PANEL RESUMED)

8

9 THE CHAIRPERSON: While the change is
10 occurring, I'll ask another one of these little follow-up
11 questions that we're gradually building.

12 Ms. McLaren, I've got a follow-up question
13 for you. Earlier in the hearing it was indicated that
14 the extension of the Board directed loss transfer
15 approach to comprehensive and collision was contemplated
16 but had not yet begun to be implemented?

17 MS. MARILYN MCLAREN: Yes, that's
18 correct.

19 THE CHAIRPERSON: The context of that
20 indication, if I recall properly, was a comment that the
21 effect of extension of the new approach would benefit
22 motorcycles to some limited extent, I think that was the
23 context; but that's not my question.

24 We understand that MPI has many projects
25 underway and some of them of a higher priority for MPI

1 than the extension of loss transfer change; is that true?

2

3

(BRIEF PAUSE)

4

5 THE CHAIRPERSON: Perhaps what I'll do is

6 --

7 MS. MARILYN MCLAREN: It's true --

8 THE CHAIRPERSON: -- I'll finish because

9 I'm not trying to be -- do you have any idea right now
10 with respect to corporate planning when you will begin or
11 plan to begin the extension onto comprehensive and
12 collision?

13 MS. MARILYN MCLAREN: I was trying to
14 formulate my thoughts around, sort of, the concept of
15 importance and, as well, now, in terms of scheduling.

16 You know, I think it really is -- we
17 expressed concern about the virtual impossibility of
18 doing that within a context that we consider important;
19 that being the -- you know, the specific vehicle level,
20 the rate group level. So we have some real concerns
21 about how we'd do that, and to a certain extent have put
22 it aside for that reason.

23 If it was to become a higher priority,
24 given that this is, you know, an area particularly within
25 the actuarial context, it would have to supplant the

1 touched on that the other day in terms of it being a
2 massive undertaking of human resources given the virtual
3 file-by-file analysis that had to take place on the PIPP
4 side of things, given that we've got a quarter of a
5 million physical damage claims compared to fourteen (14)
6 or fifteen thousand (15,000) injury claims, massive
7 effort.

8 And with respect to the dependability or
9 the reliability, maybe I'll let Mr. Palmer see if he
10 wants to say something in that regard.

11 MR. DON PALMER: There were probably four
12 (4) or five hundred (500) files that had to be gone
13 through manually to -- to get data that wasn't on the
14 system.

15 To multiply that by twenty (20) fold we --
16 we really took four (4) or five (5) months to -- to get
17 the data right for the -- for the -- the cost allocation.

18 I -- I don't say that it would necessarily
19 take us twenty (20) times as long as in eighty (80)
20 months, but I can tell you it would take a very
21 significant effort and -- and as I indicated in my
22 testimony to Mr. Oakes the big impact on the PIPP loss --
23 PIPP cost allocation was to motorcycles.

24 And given that the -- and I would
25 anticipate in the same -- the same relationship for --

1 but only to the extent of maybe one-tenth of that impact
2 because the collision costs to motorcycles are only about
3 a tenth of their claims.

4 THE CHAIRPERSON: And if we recall
5 properly the study that you did indicated that the
6 benefit of the change in an economic premium sense went
7 to the motorcycles, passenger cars were relatively flat
8 and the hit, if you like, went to the commercials, the
9 trucks; is that true?

10 MR. DON PALMER: That's true in a
11 nutshell, sure.

12 THE CHAIRPERSON: So are you saying in
13 rough that if your gut feeling, so to speak, if we can
14 use that language, would be that if you went through this
15 exercise, at the end of the day you're talking about a
16 potential positive affect on motorcycles of considerably
17 less than the 15 percent off the indicate rated on the
18 bodily injury side or PIPP side?

19 MR. DON PALMER: Again, just from an
20 order of magnitude perspective given that it's a tenth of
21 the claims I would see it to be about a tenth of the
22 impact, so a point, point and a half.

23 THE CHAIRPERSON: Thank you. Okay, Mr.
24 Dawson.

25 MR. ROBERT DAWSON: If I can have just a

1 moment of direction from the Chair, please.

2 Is it the intention of the Panel to -- to
3 rise at 4:00 or are we going past? If it's able to rise
4 at 4:00, I'll just choose an appropriate topic and fill
5 the time.

6 THE CHAIRPERSON: Our hope is, Mr.
7 Dawson, to allow you an opportunity to finish.

8 MR. ROBERT DAWSON: All right.

9 THE CHAIRPERSON: We think you deserve
10 that, sir.

11 MR. ROBERT DAWSON: I was hoping for
12 dinner. I'll try and ask slow questions.

13

14 CONTINUED CROSS-EXAMINATION BY MR. ROBERT DAWSON:

15 MR. ROBERT DAWSON: Ms. McLaren, would
16 you confirm to me that MPI provides access to all or part
17 of the information that's contained in its driver
18 licencing and/or motor vehicle registration databases to
19 third parties other than MPI?

20 MS. MARILYN MCLAREN: Can you repeat the
21 first part of the question, all or most of the data?

22 MR. ROBERT DAWSON: Why don't I refer you
23 to MBA First Round Interrogatory Number 21.

24 MS. MARILYN MCLAREN: Okay. We have that
25 reference.

1 MR. ROBERT DAWSON: MBA First Round
2 Interrogatory 21. And so I'm just asking if you could
3 confirm to me that in fact access has been granted as is
4 set out and described in that interrogatory?

5 MS. MARILYN MCLAREN: Access to
6 information, yes.

7 MR. ROBERT DAWSON: And at MBA First
8 Round Interrogatory Number 23 we have a list of all of
9 the corporations, governmental agencies and other
10 organizations to which that access was granted in fiscal
11 year 2005, is that correct?

12 MS. MARILYN MCLAREN: Yes.

13 MR. ROBERT DAWSON: And if I look ahead
14 to MBA First Round Interrogatory 25 and 24, I discover
15 that the cost of producing the CD on which that
16 information appears was approximately nine hundred and
17 twenty-five dollars (\$925) and -- or sorry, seven hundred
18 dollars (\$700) and it was sold to one of those parties
19 for nine hundred and twenty-five dollars and seventy
20 cents (\$925.70), am I right?

21 MS. MARILYN MCLAREN: Yes.

22 MR. ROBERT DAWSON: Now, certainly I'm
23 not going to quibble over two hundred and twenty-five
24 dollars and seventy cents (\$225.70) revenue but I would
25 like to ask if we could, the rationale for some of these

1 parties receiving that information from MPI.

2 Let's start with the obvious ones I would
3 imagine. There are a number of police services that are
4 listed there. Under what authority and for what reason
5 would MPI be sharing driver licensing and registration
6 information?

7 MS. MARILYN MCLAREN: Under what
8 authority do we provide that information? It is a
9 statutory authority.

10 MR. ROBERT DAWSON: I don't think we need
11 the specifics. That's good enough. There are however
12 some other organizations that appear on that list. Let's
13 start with the easiest one to deal with quickly and
14 that's RL Polk Canada.

15 Could you describe very quickly what kind
16 of organization that is?

17 MS. MARILYN MCLAREN: It's an
18 organization that compiles and releases information with
19 respect to vehicles: vehicle make, model, model year, and
20 may extend to market value of those vehicles. I'm not
21 sure. But they compile information about vehicles.

22 MR. ROBERT DAWSON: And specifically
23 that's non personalized anonymous data?

24 MS. MARILYN MCLAREN: Yes, exactly.

25 MR. ROBERT DAWSON: There is, however,

1 other releases of personalized not anonymous data, for
2 example, the War Amps. What's the justification there?

3 MS. MARILYN MCLAREN: Again a statutory
4 provision that was -- excuse me.

5 MR. KEVIN MCCULLOCH: Mr. Dawson, if you
6 could help me out, I believe there was an information
7 request to provide the War Amps contract and that was
8 provided. If you could give me that number it might
9 assist in the answer.

10

11 CONTINUED BY MR. ROBERT DAWSON:

12 MR. ROBERT DAWSON: I'm very confident it
13 was the second round and -- here it is. Second Round 14.

14 MS. MARILYN MCLAREN: It was a contract
15 entered into by the Province of Manitoba and the War Amps
16 organization.

17 MR. ROBERT DAWSON: And just for the
18 record, when we say that this was a contract entered into
19 by the Government of Manitoba, that's quite distinct from
20 a contract entered into by MPI?

21 MS. MARILYN MCLAREN: Yes, definitely.

22 MR. ROBERT DAWSON: So in short, MPI was
23 merely following the political requirements that were
24 imposed upon it. It was not, shall we say, of the
25 initiative of MPI?

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

2 MR. ROBERT DAWSON: Is it not the case
3 that any driver or registrant of a motor vehicle in
4 Manitoba could if he or she chose, exempt him or herself
5 from the release to non-police or non-statutory
6 disclosure organizations?

7 MS. MARILYN MCLAREN: Yes, I believe
8 there's a provision for that.

9 MR. ROBERT DAWSON: And could you
10 describe to the Board here how that provision is
11 advertised to Manitobans who might wish to take advantage
12 of that exemption?

13 MS. MARILYN MCLAREN: No, that's not
14 something that I can explain as it indicates because this
15 contract is seven (7) or more years old. It was entered
16 into before Manitoba Public Insurance had any role to
17 play with this data or administration of the contract.

18 But we can take that as an undertaking to
19 find an answer for that.

20 MR. ROBERT DAWSON: I think for time
21 reasons, I'll ask them -- that the Corporation undertake
22 to explain how it publicizes to Manitobans the way in
23 which any individual may exempt him or herself from
24 having his or her driver licensing or motor vehicle
25 registration information exempted from release to those

1 organizations, corporations or other agencies that -- to
2 which -- or rather to which MPI is not statutorily
3 obligated to make release.

4 MS. MARILYN MCLAREN: We will accept that
5 undertaking.

6
7 --- UNDERTAKING NO. 30: MPI to explain to CBA/MBA how
8 it publicizes to Manitobans
9 the way in which any
10 individual may exempt him or
11 herself from having his or
12 her driver licence or motor
13 vehicle registration
14 information exempted from
15 release to organizations,
16 corporations or other
17 agencies.

18

19 CONTINUED BY MR. ROBERT DAWSON:

20 MR. ROBERT DAWSON: If we could move to
21 what Mr. Saranchuk famously will call short snappers.
22 Could I ask you to turn to PUB First Round Interrogatory
23 48?

24

25

(BRIEF PAUSE)

1 MS. MARILYN MCLAREN: Yes.

2 MR. ROBERT DAWSON: Specifically,
3 Attachment 48B which is headed, Data Processing
4 Equipment. And this may be a question that Mr.
5 Galenzoski wants to answer, although it's open to any
6 member of the Panel.

7 As I understand this table, and please
8 confirm that I'm correct, this describes the cost of
9 implementing computer and technological equipment from
10 the years 2003 into the forecast year 2007/'08, am I
11 correct?

12 MR. BARRY GALENZOSKI: Yes, this is the -
13 - the acquisition of data processing equipment that we
14 would have either incurred and is shown as actuals or
15 that we're budgeting or forecasting for in the future.

16 MR. ROBERT DAWSON: And I note on the
17 first line under, Desktop Computers, the forecast for
18 2007/'08 is a substantial increase over the budget for
19 2006/'07.

20 Could you explain the reason for that
21 significant increase?

22 MR. BARRY GALENZOSKI: Yes, that
23 represents a refresh of equipment which is a larger scale
24 than just normal year-to-year replacements.

25 MR. ROBERT DAWSON: So that would be,

1 although not necessarily this but by way of example, the
2 Corporation decides to move from its current Windows XP
3 to the next version of Windows Vista and as a result many
4 of its computers if not all of its computers need to be
5 replaced to take advantage of those higher hardware
6 requirements?

7 MR. BARRY GALENZOSKI: Yes, computers
8 have a certain shelf life associated with them and we
9 amortize them over a relatively short period of time,
10 approximately three (3) years and replacements occur from
11 time to time and this is one (1) of those times.

12 MR. ROBERT DAWSON: Certainly, I accept
13 that and it's just by way explanation. If I note there
14 was a significant increase between 2003/'04 and '04/'05
15 of a little bit more than double the earlier
16 expenditures.

17 What's the reason that we're now
18 increasing so significantly the forecast year of 2007/'08
19 over 2006/'07?

20 MR. BARRY GALENZOSKI: That would have
21 been a very similar situation where because of some
22 applications there was a need to refresh certain amounts
23 of hardware. Those you could see would fit into the
24 three (3) year window with respect to the refresh that's
25 going to take place in '07/'08. And considering that the

1 organization is now larger with the acquisition of DVL
2 that would be included in there.

3 MS. MARILYN MCLAREN: Yeah, I think that
4 specifically that year would be -- the increase '03/'04
5 going into '04/'05 would be specifically related to the
6 amalgamation of the takeover of the three hundred (300)
7 positions DVL into MPI. They needed MPI computers.

8 MR. ROBERT DAWSON: That explains
9 2003/'04 but can we concentrate on why the increase is
10 almost, well, more than five (5) times from budget 2006
11 to forecast 2007/'08?

12 MR. BARRY GALENZOSKI: Well again, you're
13 now talking corporate-wide and we're talking now all of
14 our offices which include all our claims offices.
15 Considering that the Corporation now has approximately
16 seventeen hundred (1,700) employees, that would reflect a
17 significant change.

18 MR. ROBERT DAWSON: And has the
19 Corporation ever considered, given the amount it pays in
20 terms of licencing which is listed on another
21 interrogatory, has the Corporation ever considered open-
22 source software in preference to licenced software?

23 MR. BARRY GALENZOSKI: The Corporation --
24 excuse me -- the Corporation is fairly specific with
25 respect to the requirements to use licenced software.

1 Generally speaking they're -- they're more adaptable to
2 our systems. They're used by packages that we may
3 purchase so they're more compatible with those
4 environments and so we go with the known quantity rather
5 than something that may not be known or highly used
6 around the industry.

7 MR. ROBERT DAWSON: So by reason of the
8 software and other applications that the Corporation uses
9 it is, or at least it feels that it's somewhat more
10 restricted in terms of the kinds of operating systems and
11 applications that it can run as a result?

12 MR. BARRY GALENZOSKI: Well, considering
13 that many of our systems are mission critical in that
14 they need to be up and running at all times and there has
15 to be a high degree of reliability with the majority of
16 staff that are using them; that would be one (1) of the
17 reasons we would select the -- what we would consider the
18 Tier 1 type of software or equipment.

19 MR. ROBERT DAWSON: If I could trouble
20 Mr. Bedard to turn to Manitoba Chiropractors' Association
21 First Round Interrogatory Number 6.

22

23 (BRIEF PAUSE)

24

25 MR. WILF BEDARD: Yes, I have it.

1 MR. ROBERT DAWSON: It's almost not worth
2 having turned to, but, the last time I said that we
3 inevitably had to turn to it.

4 The question posed by the Manitoba
5 Chiropractors there makes reference to a survey and the
6 raw data as a result of that survey. And I'm not
7 terribly concerned so much about the response but rather
8 to harken back to a conversation that you and I had had
9 in this room two years ago in connection with the 2005
10 General Rate Application.

11 And at that time in response to some of
12 the questions that I had posed, as well as
13 interrogatories posed on behalf of my client the Bar
14 Association, the Corporation had disclosed contracts that
15 he had made with survey companies.

16 Do you remember that, Mr. Bedard?

17 MR. WILF BEDARD: Yes, I do.

18 MR. ROBERT DAWSON: And do you remember
19 that you had also released the scripts that were produced
20 by the survey companies?

21 MR. WILF BEDARD: I believe we did, yes.

22 MR. ROBERT DAWSON: Would it be fair to
23 say that the surveys to which reference is made in MCA
24 First Round 6, are similar, if not the same, as those
25 surveys that were questioned about back two years ago?

1 MR. WILF BEDARD: I would have to go back
2 and check to be certain, but, I believe the context of
3 this answer is -- is similar to the questions that we
4 provided you with two years ago, yes.

5 MR. ROBERT DAWSON: So just in terms of a
6 -- a couple of characteristics of those surveys, they
7 would have been conducted by an external body to MPI?

8 MR. WILF BEDARD: The data is gathered
9 externally, yes.

10 MR. ROBERT DAWSON: And the questions
11 themselves would have been perhaps formulated externally
12 but certainly approved and reviewed before the poll went
13 into the field, am I correct, by MPI?

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

15 MR. ROBERT DAWSON: So I'm going to
16 suggest, speaking in very broad terms, that there haven't
17 been any particular changes to the way in which MPI
18 conducts its surveys with respect to customer
19 evaluations?

20 MR. WILF BEDARD: No, I don't believe
21 there's any changes in terms of the structured
22 methodology. There's likely been a few changes in terms
23 of the questions to make them a little bit more specific,
24 a little bit more definitive. But in terms of the
25 overall construct of the surveying technique, no.

1 MR. ROBERT DAWSON: Thank you, Mr.
2 Bedard. If I could now trouble you to turn to Manitoba
3 Corporation -- or sorry, Manitoba Chiropractor's
4 Association, Second Round Interrogatory Number 2, please.

5

6 (BRIEF PAUSE)

7

8 MR. WILF BEDARD: Yes, I have it.

9 MR. ROBERT DAWSON: And I don't want to
10 steal the thunder of My Learned Friend, Ms. Riley, who
11 undoubtedly will want to go through that carefully, but
12 I'll just ask some very brief questions.

13 This is a table that reports the total
14 number of injury claims in each particular fiscal year,
15 for starters, is that right?

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

17 MR. ROBERT DAWSON: And then it shows us
18 in the next column how many of those claims later
19 resulted in an internal review that is by a member of the
20 legal staff within MPI, is that right?

21 MR. WILF BEDARD: That's the number of
22 total internal reviews. Any one particular claim could
23 have more than one review however.

24 MR. ROBERT DAWSON: And then it shows in
25 the next column, the number of external appeals and by

1 that it means appeals to the Automobile Injury
2 Compensation Appeal Commission, is that right?

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

4 MR. ROBERT DAWSON: And then in the
5 penultimate column we have the number of those -- of
6 external appeals that were decided in the claimant's
7 favour, is that right?

8 MR. WILF BEDARD: Yes, either totally or
9 in part. Sometimes there's minor adjustments but we've
10 given you all of the ones that have been altered in
11 favour of the claimant.

12 MR. ROBERT DAWSON: And I don't mean this
13 in a derogatory way, but the flip side of that is it also
14 shows the number of times in which MPI's own claims
15 adjusters, and subsequent internal reviews, were found at
16 least by the Automobile Injury Compensation Appeal
17 Commission to have been wrong in their opinion; is that
18 right?

19 MR. WILF BEDARD: It doesn't show in this
20 schedule how many decisions were made by the Appeals
21 Commission, just the ones that had been altered by them.

22 MR. ROBERT DAWSON: You're referring to
23 that penultimate column as being the number that -- that
24 you're talking about or the table as a whole?

25 MR. WILF BEDARD: Just the column the --

1 the column with respect to the number of appeal decisions
2 in the claimant's favour. That column itself.

3 MR. ROBERT DAWSON: I'm not sure I
4 carry --

5 MS. MARILYN MCLAREN: Mr. Dawson, I think
6 unfortunately Mr. Bedard was listening to you and to Mr.
7 McCulloch when he was answering that question that you
8 didn't ask.

9 MR. ROBERT DAWSON: What question did I
10 want to ask then, Ms. McLaren?

11 MS. MARILYN MCLAREN: No, I think what
12 you did ask, could it be inferred that in, for example,
13 2005 were there five (5) situations in which the Appeal
14 Commission chose to substitute its judgment for the
15 Corporation's? Yes, the answer would be "yes".

16 MR. ROBERT DAWSON: And I note that
17 certainly going back to 1996 and down to 2005 there's a
18 dramatic drop in the number of times which MPI was shown
19 to be, at least in the opinion of the Commission, wrong.

20 Would you agree with me there?

21 MS. MARILYN MCLAREN: And this is the
22 point that Mr. Bedard was trying to make is that there is
23 a column missing that would put that in proper context
24 and that column would be the number of decisions made in
25 each of those years because in more recent years, there

1 have been a decreasing number of decisions made by the
2 Appeal Commission.

3 So if you look at the percent of decisions
4 that were varied compared to the decisions that were
5 made, no, I don't think there has been a decreasing
6 success on the part of claimants so to speak, but you
7 cannot tell that from this -- for the -- from the data
8 that was requested.

9 MR. ROBERT DAWSON: At this stage in
10 these proceedings, it really isn't that important so I'll
11 ask this as an undertaking, if it's easy to comply; if
12 not, I'm prepared to -- to withdraw the request and,
13 namely, could we have the missing column, namely, the
14 number of decisions that were actually considered by the
15 Commission in that year, if it's possible?

16 MR. KEVIN MCCULLOCH: Reflecting earlier
17 discussions I had this afternoon, the column's not
18 missing if it wasn't asked for. If you're now asking us
19 if we could provide that column, yes, we'll give you an
20 undertaking.

21 MR. ROBERT DAWSON: I was just using Ms.
22 McLaren's words and I also remind you this isn't my
23 information request, so, I'll take your undertaking to
24 the extent that it's possible to do.

25

1 --- UNDERTAKING NO. 31: MPI to provide CBA/MBA the
2 column that demonstrates the
3 number of decisions that were
4 actually considered by the
5 Commission in Manitoba
6 Chiropractor's Association,
7 Second Round Interrogatory
8 Number 2.

9

10 CONTINUED BY MR. ROBERT DAWSON:

11 MR. ROBERT DAWSON: Mr. Bedard, if I may
12 return for one (1) last point on this Information
13 Request.

14 Clearly, you would agree with me that in
15 each case in which the Commission has found MPI's claims
16 adjuster or its own internal review process to be wrong
17 or at least not to have the opinion shared by the
18 Commission, the result has been a denial of benefits
19 until the Commission's decision for the claimant; is that
20 right?

21 MR. WILF BEDARD: Yes, that in -- in
22 essence, is true, yes.

23 MR. ROBERT DAWSON: And not to belabour
24 the point, but by denial of benefits, we mean that, for
25 example, someone might have not received income

1 replacement benefits to which that person was entitled
2 pursuant to its contract with Manitoba Public Insurance
3 or the laws of Manitoba?

4 MR. WILF BEDARD: Yes, there's a number
5 of types of -- of appeals that -- that go forward. It
6 could be as simple as another two (2) or three (3)
7 treatments, purchasing of a device, medical device, a
8 rehabilitation request, any number of things including
9 income replacement issues.

10 The Corporation and our internal review
11 office and the Appeal Commission are very sensitive to
12 cases where they are adjudicating decisions made where
13 the Corporation has ceased income replacement and we tend
14 to -- all parties tend to try and fast track those as
15 much as possible.

16 MR. ROBERT DAWSON: Does the Corporation
17 have any anecdotal or objective evidence relating to the
18 success or otherwise of the Claimant Advisor's Office
19 that was recently established and its impact upon these
20 proceedings?

21 MR. WILF BEDARD: No, I -- I really don't
22 have any information on that, anecdotal or otherwise.
23 It's a little bit too early to say at this point.

24 MR. ROBERT DAWSON: In your opinion when
25 would it not be too early to say?

1 MR. WILF BEDARD: My opinion would be at
2 least another year or two (2).

3 MR. ROBERT DAWSON: So I should come back
4 with my Information Request next year on that point?

5 MR. WILF BEDARD: I'll welcome the
6 question at that time.

7 MR. ROBERT DAWSON: Mr. Palmer, if I
8 could trouble you to turn to Consumers' Association of
9 Canada First Round Interrogatory Number 49?

10

11 (BRIEF PAUSE)

12

13 MR. DON PALMER: I have it and Mr.
14 Galenzoski's also at the ready.

15 MR. ROBERT DAWSON: If you could turn to
16 the attachment on the first page, I'm looking at a
17 document that is entitled, Minimum Capital Test.

18 Can you tell me not the content of the
19 document but how was that document literally produced?
20 Is it the result of a software program?

21 MR. BARRY GALENZOSKI: No, we would take
22 the numbers that we have either from our balance sheet or
23 income statements, whichever is required, and we populate
24 the -- the columns that are shown on the document itself.

25 MR. ROBERT DAWSON: From where would the

1 template that produces this document come then?

2 MR. BARRY GALENZOSKI: That's from the
3 P&C I documents that are typical from the OSFI
4 organization.

5 MR. ROBERT DAWSON: So that explains why,
6 for example, in the upper left-hand corner it says 'Name
7 of Insurer,' otherwise, we would have thought that MPI
8 had to remind itself who it was.

9 MR. BARRY GALENZOSKI: We often have to
10 remind ourself who we are.

11 MR. ROBERT DAWSON: The later in the day
12 it goes, the more I understand that feeling. And that
13 also explains other things that appear on that document.
14 For example, in the small table underneath which
15 discusses margin on claims, there are many entries in
16 which the producer of the template would have thought,
17 for example, that legal expenses should be 15 percent but
18 yet what MPI populates the margin on claims, it enters
19 zero for the purposes of calculating the minimum capital;
20 is that right?

21 MR. DON PALMER: Yes, that's correct.
22 Just -- just to clarify that one point. These are
23 classes of insurance, so, that legal expense would likely
24 be legal liability insurance.

25 MR. ROBERT DAWSON: I -- I -- the only

1 purpose and the only reason I went to that was to explain
2 what -- from where that document came. Just to explain
3 why there was some entries on there that in the Manitoba
4 context at least literally make no sense. So I have that
5 answer and I think we can move on.

6 Mr. Chairman, you'll be glad to know that
7 I'm at my last topic relates -- which relates to the RSR.

8 If I could trouble you -- well, I could
9 ask this question generally. Ms. McLaren, would you
10 confirm to me that as far as SGI is concerned, it
11 believes that its RSR is primarily to protect against
12 rate shock?

13 And if you'd like a reference I can point
14 you to Public Utilities Board, First Round Interrogatory
15 25 on the first page.

16

17 (BRIEF PAUSE)

18

19 MS. MARILYN MCLAREN: Yes. The
20 definitions are -- MPI's definition and SGI's definition
21 I think are -- are quite similar. MPI's is to protect
22 Manitobans from rate increases. This is with respect to
23 rate shock. They're conceptually very similar.

24 MR. ROBERT DAWSON: Do I understand
25 you're saying that the purpose of the Manitoba Public

1 Insurance's RSR, primarily, is to protect against rate
2 shock; is that what you're saying?

3 MS. MARILYN MCLAREN: No. Your question
4 was about SGI and that is what comes straight out of
5 their annual report with respect to their definition.

6 MR. ROBERT DAWSON: All right. So I just
7 wanted to make sure that I had grasped what you were
8 saying. Your comment is, is that you agree with me that
9 as far as SGI is concerned, the purpose of the RSR is to
10 protect Saskatchewan policyholders against rate shock, is
11 that right?

12 MS. MARILYN MCLAREN: Yes, that's --
13 absolutely.

14 MR. ROBERT DAWSON: And as far as I
15 understand the testimony that we heard on the 4th of
16 October, it's the position of MPI, as Mr. Galenzoski had
17 said, that the purpose of the RSR is not necessarily to
18 protect against rate shock; is that right? At least in
19 Manitoba.

20 MS. MARILYN MCLAREN: Okay.

21 MR. ROBERT DAWSON: And if I remember
22 correctly, and Mr. Galenzoski can correct me if I'm
23 wrong, he specifically said that the purpose of the RSR
24 was not intended, for example, to cover a catastrophic
25 unforeseen loss. And one example that we gave was hail.

1 Is that right?

2 MR. BARRY GALENZOSKI: I should maybe
3 clarify that, with the context that you're putting that
4 in, the RSR is there to respond to unexpected events and
5 that could be a catastrophic hailstorm limited to
6 whatever coverage we don't have with respect to our re-
7 insurance.

8 Or if the re-insurers are unable to
9 respond to the loss because of other reasons, other
10 catastrophic events throughout the world, for instance.

11 So I -- I'm not so sure that I -- I recall
12 putting what you're saying on the record.

13 MR. ROBERT DAWSON: Thank you for that
14 clarification because, in fact, one (1) of the lines that
15 came from that testimony was that the reason why the RSR
16 doesn't deal with catastrophic unforeseen losses such as
17 hail was because you have reinsurance for that, but
18 you've explained what you mean in terms of the limited
19 function that the reinsurance can actually fill, so, I
20 think we can move on from that.

21 Every time I read what I say on a
22 transcript I always think, what was I actually drinking
23 at the time and I have one (1) of those quotes that I
24 regret to say, Ms. McLaren, I'm going to give you an
25 opportunity to clarify.

1 And I'll read it to you but I'll give the
2 reference for the purposes of the record.

3 On page 435 of the record at line 25 Ms.
4 McLaren speaking of the RSR says:

5 "We might --"

6 Well, I should read the full context.

7 "The Corporation's position is that we
8 have not been tweaking the purpose of
9 the RSR. Perhaps we should have been
10 tweaking the drafted definition of that
11 purpose. If we were writing this
12 today, we might write this to say that
13 it's intended to protect motorists, you
14 know, from large, special surcharges to
15 rebuild the RSR made necessary by
16 unexpected events and losses."

17 Although you may not have the transcript
18 in front of you, does that sound like something that you
19 might have said?

20 MS. MARILYN MCLAREN: Yes.

21 MR. ROBERT DAWSON: And later you go on
22 at page 438 lines 7 and 8 and, again, I'll put it in the
23 full context. There the actual quote that I want to
24 emphasize I'll get to but it says:

25 "The unexpected context [says Ms.

1 McLaren on that page], the unexpected
2 context in that, Mr. Saranchuk, comes
3 with respect to the increased benefit
4 was not expected when the reserve was
5 established."

6 Again, does that sound fair as to
7 something you had said?

8 MS. MARILYN MCLAREN: Yes.

9 MR. ROBERT DAWSON: Now, you'll forgive
10 me for interpreting this, as I may read it, and this is
11 why I wanted to put it to you to give you a chance for
12 clarification.

13 It seems that you're telling us that MPI
14 wishes to create a reserve fund to protect against
15 unexpected events and losses, but then we go on to say
16 that the very nature of those events and losses are
17 currently unknown.

18 Would that be a fair summary or a
19 paraphrase of what you were trying to say?

20 MS. MARILYN MCLAREN: Yes.

21 MR. ROBERT DAWSON: Would it follow from
22 that, and forgive me I'm -- I'm moving quickly and I
23 don't mean to be disrespectful, that we're almost trying
24 to create a fund that we don't know when we'll use it, we
25 don't know exactly for what we'll use it, or why we'll

1 use it, but nonetheless, we need a fund.

2 MS. MARILYN MCLAREN: We know why we'll
3 use it and we have a general idea of the things that are
4 likely to cause us to need to use it. Some of those
5 things have happened in the past, some of them have
6 happened to other insurers.

7 So no, I think -- we're -- we're not -- we
8 certainly don't know when and we don't know the specifics
9 of what the next one will be, but I think we know why and
10 that is to protect Manitobans from rate increases and the
11 rest of the definition that we've all mentioned a number
12 of times through the last week or two.

13 MR. ROBERT DAWSON: Mr. Chairman, that
14 concludes my cross-examination of the Panel subject to
15 any questions that I may have for the CAC -- or CAC
16 witness arising out of its undertaking on the question
17 that I had posed. Thank you, Mr. Chairman.

18 THE CHAIRPERSON: Thank you, Mr. Dawson.

19 This is just to remind everyone as to the
20 process for tomorrow and ongoing. Correct me if I'm
21 wrong, Mr. Saranchuk, I believe first up is Mr. Williams
22 and Ms. Bowman?

23 MR. WALTER SARANCHUK: Yes, although I
24 wasn't sure whether there was an understanding reached
25 between Mr. Williams and Ms. Reilly about the order there

1 and maybe she can help us out on that score.

2 MS. PAMELA REILLY: The only comment I'll
3 make, Mr. Chairman, is that I understand that Mr. Bedard
4 has a commitment tomorrow afternoon and may need to leave
5 early. I expect that most of my questions will be
6 addressed to Mr. Bedard and, therefore, it may be more
7 appropriate that I start in the morning.

8 THE CHAIRPERSON: Very good. Okay.
9 We'll start with you.

10 MR. BYRON WILLIAMS: Just if I could --
11 sorry, Mr. Chairman, I have some for Mr. Bedard as well
12 but I will make sure that they're at the start of my
13 cross, so, I think Ms. Reilly's suggestion is most
14 appropriate.

15 THE CHAIRPERSON: Okay. We'll ensure
16 before the morning is over, regardless of who's up so to
17 speak, that you get to ask your questions of Mr. Bedard.

18 Then we have, on my list anyway, we have
19 Ms. Dalman for CAA and we also have Mr. Sousa for
20 Scootering and then back to Mr. McCulloch.

21 MR. WALTER SARANCHUK: Yes. The order,
22 as I understand it now, will be Ms. Reilly to begin
23 tomorrow morning followed by Mr. Williams, followed by
24 Mr. Sousa.

25 THE CHAIRPERSON: I think we still have

1 CAA Ms. Dalman, too.

2 MR. WALTER SARANCHUK: They are not
3 asking any questions.

4 THE CHAIRPERSON: We're fine. Now as to
5 the timing, we'll start tomorrow at 9:00. I'm not sure
6 how long the people's questions are.

7 Unfortunately I've got a commitment
8 between 12:00 and 2:00, so, if it makes it until 12:00
9 we'll have a longer lunch break. It's still looking like
10 closing argument for next Tuesday as matters stand right
11 now depending on how it comes down.

12 In some of the other hearings we've
13 provided the applicant an opportunity to provide their
14 close on a separate day which allows for reflection, if
15 you like. You might want to think about that.

16 Anyway, we'll see you all tomorrow at nine
17 o'clock.

18

19 (MPI PANEL RETIRES)

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21 --- Upon adjourning at 4:19 p.m.

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Certified Correct,

Wendy Warnock, Ms.