MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION

2016/17 INSURANCE YEAR

Before Board Panel:

Karen Botting - Board Chairperson

Regis Gosselin - Board Member

Anita Neville - Board Member

Susan Proven - Board Member

Allan Morin - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 13, 2015

Pages 812 to 1045

1 APPEARANCES

2

3 Candace Grammond)Board Counsel

4 Kathleen McCandless)

5

6 Kathy Kalinowsky)MPI

7

8 Byron Williams)CAC (Manitoba)

9

10 Raymond Oakes)CMMG

11

12 Liz Kulyk (np))CAA Manitoba

13

14 Christian Monnin)Bike Winnipeg

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LIST OF EXHIBITS

1 LIST OF EXHIBITS (CONT'D)

1 LIST OF UNDERTAKINGS

1 --- Upon commencing at 9:03 a.m.

2

3 THE CHAIRPERSON: Good morning,

4 everyone, and welcome back. I hope everybody had a

5 wonderful Thanksgiving weekend, albeit the weather was

6 not so great yesterday, but the rest of the weekend

7 was outstanding.

8 We will again begin the hearings for

9 the MPI GRA for 2016/'17. It's on Tuesday, October

10 13th, and I'd like to call upon Ms. Kalinowsky to

11 enter some documents in as evidence.

12 MS. KATHY KALINOWSKY: Good morning.

13 We have a number of documents that we'd like to

14 present as MPI exhibits. And I think the order that I

15 have and that I've arranged with the Board secretary

16 is slightly different than the order of each of the

17 package that was handed out. So you might want to

18 bear with me for a moment.

19 But Undertaking number 4 should be

20 marked as MPI Exhibit number 14. So that's

21 Undertaking number 4 is MPI Exhibit number 14.

22

23 --- EXHIBIT NO. MPI-14: Undertaking 4

24

25 MS. KATHY KALINOWSKY: CMMG Pre-Ask

1 number 4 should be marked as MPI Exhibit number 15.
2 That's CMMG Pre-Ask number 4, and it should be marked
3 as MPI Exhibit number 15.
4
5 --- EXHIBIT NO. MPI-15: CMMG Pre-Ask 4
6
7 MS. KATHY KALINOWSKY: And Undertaking
8 number 7 should be MPI Exhibit number 16.
9
10 --- EXHIBIT NO. MPI-16: Undertaking 7
11
12 MS. KATHY KALINOWSKY: Undertaking
13 number 18 should be marked as MPI Exhibit number 17.
14
15 --- EXHIBIT NO. MPI-17: Undertaking 18.
16
17 MS. KATHY KALINOWSKY: And MPI Exhibit
18 number 18 is a chart entitled Canadian Equity Managers
19 Net Value Added Since Inception. And Ms. Reichert
20 will speak to that because that -- we thought it'd be
21 helpful to have a bit of an explanation involved in
22 this.
23 This is some of the questions by Mr.
24 Gosselin that was asked in respect to the equity
25 managers performance. So we thought we could put an

1 exhibit in and an explanation with that.
2
3 --- EXHIBIT NO. MPI-18: Chart Entitled Canadian
4 Equity Managers Net Vallue
5 Added Since Inception
6
7 MS. KATHY KALINOWSKY: And then the
8 PowerPoint presentation entitled Physical Damage
9 Market Transformation for the ATA General Meeting,
10 October 7th, 2015, should be marked as MPI Exhibit
11 number 19.
12 So that was in response to Ms.
13 Neville's question with respect to the presentation
14 that Mr. Guimond gave to the general meeting of the
15 ATA, and here's the presentation. He received
16 permission from the business partners to pro --
17 provide the same presentation to the Public Utilities
18 Board.
19
20 --- EXHIBIT NO. MPI-19: PowerPoint Presentation
21 Entitled Physical Damage
22 Market Transformation of
23 the ATA General Meeting,
24 October 7th, 2015
25

1 MS. KATHY KALINOWSKY: So with that,
2 I'll hopefully hand the microphone over to Ms.
3 Reichert so she could explain the MPI Exhibit number
4 18.
5 THE CHAIRPERSON: Okay. Ms. Reichert,
6 thank you.
7
8 MPI PANEL 1 CONTINUED:
9 DAN GUIMOND, Previously Sworn
10 HEATHER REICHERT, Previously Affirmed
11 LUKE JOHNSTON, Previously Affirmed
12
13 MS. HEATHER REICHERT: Thank you. So
14 MPI Exhibit number 18, as Ms. Kalinowsky indicated.
15 So this is showing the net value added since inception
16 for each of our equity investment managers. So just
17 to quickly go down the -- the columns.
18 So the managers' return is the -- the
19 total return for -- since inception. The indexed
20 return, as it states, that's the -- the index that
21 they are measured against. So the net value added on
22 a percentage basis is the next column. That estimated
23 net dollar value then added since inception, so that's
24 over and above the indexed return. So above the
25 indexed return we -- we received $90.7 million. And

1 the inception dates are given there, and you can see
2 the number of years that we have been involved with
3 each manager.
4 So I just wanted to provide this to --
5 to show that we have done very well with our equity
6 managers. And they have, in fact, added and continue
7 to add value above the index. So it is a long-term
8 view that we need to take with our equity managers,
9 and even though equities right now are in a bit of
10 slump you can see from inception that they have still
11 managed to do quite a bit better than what the index
12 would indicate. So thank you.
13 THE CHAIRPERSON: Mr. Gosselin...?
14 MR. REGIS GOSSELIN: Just a question
15 in relation to your equity holdings. And I noticed in
16 reading the material that US equity was cited as
17 BlackRock being the manager of the US equity
18 portfolio, as I understand it. And it was showing
19 fifteen (15) stocks BlackRock listed, and I can't
20 think of the table but I looked up the ETF over the
21 weekend and it has far more than fifteen (15) stocks
22 in it.
23 So I wasn't sure if it was a specific
24 portfolio for MPI, or it was the BlackRock ETF. But
25 anyways, it was listed as US equity, BlackRock, and it

1 was cited -- BlackRock was cited twice. It was
2 showing fifteen (15) equities, but the BlackRock ETF I
3 looked at had far more than fifteen (15) equities in
4 it. So perhaps you could clarify that for me.
5 MS. HEATHER REICHERT: Sure. Well,
6 I'll...
7
8 (BRIEF PAUSE)
9
10 MR. REGIS GOSSELIN: Okay, I'll just
11 repeat it. The material I examined that was submitted
12 by MPI showed under equity holdings fifteen (15)
13 equities -- US equities, and cited BlackRock as I
14 understood it being the holder of those equities on
15 behalf of MPI. And I checked out the BlackRock ETF
16 over the weekend, looking at the kind of holdings that
17 were in that publically available ETF, and it had far
18 more than fifteen (15) equities in it.
19
20 (BRIEF PAUSE)
21
22 THE CHAIRPERSON: Okay. I think we'll
23 take the ten (10) minutes and make sure we get this
24 recorded so we don't have to repeat it later. Thank
25 you.

1 --- Upon recessing at 9:09 a.m.
2 --- Upon resuming at 9:17 a.m.
3
4 THE CHAIRPERSON: Mr. Gosselin had a
5 question. Was there a response or...?
6 MS. HEATHER REICHERT: I'll take that
7 as an undertaking and get back to you.
8 THE CHAIRPERSON: Okay, thank you very
9 much. That'll be an undertaking.
10
11 --- UNDERTAKING NO. 20: Find out if there are more
12 than fifteen (15) equities
13 in the BlackRock ETF
14
15 THE CHAIRPERSON: Okay, now I'll call
16 upon Mr. Byron Williams, from CAC, to give his
17 presentation. I believe there's also some exhibits
18 you have to put onto the record.
19 MR. BYRON WILLIAMS: Yes, thank you
20 and good morning. And welcome back, members of the
21 panel. There's four (4) exhibits that CAC (Manitoba)
22 would like to introduce this morning. There may be
23 another one (1) or two (2) later today.
24 First of all, you'll see a document on
25 the front page marked A1-12 pre -- preliminary --

1 preliminary consolidated post-implementation review.
2 That's from the 2012 rate application. And we would
3 ask that that be marked as CAC (Manitoba) Exhibit
4 number 11.
5
6 --- EXHIBIT NO. CAC-11: Preliminary consolidated
7 post-implementation review
8 from the 2012 rate
9 application
10
11 MR. BYRON WILLIAMS: Secondly, you'll
12 see a document in beautiful blue from October 2006
13 about the PIPP infrastructure study authored by IBM.
14 And we -- we would ask that that be marked as CAC-12.
15
16 --- EXHIBIT NO. CAC-12: PIPP infrastructure study
17 authored by IBM
18
19 MR. BYRON WILLIAMS: And then there
20 are a couple of transcript references. The one
21 beginning on page 986 we would ask be marked as CAC-
22 13.
23
24 --- EXHIBIT NO. CAC-13: Transcript reference
25 beginning on page 986

1 MR. BYRON WILLIAMS: And the one
2 beginning on page 1,361, we would ask that that be
3 marked as CAC-14.
4
5 --- EXHIBIT NO. CAC-14: Transcript reference
6 beginning on page 1,361
7
8 MR. BYRON WILLIAMS: Now, I'm not sure
9 if the panel's been waiting for -- with bated breath
10 for my cross-examination or gossip about Ms. Menzies's
11 wedding, so I'll -- with the -- with the panel's
12 indulgence, I'll give you -- I'll just let you know
13 that we had beautiful we -- weather on Saturday. Ms.
14 Menzies was resplendent with brilliant pink hair and a
15 beautiful gold dress that she had made herself and had
16 a lot of opportunities to celebrate with her -- her
17 father and -- and the rest of her family.
18 So we may make pictures available as a
19 PowerPoint or exhibit later in the Hearing, but
20 hopefully that will satiate your -- your curiosity for
21 the time being.
22 Before starting I did want to express
23 the appreciation of our client to PUB legal counsel
24 and advisors for their usual very thorough and
25 thoughtful job. And, panel members, to the extent

1 that there's any duplication where -- with where PUB
2 advisors went, that will either be because we're
3 crossing over the territory just for another purpose
4 or because there's a few specific questions our client
5 wanted to be clear of. But we will do our best to not
6 duplicate that material.
7
8 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:
9 MR. BYRON WILLIAMS: And, Diana, if I
10 -- if I could go to you now and ask you to pull up
11 transcript reference from this Hearing, page 65, lines
12 12 and 13. And, Mr. Guimond, I just have a couple of
13 questions of clarification for -- for you. And -- and
14 you see here at lines 11 through 14 you're talking
15 about having sixty-eight (68) fatalities in -- in
16 terms of the most recent fiscal year on Manitoba
17 roads.
18 Do you see that, sir?
19 MR. DAN GUIMOND: Yes, I do.
20 MR. BYRON WILLIAMS: And again at page
21 627, lines 1 and 2, Mr. Guimond, again you see that
22 reference to sixty-eight (68) fatalities in your -- in
23 your last fiscal year?
24 MR. DAN GUIMOND: Yes, I do.
25 MR. BYRON WILLIAMS: And, sir, that

1 certainly -- our clients are not trying to diminish
2 that the -- the tremendous importance of a reduction
3 in fatalities, but -- but they are trying, Mr.
4 Guimond, just to make sure we're aware of the source
5 for that information. And if I could direct your
6 attention to LP, Loss Prevention and Road Safety, page
7 28. Mr. Guimond, you can see for the 2013 year
8 there's a reference to -- to sixty-nine (69) fatal
9 collisions and eighty-five (85) people killed.
10 Is -- is that the source of your
11 information, sir, or is it somewhere else?
12 MR. DAN GUIMOND: I was provided that
13 number and my understanding was it came from the
14 traffic -- the latest traffic annual report that we
15 do, so I'd have to go back and -- and check.
16 MR. BYRON WILLIAMS: Sir, I will get
17 you to check in just a minute. We don't need an
18 undertaking quite yet. But just if Diana can pull up
19 Bike Winnipeg's Number 1 First Round Information
20 Request.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: And page 3 of
25 that document. Mr. Guimond, you again see towards the

1 bottom of the import -- report insurance share, the
2 total of all fatalities of eighty-five (85).
3 Do you see that, sir? In the second
4 column in, Mr. Guimond, for 2014. Do you see that?
5 MR. DAN GUIMOND: Yes, I do.
6 MR. BYRON WILLIAMS: Okay. And so,
7 Mr. Guimond, just by way of undertaking, if you could
8 agree to provide the source for the statement of -- of
9 sixty-eight (68) fatalities and if you could -- yes,
10 if you could provide the source for that and -- and if
11 that's the correct number it would be very helpful to
12 -- to get the -- that.
13 Would you undertake to do so, sir?
14 MR. DAN GUIMOND: Yes.
15
16 --- UNDERTAKING NO. 21: Provide the source for
17 statement of sixty-eight
18 (68) fatalities
19
20 CONTINUED BY MR. BYRON WILLIAMS:
21 MR. BYRON WILLIAMS: Ms. Reichert, I -
22 - I suspect my next few questions are ones you've
23 memorized the answers to and you -- you -- they are to
24 assist my client in just understanding a couple
25 things. And I'll ask Diana to pull up from the PUB

1 books of doc -- documents, tab 7, the pro forma number
2 4. And scroll down on that page to the net income
3 loss from operation's line, Diana. Thank you.
4 Ms. Reichert, just in terms of the --
5 the 2014 year, is it correct to suggest to you that
6 for the basis of last year's General Rate Application
7 the Corporation was forecasting a -- a loss in the
8 range of $38 million?
9 MS. HEATHER REICHERT: We were
10 forecasting a loss of $38 million for the 2014/'15
11 year. Yes, that's correct.
12 MR. BYRON WILLIAMS: And when the --
13 the numbers all rolled in, Ms. Reichert, you had good
14 -- good news in terms of the fact that there was
15 roughly a $40 million turnaround with the actuals for
16 the '14/'15 year being $2.4 million, agreed?
17 MS. HEATHER REICHERT: Agreed.
18 MR. BYRON WILLIAMS: And, Ms.
19 Reichert, I -- I don't know if -- and perhaps Diana
20 can turn to tab 17 of the same PUB book of documents
21 and in particular to page -- the -- the very last page
22 of -- or the second last page of that tab.
23 MS. HEATHER REICHERT: Excuse me,
24 Byron, do you have a book of documents that you're
25 referring to?

1 MR. BYRON WILLIAMS: It's the PUB book
2 of documents, Ms. Reichert.
3 MS. HEATHER REICHERT: Oh, the PUB
4 one. Okay. Sorry, I missed that.
5 MR. BYRON WILLIAMS: I'm -- and if you
6 could again scroll down to the net income line. And,
7 Ms. Reichert, just to refresh your memory, this is a
8 re -- scroll down just a little bit, Diana. Thank you
9 very much. This is a response to Pre-Ask last year at
10 about this time from the Public Utilities Board, being
11 PUB Pre-Ask 5 -- 5(b).
12 Is that consistent with your
13 recollection, Ms. Reichert?
14 MS. HEATHER REICHERT: Yes, it is.
15 MR. BYRON WILLIAMS: And at that point
16 in time, we were looking at lower interest rates than
17 had been projected in the Corporation's initial
18 forecast for the '14/'15 year, agreed?
19 MS. HEATHER REICHERT: Yes. What this
20 -- what this comparison was, the 82.4 million was if
21 we had assumed the forecasted interest rates were as
22 at the forecast in October of 2014.
23 MR. BYRON WILLIAMS: Or September
24 30th, whichever --
25 MS. HEATHER REICHERT: September 30th,

1 yeah. I actually thought it was October 20th, but
2 anyways. It was a later forecast than the one we had
3 used for the -- for the pro formas in our GRA.
4 MR. BYRON WILLIAMS: Okay. And just
5 going back to -- so at that point in time, based upon
6 the most recent available forecasts, you were looking
7 at a loss in the range of $82 million?
8 MS. HEATHER REICHERT: That's correct.
9 MR. BYRON WILLIAMS: If we could just
10 go back to PUB book of documents, Tab 11, and page 2
11 of that document. Actually, Diana, the very last
12 page. I apologize. Yes, thank you.
13 Diana's so amazing, she's getting to
14 the pages before I even know which page I want to go
15 to.
16 Ms. Reichert, when we -- when we look
17 at the positive developments for the Corporation in
18 2014 as compared to forecast, one (1) of those, if I
19 draw your attention to the net claims incurred line
20 and the -- the second line down was about $40.6
21 million in lower than budgeted physical damage claims.
22 Is that right?
23 MS. HEATHER REICHERT: Yes.
24 MR. BYRON WILLIAMS: And I think you
25 can answer this, but Mr. Johnston's there if -- if you

1 need the help. That was primarily due to lower
2 frequency of claims which Mr. Johnston and his team
3 attribute to a very favourable win -- winter as well
4 as the -- the emerging positive impact of driver
5 safety rating.
6 Is that fair?
7 MS. HEATHER REICHERT: Yes.
8 MR. BYRON WILLIAMS: And if -- if we -
9 - in -- in terms of another positive on the -- on --
10 in this particular year, we'll see as well -- excuse
11 me. Okay, yes. Just one (1) second, please.
12
13 (BRIEF PAUSE)
14
15 MR. BYRON WILLIAMS: I apologize for
16 that. Ms. Reichert, the other -- under Investment
17 Income, we also see a -- a favourable upturn in terms
18 of the higher than budgeted bond gains.
19 Do you see that, Ms. Reichert?
20 MS. HEATHER REICHERT: Yes, I do.
21 MR. BYRON WILLIAMS: And that amounts
22 to about -- as presented in the response to PUB
23 Information Request 1-5B, about $106 million, agreed?
24 MS. HEATHER REICHERT: Correct.
25 MR. BYRON WILLIAMS: And on the

1 negative side, we have that -- that net cla -- ca --
2 claims incurred, just going up a couple of lines,
3 being higher than budgeted PIPP claims due to the
4 lower interest rates, amounting to about $84.8
5 million, agreed?
6 MS. HEATHER REICHERT: Correct.
7 MR. BYRON WILLIAMS: So for my
8 client's benefit, as -- as she seeks to understand for
9 her Board the -- the significant change in results
10 from the forecast to the actuals for the 2014/'15
11 year, two (2) favourable drivers were higher than
12 expected investment income, and the second lower than
13 budgeted physical damage claims. Agreed?
14 MS. HEATHER REICHERT: Yeah. There --
15 there are some other variances. And -- and the other
16 one I think we should mention, because it was
17 significant as well, is the 26.8 million reduction in
18 the interest rate provision, which is also associated
19 with the fact that the interest rate stayed so low
20 through the entire 2014/'15 year.
21 MR. BYRON WILLIAMS: Thank you, Ms.
22 Reichert. And -- and by that you're referring to the
23 reduction in the NFAT from one (1) to point zero seven
24 five (.075). Is that what you're referring to?
25 MS. HEATHER REICHERT: Yes.

1 MR. BYRON WILLIAMS: If I could ask
2 Diana to turn to rate making point four (.4), page 16?
3
4 (BRIEF PAUSE)
5
6 MR. BYRON WILLIAMS: And I suspect
7 this is for you, Mr. Johnston. Page 16.
8
9 (BRIEF PAUSE)
10
11 MR. BYRON WILLIAMS: And, Mr.
12 Johnston, don't take this the wrong way but it -- it
13 seems to me you've been with MPI for forever, but
14 forever perhaps might be more than a decade. Would
15 that be fair, sir?
16 MR. LUKE JOHNSTON: Yes. I think I'm
17 getting into the thirteen (13), fourteen (14) year
18 range.
19 MR. BYRON WILLIAMS: Congratulations,
20 I guess. And -- and, Mr. Johnston, you're -- you're
21 familiar clearly, given your work, with the -- the
22 rating issues that have arosen -- arisen over the last
23 thirteen (13) or fourteen (14) years due to your work
24 with the Corporation?
25 MR. LUKE JOHNSTON: Yes, I am.

1 MR. BYRON WILLIAMS: And just for --
2 for clarification, did you work with any insurers, Mr.
3 Johnston, prior to going to Manitoba Public Insurance?
4 MR. LUKE JOHNSTON: Yes. I -- I
5 worked as a student at MPI while I was going to
6 University, and then I worked at United Services
7 Automobile Association in -- in San Antonio, Texas,
8 for a little over a year.
9 MR. BYRON WILLIAMS: Thank you. And
10 just in terms of the premiums written for that
11 organization, what would -- what would they be, sir?
12 Ballpark if you're able, and if not that's fine.
13 MR. LUKE JOHNSTON: I can't recall,
14 but they -- they wrote auto/home insurance in -- in
15 pretty much every state, so it would be a pretty --
16 pretty large number.
17 MR. BYRON WILLIAMS: Thank you. And -
18 - and apart from your ongoing work with MPI, Mr.
19 Johnston, you've also had to dig back in history in
20 terms of prior Board orders and prior discussions
21 relating to the DCAT and RSR.
22 Would that be fair, sir?
23 MR. LUKE JOHNSTON: Yes. Where
24 necessary, we -- we did that.
25 MR. BYRON WILLIAMS: And I'm not

1 expecting you to be an expert in any -- any sense of
2 the word, but at a high level you would have some
3 general familiarity with the -- the issues dating back
4 to Kopstein in terms of the -- some of the important
5 issues raised in the day. Would that be fair?
6 MR. LUKE JOHNSTON: On a general
7 sense, I think that would be fair. Specifics maybe
8 not but general, yeah.
9 MR. BYRON WILLIAMS: We'll see if we
10 can keep it general then, sir. In terms of the -- as
11 we look to the excerpt from the rate making document,
12 MPI articulates that one of the purposes of rate
13 making is to determine the overall expected costs
14 arising during the policy period. Agreed?
15 MR. LUKE JOHNSTON: Agreed.
16 MR. BYRON WILLIAMS: And another
17 critical objective is to allocate the overall expected
18 costs equitably to all insured. Correct?
19 MR. LUKE JOHNSTON: Correct.
20 MR. BYRON WILLIAMS: And focusing on
21 Roman Numeral I there in terms of determining the
22 overall expected costs, one of the reasons, Mr.
23 Johnston, that is so important is because you need to
24 pay the bills.
25 MR. LUKE JOHNSTON: Yes, you need --

1 well, part of determining the -- the rate requirement
2 is to determine all associated costs, especially when
3 you're not expected to make any profit. So that's --
4 that's a fair assessment, pay the bills, I guess.
5 MR. BYRON WILLIAMS: And when I spoke
6 of paying the bills of course, Mr. Johnston, I wasn't
7 referring to you personally unless you have way more
8 wealth than I'm aware of, but MPI.
9 You understood that, sir?
10 MR. LUKE JOHNSTON: Yes, my salary
11 would be a small portion of those bills, but overall,
12 yes.
13 MR. BYRON WILLIAMS: And in -- in
14 terms of determining the overall expect to costs
15 arising during the policy period, it's also important
16 that you not undercharge for those overall expected
17 costs. Would that be fair, sir?
18 MR. LUKE JOHNSTON: On the basis that
19 we -- we set our rates, which is the fiscal year
20 average, as we've spoke with the -- the PUB's cross,
21 we -- we would not want to over or undercharge per our
22 breakeven mandate. As you know, that -- it almost
23 never turns out to be exactly breakeven, but that's
24 the goal when we set the rates.
25 MR. BYRON WILLIAMS: And again, as

1 we've indicated, one (1) reason that it's important no
2 -- to -- to get as closed to your expected costs as
3 possible is to ensure the Corporation's got the
4 ability to pay the bills, agreed?
5 MR. LUKE JOHNSTON: Agreed.
6 MR. BYRON WILLIAMS: And another
7 reason is that you don't want to undercharge, for
8 example, is that you don't want to be a fair -- unfair
9 to future consumers in future rate years.
10 Would that be fair, sir?
11
12 (BRIEF PAUSE)
13
14 MR. LUKE JOHNSTON: Yes, our -- our
15 rating approach is to -- in terms of fairness, is to
16 continue to apply that breakeven objective in each
17 rate application. And that's how we assess ongoing
18 fairness to each set of policyholders in -- in each
19 GRA.
20 MR. BYRON WILLIAMS: So there's a --
21 in -- in terms of setting the overall expected costs,
22 there's a temporal fairness element in that you want
23 to be fair to today's ratepayers and to future
24 ratepayers, agreed?
25 MR. LUKE JOHNSTON: Agreed. We're

1 always trying to be fair to the ratepayers that we're
2 setting the basic rate requirement for. Obviously,
3 there's been points in history where we've had to give
4 rebates, and maybe you're going there, but -- but they
5 don't necessarily go exactly to the people, you know,
6 that had lower rates than they needed, but that's the
7 nature of rate setting, right? We're never going to
8 be exactly right. Sometimes you're going to have an
9 amazing winter and probably charge more than we needed
10 and other years are going to have the opposite, so
11 rate setting's always going to have that issue.
12 So absolutely this rate application.
13 And -- and I would assume future rate applications
14 will continue to try to break even. And we'll say
15 that that -- achieving that objective is equivalent to
16 fairness, from our perspective. Yeah, that's all I
17 have.
18 MR. BYRON WILLIAMS: Okay, thank you.
19 And just hoping to keep you at a general level in
20 terms of Kopstein, Mr. Johnston, but if you go back
21 through your memories you'll recall that that
22 objective of breaking even was an important message
23 from the Kopstein report given that -- that there had
24 been some budgeting for losses in -- in years previous
25 to the Kopstein report?

1 MR. LUKE JOHNSTON: Not knowing
2 specifics, but for myself, that's always been very
3 important or the most important objective for Basic
4 insurance.
5
6 (BRIEF PAUSE)
7
8 MR. BYRON WILLIAMS: Mr. Johnson --
9 Johnston, I apologize, and you'll correct me if I
10 misspeak, focussing on Roman numeral II, we see the
11 other objective being to allocate the overall expected
12 costs equi -- equitably to all insured, agreed?
13 MR. LUKE JOHNSTON: Agree -- agreed.
14 MR. BYRON WILLIAMS: And at a high
15 level and at the risk of asking a compound question,
16 in terms of trying to equitably allocate to all
17 insured, the Corporation looks at a number of
18 criteria, including the -- the type of use, the
19 geographic location, the experience adjustments for a
20 particular vehicle, and the driver experience.
21 Would that be fair, sir?
22 MR. LUKE JOHNSTON: Yes, we have
23 rating factors that we utilize for Basic rate setting.
24 And -- and really all our rate making methodology is
25 doing is -- is organizing the losses into the various

1 categories and using a actuarial or statistical
2 procedure to -- to allocate those costs as equitably
3 as possible for rate setting purposes.
4 MR. BYRON WILLIAMS: And in terms of
5 the factors or criteria, sir, did I get the big four
6 (4), being the use, i.e., purpose, the location, the
7 experience adjustment for vehicles, and the driver
8 experience?
9 MR. LUKE JOHNSTON: That's -- that's
10 true, yes.
11
12 (BRIEF PAUSE)
13
14 MR. BYRON WILLIAMS: And, sir, in your
15 effort, focusing on those four (4) factors, there is
16 an equitiby -- equity criteria in that you're trying
17 to reflect the particular risk for that particular
18 driver driving that particular vehicle for that
19 particular purpose in that particular region.
20 That's -- that's part of -- part of the
21 objective?
22 MR. LUKE JOHNSTON: Obviously an
23 individual customer that comes in the objective is to
24 give them the most appropriate rate as possible.
25 They're -- that customer clearly is part of a group

1 though, so they're Territory 1, all purpose, you know,
2 this -- this stage on the DSR level, this rate group.
3 It is, of course, an estimate like all rate setting
4 is, but that -- that is the objective, to give them a
5 fair rate.
6 MR. BYRON WILLIAMS: And would it also
7 be fair to say that a -- and assoc -- not associated,
8 but another objective that flows from rating based
9 upon the best estimate of risk is -- is sending a
10 safety signal in turn -- in -- in the sense that it's
11 presumed that if your rates fairly represent your
12 risks, that will send a message about behaviour and
13 vehicle choices and that may -- that may improve
14 behaviour?
15 MR. LUKE JOHNSTON: I -- you can
16 correct me if I'm wrong on interpretation, but I think
17 what you're saying is that if you're in a type of
18 vehicle or use or where the rates are higher because
19 the risk is higher, that might incent you to -- to
20 maybe change your vehicle or your behaviour.
21 And then on the -- the driver safety
22 rating scale, similarly, if your behaviour keeps
23 moving you down the scale. And having higher rates,
24 maybe you'll get the message that, This isn't working
25 out for me. And you'll try to improve your behaviour

1 there. So I think that's where you're going, but you
2 can correct me if I'm wrong.
3 MR. BYRON WILLIAMS: I'll actually
4 thank you for answering the question better than I
5 asked it, Mr. Johnston. And I also did want to thank
6 MPI for sending that signal to my youngest son who
7 certainly needed some corrective DSR behaviour, if I
8 might testify for just a moment.
9 Mr. -- Mr. Johnston, again, trying to
10 stay with Kopstein, but at a -- at a high level, based
11 on your reading of the dialogue around that time,
12 you'll agree that the issue of equity -- equity among
13 ratepayers was an important issue at the time of
14 Kopstein and was -- was an important objective in
15 terms of the Manitoba Public Insurance during the
16 1990s?
17 MR. LUKE JOHNSTON: I know that it was
18 one (1) objective. Again, not being involved at that
19 time, I know there were other objectives as well, such
20 as accessibility and I believe the rates for young
21 drivers and -- and such was also an issue at the time,
22 but the issue you've referenced is -- is for sure one
23 (1) of the -- the main issues.
24 MR. BYRON WILLIAMS: Yes, and whether
25 we use the terms VICC is, I think, when Mr. Guimond

1 and I probably started was used or if we used the term
2 clear, C-L-E-A-R. A good deal of the 1990s was -- was
3 try -- was spent trying to achieve a more equitable
4 allocation of overall expected costs among different
5 groups of insured, agreed?
6 MR. LUKE JOHNSTON: I wasn't there at
7 the time, but that is my understanding and it
8 continues to be the approach that we use. So the --
9 the CLEAR system used to rate vehicles at one (1)
10 point in time would have been in its infancy at MPI,
11 and it would have taken some years to fully integrate
12 that system into ours.
13 I would -- from our perspective now,
14 I'd say we're at a mature stage of that cycle, but
15 that's reasonable to think that that would be
16 occurring in the '90s.
17 MR. BYRON WILLIAMS: And I wonder if
18 we can turn to -- still in the rate-making document
19 RM.5, page 43.
20 Mr. Johnston, in -- in terms of trying
21 to have an equitable allocation of costs among insured
22 and have rates reflect experience, depending on
23 whether the -- the insurer is in a mature state or a
24 less mature state, there's obviously going to be some
25 dislocation among the insured as -- as MPI seeks to

1 implement CLEAR adjustments.
2 Would that be fair?
3 MR. LUKE JOHNSTON: CLEAR -- CLEAR
4 would be one (1) source. So if -- say there's a new -
5 - a new vehicle that we don't have a lot of experience
6 on, CLEAR's going to have an initial estimate.
7 They might get a few years of data and
8 it might turn out to be quite a bit better or worse
9 than -- than the Insurance Bureau of Canada expected.
10 That could lead to some initial ups -- ups and down in
11 the -- in the rate group for that vehicle. But there
12 are -- there are some rules that we have to try to
13 control the -- the rate variability from that.
14 MR. BYRON WILLIAMS: And focusing your
15 attention on rule number 3, the -- with certain
16 limited exceptions, the indi -- indicated increase
17 adjustment is capped at 15 percent.
18 Is that correct, sir?
19 MR. LUKE JOHNSTON: From experience,
20 related changes, 15 percent, correct.
21 MR. BYRON WILLIAMS: And that, sir, is
22 in recognition of the fact that, while the objective
23 of equitable allocation of costs is certainly
24 important and long standing, there also is a
25 recognition of the need to temper that adjustment in

1 terms of mitigating some of the effect of transition
2 upon the particular motorist or group of motorists.
3 Would that be fair?
4 MR. LUKE JOHNSTON: That's fair, and
5 the other piece of that is -- is, when you're using a
6 rating system that is tied purely to historical
7 experience, you have to be careful of fluctuations for
8 -- for smaller vehicle classes.
9 So if there's only a hundred (100) or a
10 hundred and fifty (150) vehicles in a group, you may
11 not be as confident in their estimates as if there's a
12 hundred thousand (100,000) vehicles in that group. So
13 this is one (1) of -- of several methods that we have
14 to try and contain the ups and downs. Yeah.
15 MR. BYRON WILLIAMS: And thank you for
16 that -- that clarification. So just the -- the last
17 part of your answer, in essence, you're saying,
18 because with -- with small populations of -- within a
19 group, there may be significant volatility.
20 So to temper that, you know, because
21 you might go down 20 percent one year and then bounce
22 up 8 percent the -- the next, that's one (1) of the
23 reasons for this -- this cap.
24 Is that what you indicated, Mr.
25 Johnston?

1 MR. LUKE JOHNSTON: That's right. We
2 do -- we -- that's correct. We do our best to control
3 that, and the rating methodology has evolved. So take
4 serious losses, for example, and using the ten (10)
5 years average, try to keep those changes, you know,
6 fairly stable.
7 But an example where something like
8 that could occur is, say -- say there's a vehicle
9 classification, say -- say mopeds, and they never had
10 any serious losses in their history. And then the
11 population gets larger and all of a sudden they have
12 two (2) or three (3) serious losses in a year.
13 Our rate-making methodology will say,
14 Well, that's part of your history now. We need to,
15 you know, represent that properly in the rate. And
16 you might get a big spike, and that's -- that is
17 actually what happened to mopeds essentially.
18 But we think that's just an ongoing
19 improvement to the accuracy of the rating estimates.
20 MR. REGIS GOSSELIN: Is that -- is
21 that always the case? I'm looking -- I'm -- my memory
22 -- it seems to me I saw a document not too long ago
23 was showing mopeds but a decrease of 26 percent on the
24 indicated rate, and we're -- we're not reducing it by
25 26 percent or 21 percent, whatever the amount is this

1 year.

2 MR. LUKE JOHNSTON: So just so I

3 understand the question, you understood that there was

4 a reference to mopeds declining, and then -- and

5 they're not now? Is that the question?

6 MR. REGIS GOSSELIN: Well, I -- I --

7 two (2) -- two (2) or three (3) days ago we saw a

8 table that showed that the indicated rate for mopeds

9 probably should have gone down as much as 20 percent,

10 and yet that's not the rate that's being proposed by

11 MPI.

12 MR. LUKE JOHNSTON: Yes. Every --

13 every classification will have a pure indicated change

14 before any caps or rules that we have, like -- such as

15 these because we think it's important to at least show

16 the indicated change. So there's been classes where

17 we've needed really -- mopeds are one of them, where

18 we needed almost 100 percent rate increase at a time.

19 So it's important to show that that exists, and then

20 say, you know, we've -- we're capping it, or moving it

21 along.

22 I can't recall the specific number for

23 mopeds this year, but --

24 MR. REGIS GOSSELIN: But -- but it was

25 rate capping that -- that caused the indicated rate to

1 be -- to be higher than the actual rate that was
2 proposed.
3 MR. LUKE JOHNSTON: That would be my
4 assumption. So on this piece, it shows how we cap
5 some of those changes. And then there's a hard cap of
6 20 percent for all changes up or down, yeah.
7
8 CONTINUED BY MR. BYRON WILLIAMS:
9 MR. BYRON WILLIAMS: Can -- and, Mr.
10 Johnston, going back to the -- I -- I did allow you --
11 you didn't do it intentionally but to sidetrack me a
12 little bit, but going to Rule 3 the other significant
13 purpose is to provide some -- some protection against
14 rate shock for those motorists who might be expecting
15 a -- or might -- might be experiencing a rate increase
16 in -- in excess of 15 percent. Would that be fair?
17 MR. LUKE JOHNSTON: That's fair.
18
19 (BRIEF PAUSE)
20
21 MR. BYRON WILLIAMS: And, Mr.
22 Johnston, what we can take from this experienced
23 adjustments discussion is the acknowledgment that even
24 in a year of zero overall rate increases, there could
25 be significant movement among individual ratepayers,

1 or groups of ratepayers. Would that be fair, sir?
2 MR. LUKE JOHNSTON: Yes. There --
3 ever -- every year we kind of have a distribution
4 report but there -- there can definitely be rate --
5 pluses or minus in excess of 10 percent, for sure.
6 MR. BYRON WILLIAMS: Okay.
7
8 (BRIEF PAUSE)
9
10 MR. BYRON WILLIAMS: And, Mr.
11 Johnston, you're familiar with the -- the term
12 'actuarial indicated and statistically sound rates,'
13 sir?
14 MR. LUKE JOHNSTON: Yes, I am.
15 MR. BYRON WILLIAMS: When we look at
16 the two (2) primary purposes of rate making, that's --
17 that's really about the objective of -- of setting
18 actuarially indicated and statistically sound rates?
19 Would that be fair, sir?
20 MR. LUKE JOHNSTON: That's fair.
21 MR. BYRON WILLIAMS: And if -- again
22 if -- if I'm asking too much of your Kopstein head,
23 you'll -- you'll not answer the question. But would
24 it be fair to say that this -- the drive for actually
25 indicating statistically sound rates is -- is driven

1 in -- in the Manitoba context by the desire to reduce
2 the room for political judgment for rate setting and -
3 - and ensure that rates, to the extent possible, are
4 selected based on evidence and principle?
5 Would that be fair?
6 MR. LUKE JOHNSTON: The -- specifics
7 again but I will say that I -- I agree in the sense
8 that MPI's approach is very transparent in the sense -
9 - yeah, it's -- you can see how the rates are set and
10 the dollars are allocated to the classifications, and
11 it's set purely on -- on those -- on those figures.
12 In -- in that sense, I think that was
13 an important piece of the Kopstein analysis, but
14 again, in -- in that particular sense, I won't say I
15 know for sure that's what he was discussing then, but
16 it is a good feature of our program, I'll -- I'll give
17 you that.
18 MR. BYRON WILLIAMS: Okay. Mr.
19 Johnston, I'm going to stay with you for a few more
20 minutes, and per -- perhaps to the coffee break.
21 We'll -- we'll see when the Board wishes for one (1).
22 But if I could ask Diana to turn to the application
23 claims incurred, and I believe it's page 9. I'm
24 looking for a table with, "Assumed claim liability
25 duration," at the top.

1

2 (BRIEF PAUSE)

3

4 MR. BYRON WILLIAMS: Mr. Johnston, is
5 that a table you're fa -- familiar with, sir?
6 MR. LUKE JOHNSTON: Yes.
7 MR. BYRON WILLIAMS: Is it a good news
8 table, sir?
9 MR. LUKE JOHNSTON: I -- I'd say it's
10 neutral, yeah.
11 MR. BYRON WILLIAMS: I'm just teasing
12 you. Sir -- Mr. Johnston, what this table presents is
13 the assumed claims liability going into your claims
14 incurred in terms of their duration, agreed?
15 MR. LUKE JOHNSTON: That's right.
16 Without getting into the specifics, if you projected
17 out all the claims cashflows we expect to pay at that
18 particular time, this would be the average cashflow
19 day, kind of the weighted average of all future
20 cashflow, so it won't be exactly -- MPI's cashflows
21 will be a large amount pre say ten (10) years. Then
22 there'll be this long runoff period where some claims
23 stay open thirty (30) or forty (40) years; on average,
24 it's about ten (10).
25 MR. BYRON WILLIAMS: Okay. And when

1 you say, "On average, it's about ten (10)," for the
2 2014/'15 year it was about eleven (11). Is that
3 right, sir?
4 MR. LUKE JOHNSTON: Yes. And maybe an
5 important note to that is these are discounted
6 cashflows, so when the discount rate or the interest
7 rates are so low, that cashflows in the future become
8 larger or the discounted value of them becomes larger,
9 which increases the duration. And then this is why
10 the forecast here as it -- the duration falling,
11 because it's assuming interest rates will increase.
12 MR. BYRON WILLIAMS: Okay. That's
13 helpful, Mr. Johnston. I was trying to make sense of
14 what -- what the mathematics of that table was. Could
15 I ask --
16 MR. REGIS GOSSELIN: Excuse, Mr. --
17 could you explain what's going on here? I'm surprised
18 that the -- that the -- the duration is decreasing so
19 significantly over the space of five (5) years.
20 MR. LUKE JOHNSTON: So the -- again,
21 it was a good -- good point raised by Mr. Williams.
22 On the -- the interest rate, since the cashflows are
23 discounted -- so if you think about -- we have claims
24 cashflows projected out thirty (30) years in the
25 future.

1 When our discount rate is close to zero
2 the cashflow is basically at its undiscounted value.
3 But when the interest rates rise and all of the sudden
4 you get a 3 percent discount rate or something, thirty
5 (30) years of discounting makes that cashflow worth a
6 lot less, and you need a lot less money today. Yeah,
7 that's all it is.
8 So fairly substantial interest rate
9 increases pull down those -- those distant cashflow
10 values.
11 MR. REGIS GOSSELIN: But the -- the --
12 assuming a scenario where rates don't go up, then
13 you're in a position where duration is -- is -- go
14 backs -- goes back to numbers we are getting now,
15 right? Is that -- and what does that mean for claims
16 liabilities then?
17 MR. LUKE JOHNSTON: That's right. And
18 that's the key piece of the ALM where they're always
19 matching the dur -- so the -- yeah, the asset side is
20 -- is really checking in with the claims duration
21 constantly and re -- rematching. But you're right, if
22 the interest rates don't increase, I would assume it
23 would remain at about eleven (11) years, yeah.
24
25 CONTINUED BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: If I could ask
2 Diana to turn to the response to CAC Second Round
3 Information Request Number 1, please. 2-1, please.
4 And perhaps you can go to page 3. Page 36 might be
5 ambitious. Thank you.
6 Mr. Johnston, way back in 1992 MPI
7 developed a mortality table for the purposes of -- of
8 looking at PIPP claims. Is -- is that correct, sir?
9 MR. LUKE JOHNSTON: I -- I won't claim
10 that we developed it, but we -- we used a mortality
11 table and it would be different than -- than the one
12 that we use today.
13 MR. BYRON WILLIAMS: And -- and just
14 so I understand, the one that you use today will have
15 evolved over time as a result to experience?
16 MR. LUKE JOHNSTON: Yeah, the reason
17 for my note there was that there was -- there was some
18 history on our reserving, obviously, that led to the
19 big rel -- release in -- in 2010. There is a period
20 where we had -- we're using, essentially, a normal
21 life mortality table early in the days of PIPP.
22 We converted that to a, essentially a
23 disabled or long-term disability type mortality table
24 later in the 2000s and it was the experience relative
25 to that table that -- that really led to the big

1 release in 2010.

2 MR. BYRON WILLIAMS: Okay.

3 MR. LUKE JOHNSTON: So -- sorry, to

4 your question, what we do today is -- what makes the

5 mortality estimation so difficult for MPI is that we

6 don't have like a male/female, non-smoker/smoker.

7 Like it's -- we've got a completely mixed bucket of

8 people. You might have a quadriplegic. You might

9 have an amputation. You might have a mental health

10 issue. Not -- you're not going to get nice consistent

11 buckets.

12 So, we use what just -- what's

13 essentially a -- a long-term disability type table as

14 our estimate. And what we've been doing is adjusting

15 that table based on actual experience for all the

16 claims that are more than ten (10) years old and have

17 at least five (5) years of data. So that's -- that's

18 been our approach.

19 MR. BYRON WILLIAMS: Okay. And just

20 so I can understand, first of all, some of the terms

21 that appear on this table, being Table 1 of CAC-2-1,

22 about the fourth column in we see the current table

23 expected terminations.

24 And, Mr. Johnston, that's the -- the

25 current table that MPI uses, sir?

1 MR. LUKE JOHNSTON: So we don't have -
2 - so the reason if -- if -- I'll expand a bit on this
3 at this -- so the second column when it says,
4 "claimants at the start of the year," we only start
5 looking at this once the claimant's at least ten (10)
6 years after their claim. So it's been ten (10) years
7 to help them recover and all that and then beyond ten
8 (10) years we're pretty sure most of the time the
9 claim is probably going to be on for life.
10 So more and more years get past the ten
11 (10) year mark. That's why that -- that column keeps
12 growing. At some point it will hopefully start going
13 down, but we're not there yet. We don't have enough
14 claimants or people to build our own mortality table.
15 Three hundred and forty (340) people isn't enough to
16 build a -- a life expectancy table.
17 So what we do is we say, Well, based on
18 all the gender, ages of the claimants at the start of
19 the year, what is the expected number of claimants
20 that will terminate. And our definition of
21 'terminate' is just stop receiving payments. So they
22 might die, they might get better, but -- so in that --
23 based on the mortality table we use right now, out of
24 the three hundred and forty-seven (347) we would
25 expect on average about seventeen (17) of those claims

1 to -- to stop receiving payments in -- in the 2014
2 year.
3 MR. BYRON WILLIAMS: And so I was
4 worried about being too morbid. When we use the term
5 'terminations,' we're speaking to persons leaving MPI
6 benefits; some just no longer receive them, others
7 pass away.
8 Is that how we use that term, sir?
9 MR. LUKE JOHNSTON: Yes. It -- it was
10 also helpful from -- from my perspective going way
11 back in time and understanding what necessarily
12 happened with the claim, or how -- if they lived, or -
13 - or died, or -- it's very difficult but it's not
14 difficult for me to see if they still received income
15 replacement benefits, or -- or payments.
16 So from my perspective, 'termination'
17 means we're not paying them any money anymore. The
18 most common reason is probably death, but there can --
19 can be other reasons.
20 MR. BYRON WILLIAMS: And when we go to
21 the extreme right of that table and we see the term
22 'relapse,' what -- what does that -- that signify,
23 sir?
24 MR. LUKE JOHNSTON: Yes. We added
25 this column because -- well, based on what I've just

1 described this is really a table saying how many
2 claims do we have open that are more than ten (10)
3 years, how many are still receiving pay -- payments,
4 or not receiving payments. So in -- it can also go
5 the other direction. So we might have a claim that's
6 not receiving payments at all, and then there's maybe
7 a decision or some kind of change in their medical
8 condition, like they went back to work and then they
9 had some kind of issue, and then they're back on
10 income replacement.
11 So this four (4) -- number 4 would be
12 someone that the year before wasn't receiving any
13 payments from MPI, and now they are. So a week later
14 -- just -- I've coined that as a relapse because if
15 the claim is, say, fourteen (14) years old and all of
16 a sudden they're receiving income replacement again,
17 we'll -- we'll ask the case managers to reserve for
18 life unless it's a very specific reason, like they
19 went in for an operation, you know, and they're going
20 to get IRI for six (6) months and then they're going
21 to be back to work again. But it -- that's -- that's
22 what that is.
23 MR. BYRON WILLIAMS: Okay. Thank you
24 very much. And focussing on Table 1 just for a
25 moment, if we take that history for males age twenty-

1 eight (28) and older having more than ten (10) years
2 experience, for the -- the period between 20 -- 2004
3 and 2014 based -- your current table would have
4 anticipated eighty-six (86) terminations?
5 Do I have that right, sir?
6 MR. LUKE JOHNSTON: That's right.
7 MR. BYRON WILLIAMS: And the actual
8 terminations was higher than that, being one hundred
9 and forty-one (141)?
10 MR. LUKE JOHNSTON: That's correct.
11 MR. BYRON WILLIAMS: And then, again,
12 on the right-hand side apart from the -- the
13 terminations and the expected terminations, there's
14 also some folks who have come back on to the system.
15 Is that what that's reflecting?
16 MR. LUKE JOHNSTON: That's right.
17 MR. BYRON WILLIAMS: And so focussing
18 on the -- the terminations there's over -- over this
19 decade -- eleven (11) years I guess, a 2.86 percent
20 difference between the expected termination rate and
21 the actual termination rate?
22 MR. LUKE JOHNSTON: That's correct.
23 MR. BYRON WILLIAMS: And just if we
24 can do that for females as well, Mr. Johnston. Again,
25 we'll just go to the bottom line there, you see the

1 total of current expected terminations being forty-
2 five (45); agreed?
3 MR. LUKE JOHNSTON: Agreed.
4 MR. BYRON WILLIAMS: With the actual
5 terminations being one hundred and nineteen (119)?
6 MR. LUKE JOHNSTON: Correct.
7 MR. BYRON WILLIAMS: And the
8 percentage difference between that is 5.1 percentage
9 points?
10 MR. LUKE JOHNSTON: Five point four
11 one (5.41), correct.
12 MR. BYRON WILLIAMS: Excuse me. Thank
13 you for correcting me. And then we also note some
14 relapses, twenty-nine (29).
15 MR. LUKE JOHNSTON: That's right.
16 MR. BYRON WILLIAMS: And just to -- to
17 finish off the table on the next page, we again --
18 this is the combination of -- of men and women with --
19 with claims of more than ten (10) years duration, sir.
20 Is that correct?
21 MR. LUKE JOHNSTON: That's correct.
22 MR. BYRON WILLIAMS: And there's about
23 a hundred and thirty (130) -- a hundred and twenty-
24 nine (129) difference between the actual terminations
25 and the expected terminations?

1 MR. LUKE JOHNSTON: Correct.
2 MR. BYRON WILLIAMS: Mr. Johnston,
3 just for clarification, in -- the experience of the
4 actual terminations being more rapid than the current
5 table, perhaps you could just articulate how that's
6 reflected in adjustments to the table.
7 MR. LUKE JOHNSTON: So we don't -- we
8 don't make any special adjustments to this table. We
9 literally just record what occurs where the
10 adjustments take place around the actuarial report
11 side of things.
12 And I'm not suggesting that we -- so in
13 this last table, there's a 3.92 percent difference.
14 We don't adjust by that amount in the actuarial
15 report. What we do is we look at the actual
16 experience of claims from a paid and incurred basis
17 after ten (10) years.
18 And to the extent that that experience
19 is favourable, which -- which it should be based on
20 these results, we gradually lower our estimates from
21 the ten (10) -- from the ten (10) year point and on.
22 So maybe an example would be easier.
23 So let's say the 1994 year, ten (10) years after the
24 claims have been opened, we estimated that we had $60
25 million of incurred. But then that trunked (sic) at

1 59 million, you know, 58 million as -- as claimants
2 started to terminate or decease.
3 That favourable experience is being
4 gradually built into the actuarial estimates. So, to
5 the extent that this occurs and it has favourable
6 financial implications, it's being built in.
7 It's not fully built in because we're -
8 - we're trying to move the two (2) together gradually
9 based on our -- our data. But there is an approach in
10 place to -- to move the two (2).
11 And obviously, we have to be very
12 cautious with these results because you can see that
13 the relapse is a legitimate concern. But at the same
14 time, we also want to recognize the favourable
15 experience we have.
16 MR. BYRON WILLIAMS: Thank you, and I
17 do appreciate your patience with explaining this to
18 me.
19 MR. REGIS GOSSELIN: Just a couple of
20 questions, Mr. Williams, please. Just -- just
21 relapse, how do you -- how do you see relapse in this
22 table? Like I -- would you repeat that again, please,
23 how you hook in --
24 MR. LUKE JOHNSTON: Oh, how do I
25 measure relapse, is that your question?

1 MR. REGIS GOSSELIN: Yeah. How can
2 you detect relapse from looking at this table? You
3 can't, can you?
4 MR. LUKE JOHNSTON: How can -- oh, how
5 can you calculate it?
6 MR. REGIS GOSSELIN: Well --
7 MR. LUKE JOHNSTON: Oh. Yeah. It's -
8 - so when -- obviously one (1) of the concerns that --
9 that I have from the actuarial side is I think I have,
10 you know, fifty (50) lifetime claimants in a year and
11 the reserves are up. And then all of a sudden, two
12 (2) new claimants show up and I'm -- I'm like, Well,
13 where do these people come from that's thirteen (13)
14 years after the loss, right?
15 So we thought it would be important to
16 here -- in here to -- to say, These are claimants
17 that, essentially, reappeared after not receiving
18 payments in -- in previous years. And then it
19 highlights that it's happened, and then we can
20 investigate the why and understand it, yeah.
21 MR. REGIS GOSSELIN: No, but I'm
22 trying to understand by looking at this table where --
23 where can you detect a -- you know, relapses here in
24 this table? Can you? It's -- it's not -- it's not in
25 the table.

1 MR. LUKE JOHNSTON: Yeah. There's not
2 a direct way to -- to calculate it, but they're an
3 offsetting number to the -- to the terminations. So
4 if you had forty (40) new -- or, sorry, if you had
5 forty (40) terminations and ten (10) relapses, that
6 would net to thirty (30). So there is a -- a netting
7 effect there, but the experience is still overall
8 positive.
9
10 (BRIEF PAUSE)
11
12 CONTINUED BY MR. BYRON WILLIAMS:
13 MR. BYRON WILLIAMS: Mr. Johnston, do
14 you need a minute? Take your time if you're --
15 MR. LUKE JOHNSTON: Just one (1)
16 second, please.
17
18 (BRIEF PAUSE)
19
20 MR. LUKE JOHNSTON: At -- at the break
21 I'll ask -- I just want to confirm with my staff
22 exactly how the -- the relapse number nets with the
23 other number. And I'll -- I can response to that
24 after the break.
25 MR. REGIS GOSSELIN: I just want to

1 follow-up, Mr. Williams, some more questions.
2 So the overestimation of these
3 terminations has what financial consequence for MPI?
4 MR. LUKE JOHNSTON: So given that ano
5 -- another way that the -- a claimant can stop
6 receiving benefits is if, say, they went on to the
7 retirement income benefit and they already had a
8 pension, so MPI's net payment to them was zero, so
9 we're the second payer. So they might show up as a
10 termination on here.
11 In that example, we would just
12 eliminate all the reserves on file. We might not
13 completely close the claim if they have other medical
14 needs or whatever. But in that case, we'd eliminate
15 the reserves. There would be a favourable financial
16 result in our actuarial report, so a favourable
17 development, so to speak.
18 That number would feed in to our
19 estimates to say, okay, you know what, when -- from --
20 when a claimant's fifteen (15) to sixteen (16) years
21 old we seem to be getting this, on average, favourable
22 adjustment, so we need to recognize that in the
23 development of claims, which would lower the
24 estimates, all else equal, and -- and gradually
25 reflect this experience.

1 It's kind of hard to explain, but that
2 -- that's the -- that's the approach.
3 MR. REGIS GOSSELIN: So interpret for
4 me 'gradually recognized experience'. So we're
5 seeing, you know, a clear trend here where there's a
6 significant difference between your -- your estimate
7 and the actual.
8 And so financially, at what point does
9 the favourable experience start to show up in the
10 financial results, or is that done periodically or is
11 that done on a constant basis?
12 MR. LUKE JOHNSTON: It'll -- so what
13 we say is we want -- in the actuarial report we'll
14 say, How do claims develop between, say, ten (10)
15 years and eleven (11) years and eleven (11) years and
16 twelve (12) and -- and such. And we -- we'll track
17 that in the actuarial report. And if we consistently
18 -- let's say that example I used earlier where we have
19 60 million and then it -- it declined to 59 million
20 because maybe these turned out better than we thought,
21 and then to 58, and then 57.
22 We would build those assumptions in,
23 that that decline is going to be expected to occur for
24 all future claims that are ten (10), eleven (11),
25 twelve (12), thirteen (13) years old. So if that's

1 favourable, that would feed into more recent accident
2 years where we're say, okay, well, we're going to get
3 this -- claims go up like this, and then, you know,
4 they're going to go on RIB or they're going to have a
5 favourable experience, and then it's going to fall a
6 little bit. And that would -- that would feed into --
7 to all -- the estimates of all years.
8 So that's what you got to be careful
9 with when you make assumptions like on the -- what we
10 call the tail is if -- let's say, we get some
11 favourable experience and -- and it indicates -- it
12 seems like claims drop about 1 percent, you know, of
13 value between this period. If we then make that
14 assumption on all twenty-three (23) years of PIPP, it
15 affects all estimates for all those years which can
16 add up to bigger numbers, right, so you've got to be
17 really careful when you're dealing with anything in
18 the tail, which is why we have this gradual process to
19 implement it as it's -- as it occurs.
20 MR. REGIS GOSSELIN: But I'm trying to
21 understand the financial consequences of the
22 overestimation.
23 At what point would you recognize that
24 you've been overestimating the -- the terminations and
25 at what point does that financial result show up in

1 the financial statements?

2 MR. LUKE JOHNSTON: Every year in our

3 October and February review we'll update based on the

4 latest experience. And to the extent that it's

5 improved, it'll be recognized immediately. And, yeah,

6 sorry for the misunderstanding here.

7

8 CONTINUED BY MR. BYRON WILLIAMS:

9 MR. BYRON WILLIAMS: And -- and, Mr.

10 Johnston, just to follow through on that point, the --

11 the words you've used are -- are 'not fully built in,'

12 'gradually'. That would be fair, sir?

13 MR. LUKE JOHNSTON: That's correct.

14 So we -- we don't know the -- obvious -- the full

15 lifetime of the claimants yet. So we have in this

16 table here, males and females combined. There's about

17 five hundred (500) -- five hundred and fifty (550)

18 claimants. Every year we collect more data we'll get

19 increasingly improved assumptions and -- and build

20 them in.

21 We wait till we have five (5) data

22 points to -- to include it in our averages, yeah.

23 MR. BYRON WILLIAMS: And so you'll

24 recall that some of the thrust of our Information

25 Requests and conversation over the last few years has

1 been the -- the pace at which that experience is -- is
2 realized, agreed?
3 MR. LUKE JOHNSTON: That's right.
4 Yeah, correct.
5 MR. BYRON WILLIAMS: And just to -- in
6 terms of the relevance of this information, Mr.
7 Johnston, it would go to the projections -- it -- it
8 is relevant to the projections of claims incurred for
9 accident benefit WI as well as other.
10 Would that be fair, sir?
11 MR. LUKE JOHNSTON: Yes, it would be
12 relevant to any claims that are open beyond ten (10)
13 years really.
14 MR. BYRON WILLIAMS: And -- and the
15 big ticket item there, sir, is accident ben -- benefit
16 weekly indemnity.
17 Would that be fair?
18 MR. LUKE JOHNSTON: Income placement
19 and RIB, which we categorize as weekly indemnity would
20 be a big item and then the other one (1) would be
21 ongoing personal care benefits, medical benefits. I
22 can't remember the exact magnitude, but they're both
23 relatively significant and weekly indemnity might be a
24 little bit bigger, but not a lot bigger.
25 MR. BYRON WILLIAMS: And when you talk

1 about the personal care benefits, if someone is sad
2 enough to want to wander through your actuarial
3 reports you might see that reported as accident
4 benefit other.
5 Would that be fair, sir?
6 MR. LUKE JOHNSTON: Yeah, we call --
7 we group them in a bucket called accented benefits,
8 other index. So that would include personal care, but
9 it also could include ongoing medical pay -- payments
10 that occur for your life.
11
12 (BRIEF PAUSE)
13
14 MR. BYRON WILLIAMS: Madam Chair,
15 thanks to Chairperson Gosselin, we timed that
16 perfectly. I'd suggest a break if that's appropriate.
17 THE CHAIRPERSON: One (1) more
18 question and then we'll take a break for fifteen (15)
19 minutes. Thank you.
20 MR. REGIS GOSSELIN: My question
21 relates to MPI Exhibit Number -- it's 18, that was
22 handed out this morning. And I guess my question is
23 in relation to -- to this table.
24 Is -- has MPI dealt with these managers
25 since inception?

1 MS. HEATHER REICHERT: So we -- we
2 have dealt with each of these individual managers
3 since the inception date that is noted there. So
4 manager A we've been dealing with them consistently
5 since December 31st, 1998, so for sixteen point seven
6 (16.7) years.
7 Similarly, thirteen and a half years
8 (13 1/2) years and the last one ten point three
9 (10.3).
10 MR. REGIS GOSSELIN: Now, the -- the
11 question I have is this does not represent the entire
12 picture of MPI's experience with these equity managers
13 over time. Has it -- I mean, you have had more than
14 three (3) equity managers handling your portfolio of
15 equities?
16 MS. HEATHER REICHERT: Today we have
17 three (3) -- these three (3). We did have -- when I
18 first started at MPI we did have a -- a fourth equity
19 manager that was terminated, but today these are the -
20 - these are the three (3) that we -- that we have.
21 MR. REGIS GOSSELIN: I appreciate
22 that, but the -- the -- what I'm getting at here is --
23 is the -- the broader question of whether or not using
24 equity managers is the right approach for MPI. And,
25 you know, I -- I realize it's late in the game to be

1 asking this question, but you can expect this question
2 to come back next year.
3 You know, given the -- the time horizon
4 where MPI has been involved in equity markets, I would
5 like to know whether or not the equity managers you've
6 had, the numbers you've had, and whether or not that
7 number has changed over time and what the experience
8 has been, because the -- the question I have is
9 whether or not we are -- you are getting mon -- a -- a
10 fair value for the expenses related to those equity
11 managers.
12 And the broader question is, and I
13 asked earlier, is whether or not you would be better
14 off to use ETFs and handling those equities yourself
15 rather than use equity managers.
16 You don't need to pay somebody a big
17 dollar to buy -- to invest in Canadian banks. I mean,
18 that would be a waste of money. And I guess that's
19 the question I'm asking is whether or not you have
20 considered whether or not you should be handling those
21 investments on your own using a range of ETFs. That's
22 the first question.
23 The next question that we'll be asking
24 is whether or not you are using currency-hedged equity
25 portfolios for your invest -- your US investments. I

1 don't know the answer to that, so I wonder if you
2 could give me an answer at some point.
3 MS. HEATHER REICHERT: So -- so the
4 second question I can answer first. We -- we do not
5 hedge currency, so it is -- we just invest in the US
6 passive investment, the ETFs. We don't hedge the --
7 the currency.
8 So if the first question that I'm
9 understanding is: Other investment managers that we
10 may have had throughout the last fifteen (15), sixteen
11 (16) years, what was their performance overall on a --
12 a net value-added basis compared to the index?
13 My understanding as well is we have not
14 been using equity -- we have not invested in equities
15 the entire time that MPI has existed. We only started
16 to invest in equities probably in and around the
17 sixteen (16), seventeen (17) year mark.
18 We used to be fully invested in fixed
19 income and then did a study to say, How can we improve
20 overall the yield while still protecting our -- our
21 claims?
22 So -- but I can attempt to -- to find
23 out the other investment managers that we may have had
24 during this period and what their net value added was.
25 The net value added obviously on an ETF

1 is going to be very, very close to the index because
2 that's what it is. It's just matching the index. So
3 very unlikely that you're going to see net value added
4 anywhere close to what you see on -- on these -- on
5 these particular items in front of you.
6 So -- so two (2) things. I think that,
7 if I can do an undertaking to complete this table for
8 anyone that we have been involved in during this, you
9 know, period, like when -- whenever we've invested in
10 equities, what has been the -- the performance of the
11 respective manager.
12 And then I -- as comparison, I can show
13 the investment in -- in a passive ETF just to give
14 that -- the sense of what the difference is between an
15 active manager and -- and an ETF.
16
17 --- UNDERTAKING NO. 21: MPI to provide performance
18 of active managers for
19 equities investments and
20 compare that to investment
21 in ETFs
22
23 MS. HEATHER REICHERT: And the last
24 point I guess I'd like to make is you do need to rec -
25 - remember that it is not MPI that is hiring the

1 investment managers. They are contracted directly
2 with the Department of Finance.
3 The Department of Finance is our bond
4 manager, and they are also the ones that contract for
5 investment managers for the rest of our portfolio.
6 MR. REGIS GOSSELIN: Thank you for
7 that. And, you know, I think that if -- if the
8 performance over time of the equity portfolio of MPI
9 has been below par, then clearly it would be up to
10 this panel to make a recommendation to government to
11 rethink the approach on investments. But in any case,
12 before we do that, we need to know what the
13 performance has been over time.
14 And I guess the other point I wanted --
15 I wanted -- I'm interested in exploring is whether --
16 what's the performance of your portfolio relative to
17 the portfolio of other significant funds in Manitoba.
18 And I'm thinking for example of the Teachers'
19 Retirement Fund, University of Manitoba, and the
20 Winnipeg Foundation.
21 You know, those are three (3) that come
22 to mind immediately, and I don't know what their
23 experience has been on equities. And I think that
24 it'd be interesting to see how their performance has
25 been relative to -- to those portfolios and if they're

1 -- you know, if -- if MPI is performing comparably to
2 other investment funds of significant size in the
3 province.
4 THE CHAIRPERSON: Okay. Thank you
5 very much. We'll take a -- oh, sorry. Yes.
6 MR. DAN GUIMOND: Yeah. Sorry. I
7 just have the answer regarding the sixty-eight (68)
8 fatalities. I just want to tell the Board members
9 that when I use the term -- the word "sixty-eight (68)
10 fatalities", the point I was trying to make is that,
11 you know, compared to fatalities in the '90s that the
12 program that we're doing, the loss prevention and the
13 road safety, is going in the right direction. That
14 more Manitobans today are alive because of the work
15 that -- that we're doing with others. So whether it's
16 eighty-five (85) or sixty-eight (68), I still think
17 it's going in the right direction, and that's the
18 point I was making.
19 In terms of the source for the sixty-
20 eight (68) to Mr. -- Byron's question, it comes from
21 the 2014 traffic collision statistical report that was
22 just published October 1 of this year. It's currently
23 on our -- on our website. And for that particular
24 year, which is a calendar fiscal year, there was
25 sixty-four (64) fatal collisions for a total of sixty-

1 eight (68) fatalities.

2 MR. REGIS GOSSELIN: I have another

3 question. It's dangerous asking a question before --

4 between -- between now and -- and -- to prevent you

5 from going to -- to coffee but this morning the -- it

6 was announced that the -- Ontario will be going to --

7 will be undertaking a road test to -- for driverless

8 cars. I'm not sure what the date of implementation

9 is, but in Manitoba if you were to -- if -- if that

10 was to be done in Manitoba, stars would have to align

11 for that to happen.

12 Can you tell us what -- what stars

13 would have to align to make that happen?

14 MR. DAN GUIMOND: We're hoping to be

15 able to make an announcement in the next couple months

16 in terms of aligning stars.

17 MR. BYRON WILLIAMS: Madam Chair, if -

18 - if I might just while I've -- I've got Mr. Guimond

19 on the -- on the mic?

20

21 CONTINUED BY MR. BYRON WILLIAMS:

22 MR. BYRON WILLIAMS: And I appreciate

23 the update very much. Would the Corporation -- would

24 it be able to update then the -- the -- page 28 of the

25 loss prevention document, just in terms of that

1 information which I understand you indicating sixty-
2 four (64) fatal collisions and only sixty-eight (68)
3 -- well, sixty-eight (68) is way too many, but sixty-
4 eight (68) being killed?
5 MR. DAN GUIMOND: If -- if you think
6 it's worth spending the money, we'll -- we'll do it,
7 yes.
8 MR. BYRON WILLIAMS: Yeah.
9 MR. DAN GUIMOND: Do -- do you want us
10 to do it?
11 MR. BYRON WILLIAMS: If you don't
12 mind, sir.
13 MR. DAN GUIMOND: Okay.
14
15 UNDERTAKING NO. 21 ADDITION: MPI to update the
16 loss prevention
17 document in terms of
18 what information
19 they're indicating
20 for the sixty-four
21 (64) fatal
22 collisions with
23 sixty-eight (68)
24 fatalities
25

1 THE CHAIRPERSON: Okay. On that note,
2 we'll take a fifteen (15) minute coffee break, and
3 we'll return at ten (10) to 11:00.
4
5 --- Upon recessing at 10:35 a.m.
6 --- Upon resuming at 10:56 a.m.
7
8 THE CHAIRPERSON: Welcome back, and
9 we'll continue now with Mr. Williams's cross-
10 examination -- sorry, Ms. Reichert, you had...
11 MS. HEATHER REICHERT: Yes, if I may,
12 Madam Chair. I have an answer to the -- the fifteen
13 (15) US equities question posed by Mr. Gosselin
14 earlier. So that fifteen (15) US equities appears on
15 the -- on the report of all of our holdings, that is -
16 - is really just a title. It is the account number
17 that is assigned to US equities by our treasury
18 management system.
19 So we hold units in two (2) different
20 ETFs in the US; one is the Russel -- it replicates the
21 Russell 1000 Value Index, and the other replicates the
22 Russell 2000 Value Index. So that's why you see two
23 (2) lines under the US equities, and it -- we own
24 units and then BlackRock actually holds individual
25 investments in each of the equities.

1 MR. REGIS GOSSELIN: So -- so you're
2 using the two (2) ETFs in the investment manager? Is
3 that -- that the right --
4 MS. HEATHER REICHERT: Two (2) --
5 we're using two (2) --
6 MR. REGIS GOSSELIN: Two (2) ETFs --
7 MS. HEATHER REICHERT: -- ETFs --
8 MR. REGIS GOSSELIN: And one (1) in
9 BlackRock is an investment manager?
10 MS. HEATHER REICHERT: Yeah. So we
11 own units in BlackRock who owns all of the shares
12 replicating either the Russell 1,000 --
13 MR. REGIS GOSSELIN: Okay.
14 MS. HEATHER REICHERT: -- or the
15 Russell 2,000.
16 MR. REGIS GOSSELIN: It seems like
17 paying somebody to buy an ETF is -- you know, you
18 could do it yourself. I mean, you could -- you could
19 ma -- you could buy those yourself. Let's -- let's
20 leave that aside for today.
21 MS. HEATHER REICHERT: Well, it's -- I
22 -- I equate it to being -- owning a mutual fund that
23 might have investments in a whole bunch of different
24 equity, stocks, whatever, and you're just buying a
25 unit of -- of --

1 MR. REGIS GOSSELIN: No, I'm -- I'm
2 just simply saying that, you know, those ETF, I can
3 buy those ETFs directly. And I guess I'm surprised
4 that you would be using an investment manager to buy
5 an ETF that you could buy directly. And I -- maybe
6 I'm missing something, but...
7 MS. HEATHER REICHERT: Okay.
8
9 (BRIEF PAUSE)
10
11 MS. HEATHER REICHERT: Okay, so just a
12 clarification. We actually do buy the ETF directly.
13 It is, BlackRock happens to manage the ETF that we buy
14 directly, so we are buying it directly on the exchange
15 just like you are. It's just that BlackRock is the
16 organization that is holding what we want to hold.
17 So we go, not through them, but we buy
18 it directly from them.
19 MR. REGIS GOSSELIN: They're not
20 getting an investment management fee is what you're
21 saying?
22 MS. HEATHER REICHERT: No.
23 MR. REGIS GOSSELIN: Okay, okay.
24 THE CHAIRPERSON: Thank you, Ms.
25 Reichert.

1 Mr. Williams, would you like to
2 continue with your cross-exam?
3 MR. BYRON WILLIAMS: Yes, thank you.
4
5 CONTINUED BY MR. BYRON WILLIAMS:
6 MR. BYRON WILLIAMS: Mr. Guimond, I
7 wonder if you could turn to MPI Exhibit 19 which you
8 were kind enough to distribute this morning. And --
9 and, sir, first of all, for context, this is a
10 PowerPoint from a presentation you made to the ATA
11 (phonetic) general meeting just a few days ago?
12 MR. DAN GUIMOND: Yes.
13 MR. BYRON WILLIAMS: Thank you. And -
14 - and turning to page 9 of that document, just if you
15 can -- at a high level walking through this, what this
16 particular pa -- slide is showing is the shop
17 distribution across Manitoba with one hundred and
18 forty-four (144) shops in Winnipeg and a hundred and
19 seventy-seven (177) in -- in the rest of Manitoba.
20 Is that correct, sir?
21 MR. DAN GUIMOND: Yes, we have a total
22 of three hundred and twenty-one (321) accredited shops
23 throughout the Province, and that's the distribution
24 between the City and -- and the rest of the Province.
25 MR. BYRON WILLIAMS: Thank you. And

1 if we turn to the next slide, being slide 10, what
2 you're doing with -- on this slide is identifying that
3 out of those three hundred and twenty-one (321) shops,
4 only about one hundred and thirty-two (132) of them
5 are doing more than five (5) jobs per week.
6 Is that correct, sir?
7 MR. DAN GUIMOND: Yes.
8 MR. BYRON WILLIAMS: And the breakdown
9 of the -- the shops doing more than five (5) jobs per
10 week is eighty-two (82) in Winnipeg and fifty (50) in
11 Manitoba, and the rest in Manitoba?
12 MR. DAN GUIMOND: Yes, based on 2013
13 activity.
14 MR. BYRON WILLIAMS: Okay, thank you.
15 And -- and just if we contrasted that with the -- the
16 previous page where we saw that there were more shops
17 in -- in Manitoba, go back to page 9 for a moment,
18 Diana, being one hundred and seventy-seven (177) as
19 compared to Winnipeg, you'll -- you'll agree that by
20 the time we get down to shops doing more than five (5)
21 jobs per week, Winnipeg is starting to pull away in
22 terms of the shops that are doing that, agreed?
23 MR. DAN GUIMOND: Yes.
24 MR. BYRON WILLIAMS: And if we go to
25 what I believe is slide 11, shops doing more than ten

1 (10) jobs per week, Mr. Guimond, this illustrates that
2 out of the three hundred and twenty-one (321) in
3 total, there are sixty-two (62) shops doing ten (10)
4 jobs per week based on 2013 activity, agreed?
5 MR. DAN GUIMOND: Yes.
6 MR. BYRON WILLIAMS: With fourteen
7 (14) of those being in Mani -- in the rest of Manitoba
8 and forty-eight (48) being in Winnipeg?
9 MR. DAN GUIMOND: Yes.
10 MR. BYRON WILLIAMS: And just focusing
11 on the rest of Manitoba, if we look to the -- the
12 northern region which I'll define for you as being The
13 Paw, Flin Flon and Thompson, there was only one (1)
14 shop in -- in this region doing ten (10) jobs per week
15 in 2013 -- based on 2013 activity?
16 MR. DAN GUIMOND: That is correct.
17 MR. BYRON WILLIAMS: And similarly,
18 moving down the west side of the province, again, we
19 only have one (1) shop within the Parklands region
20 doing at least ten (10) jobs per week in 2013?
21 MR. DAN GUIMOND: Yes, and it's --
22 it's also important to say that this is based on the
23 MPI business we bring to the repair industry. Whether
24 they do other things on their own, that's -- but based
25 on the repairs we bring to the industry, yes.

1 MR. BYRON WILLIAMS: Yes. And -- and
2 that's a fair statement, sir. It -- it would also be
3 fair to say that in terms of the health of the
4 industry, repair jobs from MPI is -- are very
5 important to the overall health of the industry in --
6 in Manitoba?
7 MR. DAN GUIMOND: It's actually key.
8 MR. BYRON WILLIAMS: Key. And you're
9 the dominant player in terms of funding repairs,
10 agreed?
11 MR. DAN GUIMOND: Agree.
12 MR. BYRON WILLIAMS: On to the next
13 slide, which I'm not sure which page it is anymore,
14 Mr. Guimond, for which I apologize.
15 Out of the three hundred and twenty-one
16 (321) shops in Manitoba and based on 2013 activity,
17 there were only twenty-one (21) doing more than twenty
18 (20) jobs per week, agreed?
19 MR. DAN GUIMOND: Yes.
20 MR. BYRON WILLIAMS: And all those
21 were -- were in -- in Winnipeg?
22 MR. DAN GUIMOND: Correct.
23 MR. BYRON WILLIAMS: Okay. And
24 finally we're to the -- to the next slide. And this
25 slide suggests that of the three hundred and twenty-

1 one (321) shops in Manitoba there were only nine (9)
2 doing more than thirty (30) jobs per week based on
3 2013 activity, agreed?
4 MR. DAN GUIMOND: Agree.
5 MR. BYRON WILLIAMS: Again, all from
6 Winnipeg?
7 MR. DAN GUIMOND: Yes.
8 MR. BYRON WILLIAMS: And, Mr. Guimond,
9 in -- in terms of the -- the numbers you chose, being
10 the five (5) jobs per week up to thirty (30) jobs per
11 week, in the PDR of the future, is there a certain
12 volume, as you look forward that -- that you see that
13 shops need to be sustainable going forward?
14 MR. DAN GUIMOND: Don't know the
15 answer specific to that. I can say that based on the
16 health of the industry report that we shared with --
17 with the panel, I believe it was last year, that MPI
18 to keep the industry healthy, that -- that we agree
19 that the -- we both agreed that 8 percent profit is
20 critical. Now, how people run their business and --
21 and efficiency, productivity and so on. But when we
22 did the health of the industry, if you did five (5)
23 cars per week you should be able to stay in business.
24 With the future investments required by
25 the structural change that's happening in the auto

1 business, we saw the Ford 150, for example, aluminum
2 that came out in January. You need to spend about a
3 hundred and twenty (120) to two hundred thousand
4 dollars ($200,000) to -- to be able to repair a Ford
5 150 aluminum.
6 If you want to repair a composite, if
7 you want to be certified, like Porsche certified, BMW
8 certified, Volkswagen certified, Toyota certified, you
9 have to invest money. And each manufacturer require a
10 -- a certain amount of money to be certified. The
11 other thing that -- that we're making people aware is
12 -- is that manufacturers, in terms of having your
13 vehicle repaired, like the leasing programs, for
14 example, or -- or warranties are tied to making sure
15 that if you have a -- your vehicle needs warranty or
16 repair that it's done at a certified shop or a
17 qualified shop.
18 So what we're trying to do -- the
19 purpose of the meeting I went to that -- that night
20 was to be able to say, This is the distribution of the
21 shop. This is what's happening. And as we continue
22 to negotiate that contract next year, what are the
23 implications to you. What are the implications to our
24 customers and how do we find a solution to be able to
25 serve our customers and go back to that goal that we

1 set for ourselves, the joint working committee, is
2 that a vehicle repaired by an MPI credited shop if
3 it's been involved in an accident, again, and somebody
4 gets killed or injured, it's not because that vehicle
5 wasn't repaired to OEM spec.
6 I think that's the expectations of our
7 customers and -- and it's not because people cut
8 corners and all that stuff. So -- so now it's helping
9 the industry to make decisions for themselves in terms
10 of what they want to do, how can we help, how can we
11 work together to make sure our customers are served
12 and we get that goal.
13 MR. BYRON WILLIAMS: Mr. Guimond, you
14 mentioned the -- the health of the industry survey
15 that you respon -- you provided in response to a CAC
16 Information Request last year. And you'll agree that
17 that was a -- a 2013 report by MNP based upon
18 information current to 2012?
19 Is that right, sir, subject to check?
20 MR. DAN GUIMOND: Subject to check,
21 yes, but -- yeah.
22 MR. BYRON WILLIAMS: And -- and just
23 for my client's understanding, sir, is there currently
24 a -- an update on that report being undertaken? Is
25 there a 2016 health of the industry report coming?

1 MR. DAN GUIMOND: No, no.
2 MR. BYRON WILLIAMS: Mr. Guimond, just
3 finally, and I thank you for your patience in going
4 through this document with me, if we go to slide 14,
5 you'll see a -- a slide titled Large Scale.
6 Do you see that, sir?
7 MR. DAN GUIMOND: Yes.
8 MR. BYRON WILLIAMS: And is this a
9 Manitoba example?
10 MR. DAN GUIMOND: I believe so, but we
11 didn't want to name who it was.
12 MR. BYRON WILLIAMS: And -- and, sir,
13 in terms of the -- the scale -- well, let me back up.
14 And I don't want to know the name either, but is it a
15 -- I presume it's a Winnipeg example. And if you
16 don't know, that's fine, sir.
17 MR. DAN GUIMOND: Yeah. I'd rather
18 not say, yeah.
19 MR. BYRON WILLIAMS: Yeah, that's
20 fine. What was the purpose of this slide? What's the
21 message of this slide that you're trying to convey,
22 sir?
23 MR. DAN GUIMOND: The discussions
24 we're having with the repair industry is, if the
25 number -- well, first of all, we have to -- I'll step

1 -- I'll step back a little bit.
2 MPI, if you look at the vehicles we
3 insure today, approximately -- and Luke may be -- it's
4 -- approximately 66 percent of our fleet is -- is in
5 Winnipeg just because of the population distribution.
6 Now, if we look at what's happening to
7 the structural change in the auto industry, and you're
8 into these certified repaired, qualified repaired, and
9 every year there's new materials, there's new
10 computers, there's new tech -- training, tools,
11 facilities. What does it mean from an investment
12 perspective just by the geography of where the
13 vehicles are?
14 So for the first time in -- in MPI's
15 history, and we've openly stated that, we will not be
16 able to bring every repair shop along. It doesn't --
17 we cannot invest -- ratepayers will not spend for Ford
18 aluminum -- Ford 150 aluminum spend a hundred and
19 twenty (120) to two hundred thousand ($200,000) in the
20 two hundred and ninety-seven (297) accredited shops.
21 We're just not going to do that.
22 So what's going to happen as time comes
23 by for consumer awareness and protection is that, you
24 know, you'll see next year a mobile app that's going
25 to say, For a Manitoban, if I have this vehicle, those

are the shops that can repair your vehicle.

Like right now, for BMWs, for example, there's two (2) shops in Manitoba that are certified. So those are the two (2) shops' names that are going to show up on your mobile app.

So we have to work with the industry to say, If you can't grow, if you can't -- if you don't think you'll be able to get market share to pay for all your investment, are there things we can do to help each other out? Like, how do we serve our customers?

Because the heterogeneous model that we had for all these years is gone. It's been fragmented. We can't bring all the shops along with us. So now how do we deal with that reality? How do we serve our customers? How do we meet our goal that a vehicle is -- is promptly repaired?

And -- and that's all about these negotiations that are happening next year. And -- but we've been talking about it for three (3) years now, and we're doing all these pilots, and now we're just going to find a solution that -- that works for our customers, works for the repair industry, and works for MPI.

MR. BYRON WILLIAMS: Thank you. And

1 we'll come back to the PDR, but not -- probably not
2 till this afternoon, sir.
3 Mr. Guimond, sticking with you for a
4 little bit, in your opening evidence -- must seem a
5 long time ago, but last Monday -- would it be correct
6 to say that you expressed an openness to entering into
7 a dialogue with the Public Utilities Board in terms of
8 Public Utility Board mandated performance objectives
9 that might be the part of the future regulatory
10 filings of Manitoba Public Insurance?
11 MR. DAN GUIMOND: Not quite that far.
12 I -- I opened the door to understand what would make
13 sense. Like - - and I -- I would love to talk to you
14 more about benchmarking in terms of, What is a public
15 auto insurance? When you look at key numbers, what --
16 what numbers -- if we're doing our job as a public
17 onto -- auto insurer well, what are the numbers you
18 should be looking for and how do you know that what
19 we're doing makes sense? Okay.
20 Like I -- I'd be more than willing to
21 talk to the panel this year about some of the material
22 we put in the Rate App so we can connect the dots and
23 say, This is why as a public auto insurer we're doing
24 okay. I'd be interested to hear some feedback once we
25 have that dialogue as, Do you -- do you -- does it

1 resonate with you? Does it make sense to you? Right.
2 So when you talk -- look at key -- key
3 measures on return on investment per employee, for
4 example, or if you look at the number of staff you
5 have, the number of claims you're processing, where
6 you're spending your money, there's some really key
7 things from a public auto insurance perspective that
8 you should be -- that -- that it's important for
9 people like me to pay attention to. And -- and for
10 you to be aware of it and say, Well, okay, now I know
11 you're doing okay. Right. Because it's different
12 than the private sector.
13 MR. BYRON WILLIAMS: So I
14 inadvertently tried to push you too far, did I, Mr.
15 Guimond?
16 MR. DAN GUIMOND: I just clarified
17 what I said.
18 MR. BYRON WILLIAMS: Sir, are you
19 aware of any other reg -- regulators, whether auto
20 insurance or otherwise, who are asking utilities or
21 insurance companies to -- to have performance --
22 performance measures?
23 MR. DAN GUIMOND: No, I -- I'm not
24 aware of that, no.
25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: So in -- in
4 preparing your statements on last Monday you wouldn't
5 have looked, for example, to the -- what the Ontario
6 Energy Board does in terms of performance measurement?
7 That's not something you're familiar with?
8 MR. DAN GUIMOND: No. And -- and I'm
9 really focused on the Manitoba -- what we do in
10 Manitoba. What's our mandate? What's our role? What
11 do people expect of us. And I think as a society,
12 every society has different values or different needs,
13 and it's important to be in touch with your customers.
14 And I don't -- I think it might be
15 important to -- to do like what we've been putting in
16 the record, like the CRO scorecard with Gartner, to
17 put things like -- like the -- with -- with the word
18 'benchmarking' and so on. But it's really about the
19 Manitoba solution, and it's very important to keep
20 focusing on that and doing things that resonate with
21 our customers.
22 MR. BYRON WILLIAMS: Mr. -- Mr.
23 Guimond, in terms of having a bit more of a chat, as
24 you say, a talk with the Public Utilities Board, can
25 you give my client some insight into your objectives?

1 Is this about better communication? Is it about
2 trying to have performance indicators that stand as a
3 proxy for more extensive regulatory scrutiny? Just if
4 you can give me a sense of that, Mr. Guimond, that
5 would be helpful.
6 MR. DAN GUIMOND: Yeah. Just one
7 moment, please.
8
9 (BRIEF PAUSE)
10
11 MR. DAN GUIMOND: When I became
12 president and CEO, I wanted to be able to show that
13 MPI takes into consideration feedback that we get and
14 that we pay attention to what people tell us. And I
15 wanted to be able to demonstrate that -- that we have
16 a mandate, we meet our mandate, but at -- at the same
17 time, be respectful maybe of people's opinions or
18 things that are important to them.
19 So when it comes to the -- the
20 regulator, things I heard was, like, value. Value for
21 money, for example, is something I heard. So I
22 thought that benchmarking would be good. I also
23 thought sharing the office of the auditor general
24 audit on BI3 would be good because that was a value-
25 for-money audit, for example, so.

1 And at the same time, when we talk
2 about rate settings, like, approving rates, I think
3 it's important to relate back to who we are and what
4 we do and how do you have -- what is the success of
5 public auto insurance. So we have our seven (7) goals
6 in our strategic plan, you know, like -- like, when I
7 go see my boss, Did you meet your seven (7) goals, our
8 people getting what they're entitled to by law on BI3,
9 for example.
10 So if you look at the benchmark for
11 BI3, for example, in 2010, when I talk to my staff I
12 don't say, hey, you got to meet the 2010 benchmark or
13 less. That's not how I define success. If you look
14 at technology progress, if you look at -- at the
15 medical improvements that's been done, today, you
16 know, a quadriplegic, yeah, we'll -- we'll give them a
17 wheelchair with a straw that -- and a computer that
18 can open doors so they can go out on the deck or
19 inside the house or they can open the TV or they can
20 go and read a book online, like, voi -- you know,
21 like, there's a lot of stuff that you need to do that
22 it wasn't able to do. And I'll go into that a little
23 bit more probably when we talk about BI3.
24 But if we look at Volume I, for
25 example, the benchmarking section, page 27. I was

1 wondering if maybe we could put that up there.
2
3 (BRIEF PAUSE)
4
5 MR. DAN GUIMOND: So do I meet my
6 mandate? Do I have the support of my stakeholders?
7 Do I have the support of my board of directors? Do I
8 have the lowest premium across Canada? And then what
9 are the difference between, you know, when you think
10 of a public auto insurer versus private sector, if you
11 look on the slide, the FTEs per 100 million of gross -
12 - gross pre -- premium written?
13 You know, if I was in the private
14 sector and I look at the one forty-eight (148) I'd
15 say, ooh, that's bad, right. It's the inverse
16 expectation when you go to school and when you do your
17 'B' column. When you do that, that's good because
18 that's what a public auto insurer should be doing.
19 So in your minds, like, are you -- when
20 you look at these numbers are you saying, yeah, that's
21 right, because he's not in a private -- it's because
22 MPI is not a private sector that number should be
23 higher than when you benchmark against the other ones?
24 If you look at the claims, FTEs per one hundred
25 thousand (100,000) reported claims you can see how our

1 productivity is good, how we can process a lot more
2 claims with fewer people, right? That's good.
3 Now -- now they have economies of
4 scale. They have efficiency. The have productivity,
5 right? The management, the staff per one hundred
6 (100) reported claims, right, better productivity,
7 better efficiency. We process a lot of claims. We're
8 one (1) of the highest jurisdiction that -- that
9 claims. Like, we claim more than anybody else.
10 And going back to -- so when you look
11 at -- but you look at the total expense per claims,
12 right, look how low it is. It's very important to
13 understand when you go to school and you -- you -- the
14 ratios for success in the private sector and the
15 ratios for success in the public sector your
16 expectations should be different. It's important to
17 understand that.
18 And -- and then the numbers that we
19 use, those are key numbers for me that are very
20 important. And when I say I open it up, well, does it
21 resonate with you that I focus on these numbers?
22 Like, do -- do we have an idea of what success looks
23 like and what are we after? Those -- those are key.
24 If -- if you're not able to have -- if
25 you're not able to process more claims -- we're not

1 about denying claims. We don't find an excuse to deny
2 claims. And going back to our mandate in terms of
3 economic, you know, when I put that slide that we
4 spent a billion dollars a year in the economy and
5 create jobs, that's why I don't have a deductible of a
6 thousand dollars ($1,000) like Alberta.
7 We want to fix the cars. We want to
8 make sure they're safe. We want to create jobs. We
9 want to be the lowest premium across Canada, but it's
10 an ecosystem with the medical industry, with the
11 repair industry, with the doctors, the -- the chiros
12 and so on.
13 So it's -- it's very important that we
14 define success. So success to me is make sure you
15 meet your seven (7) goals, make sure you have one (1)
16 of the lowest premium across Canada, make sure you
17 have rate predictive and stability.
18 That's key, but that's sensitivity in
19 that regression analysis I shared with you last year.
20 And I can bring to you the support of my business
21 partners, my board, Crown corporation counsel, and the
22 Government of Canada for what I've put on the table
23 this year.
24 So that's the dialogue that I think is
25 important to have is: What is success? What is

1 public auto insurance about? What is it supposed to
2 do? And when I -- when we come here for the rates,
3 you know, at the end of the day are -- are you -- are
4 you getting, you know, value?
5 And so we're showing you, like whether
6 it's investment, you saw value this morning. Whether
7 it's the Office of Auditor General auditing us on BI3,
8 you saw you got value. We're showing you value
9 through our benchmarks. We're showing you that we're
10 meeting our mandate and we're -- that we're resonating
11 with Manitobans.
12 So those are the kind of discussions
13 I'm talking about.
14 MR. BYRON WILLIAMS: Thank you. And -
15 - and, Mr. Guimond, success for me is making sure I've
16 -- I've got my cross done by noon tomorrow. So I knew
17 this issue was important to you, so I -- I wanted to
18 make sure you had an opportunity to express yourself.
19 And understanding your objectives, sir,
20 would you agree with me that the -- a Board Order
21 itself is kind of an awkward mechanism to have that
22 kind of dialogue?
23 MR. DAN GUIMOND: I'm not sure what
24 the right answer is to that question, but I will say
25 this: That not being part of these processes until

1 very recently, that we have had a deficient -- and it
2 doesn't matter why, but we have had deficiency in
3 premium. We have had deficiency in capital.
4 There's a lot of stuff going on in the
5 world that's bad, there's a lot of -- in -- in the
6 financial markets, a lot of stuff happening in the
7 manufacturing, the auto manufacturing business.
8 And I think it's very important that,
9 whatever happens on a go-forward basis -- because I'm
10 not kind of a rear-view mirror kind of guy, I -- I
11 kind of focus on the future -- that what I'm trying to
12 do is put a solution on the table that you know I've
13 got the support of my business partners, the
14 government, the board, Crown corporation counsel.
15 I can -- we can have rates that are
16 predictable and stable while at the same time dealing
17 I think openly with maybe some concerns that the
18 regulator had about value for money and safety which I
19 think we're addressing, maybe the BI stuff. But I
20 think the -- you know, the audit of the Office of the
21 Auditor General might -- might help to alleviate some
22 of those concerns.
23 But -- but we've got to -- I really
24 think that we've got to work together to ensure the
25 long-term success of -- of public auto insurance. And

1 if we don't have rates that are predictable and stable
2 and we don't find a solution on a go-forward basis,
3 that -- that we may very well be in a lot of trouble
4 in a few years from now. That -- that's very
5 important.
6 MR. BYRON WILLIAMS: Mr. Guimond, on
7 that theme of working together and focusing you
8 exclusively on the issue of getting a mechanism for
9 robust benchmarks that are -- are acceptable to the
10 Board, I wonder if you've considered some sort of
11 working group led by the Board and looking at
12 performance-related -- related benchmarks and -- and
13 developing some consensus around them.
14 Is the Corporation open to that, or --
15 or is it -- is the Corporation driven by its -- its
16 own benchmarks?
17 MR. DAN GUIMOND: No, I wouldn't be
18 open to that because benchmarks are dynamic. I'll
19 give you some examples of what I mean by that in 2010
20 to now.
21 When I look at the benchmark of the BI3
22 business in 2010, when people come to me and we say
23 like medically required, right? If you look at our
24 legislation, 'medically required,' and then you look
25 at what's happening with technology.

1 So give you some examples. I got a
2 customer, got a brain injury. Can cope pretty much by
3 himself but doesn't know that he has to eat. Left to
4 his own devices he'll starve himself to death.
5 Doesn't know that he needs to eat or drink. So now
6 today, you know, with doctors and technology, we can
7 have an association through training as to when it's
8 time to have a glass of water or when it's time to
9 eat.
10 So -- so we do that now. We -- we
11 didn't do that in the past with -- the technology
12 wasn't even there to -- to do that kind of stuff. So
13 I'm not going to say, no, to that. Look at technology
14 -- wheelchair technology, and be able to just -- just
15 hold your -- yourself like that just for one (1)
16 minute, and the only thing you can do is move your --
17 your head. Well, if I can give you a wheelchair with
18 computers, and you can open your doors and go on the
19 deck, or get inside, or put the TV on, or -- mobility,
20 right, we're -- we're going to do that. Couldn't do
21 that like ten (10) years ago.
22 I look at -- at this thing here, 2006,
23 iPad, iPhones, big data, Internet of things,
24 digitization of things, didn't even exist. Didn't
25 even exist. So now what we're going to do is we're

1 going to keep doing what's right for our customers,
2 and we're going to be giving you more and more
3 benchmarking so you can compare us.
4 And we're going to be doing more and
5 more explanation maybe of deviation of benchmarks over
6 time because of changes in the medical industry, and
7 the changes in the technology to understand why it's
8 different. And I think what's important to me is also
9 to really understand how we define success of public
10 auto insurance because your rates will make a
11 difference as to whether -- the rates that you approve
12 will make a difference if we're successful or not.
13 MR. BYRON WILLIAMS: Okay.
14 MR. DAN GUIMOND: But what you're
15 suggesting -- having, you know -- no, that's not
16 something we'd be looking into.
17 MR. BYRON WILLIAMS: Okay. And just
18 so I'm clear and just for a 'yes' or 'no' answer,
19 you're indicating that the -- MPI is not interested in
20 a PUB led working group on benchmarker -- benchmarks
21 to develop criteria acceptable for the Board to give
22 guidance in rate setting? Just so I have your answer.
23 MR. DAN GUIMOND: That's correct
24 because the benchmarking, when you look at Ward, or if
25 you look at Gartner and so on, they -- they have those

1 -- those benchmarks, the -- the industry stuff that's
2 being done. And if we start to do homegrown
3 solutions, then you lose the ability to benchmark. So
4 -- so you got to -- you got to -- so, no, I'm not in
5 favour of that at all.
6 MR. BYRON WILLIAMS: And not to be
7 argumentative, sir, but when I referred you to the
8 actions of other jurisdictions, you did say that you
9 really wanted to focus on the Manitoba experience. Do
10 you recall that?
11 MR. DAN GUIMOND: Yes.
12 MR. BYRON WILLIAMS: Okay. Diana, I
13 wonder if you could turn to transcript page 542,
14 please?
15
16 (BRIEF PAUSE)
17
18 MR. BYRON WILLIAMS: And down to line
19 15 to 23. And, Mr. Guimond, this is you again. And I
20 want to run through a bit of your discussion with Ms.
21 Neville, and then I'm going to have some questions
22 about it. So I -- right to -- to move things a little
23 more expeditiously I'm going to refer the quote to
24 you, and then we'll come back and ask some questions,
25 okay, sir?

1 And you recall having a conversation
2 with Ms. Neville about the challenges the Corporation
3 was suggesting it was having in terms of moving to
4 more internal staff and -- and fewer external FTEs.
5 Do you remember that conversation, sir?
6 MR. DAN GUIMOND: Yes, I do.
7 MR. BYRON WILLIAMS: And one of the
8 concerns you're expressing in this paragraph, being
9 lines 15 to 23 on page 542, is -- is that -- that
10 there would be public resistence to some of the
11 salaries that you might have to pay. Is that fair,
12 sir?
13 MR. DAN GUIMOND: Yes. When it comes
14 to public sector, that -- that the public has a
15 certain view of things that -- that we just have to
16 respect at this point in time.
17 MR. BYRON WILLIAMS: And turning to
18 page 543, lines 7 and 8, you're expressing the view
19 there, without asking you to elaborate, that you would
20 be further ahead if you could do more int -- internal
21 if the public was willing to pay, agreed?
22 MR. DAN GUIMOND: Yes, I think that's
23 a definite possibility.
24 MR. BYRON WILLIAMS: And towards the
25 bottom of this paragraph you express the opinion that

1 the public is not willing to acce -- accept an IT
2 architect, for example, making two hundred thousand
3 dollars ($200,000) a year, correct?
4 MR. DAN GUIMOND: Or more, yes, that's
5 correct.
6 MR. BYRON WILLIAMS: Yes. And just
7 going down to the next paragraph, you suggest that
8 your chief technical officer you can't even put him on
9 the payroll and that she or he probably makes more
10 than you do.
11 Do I have that statement generally
12 stated -- correctly stated?
13 MR. DAN GUIMOND: Yes, in -- in the
14 private sector your -- your chief -- or I call it a --
15 a chief architect or a -- a chief transformational
16 officer, these people make -- make a lot of money and
17 they'll make more than -- than even the executives are
18 -- are making in the private sector, yes.
19 MR. BYRON WILLIAMS: And finally, to
20 page 544, lines 3 to 9, you're making the point here
21 that you're hiring consultants because you can't
22 afford, based on your pay scales, to put these folks
23 on internal salaries.
24 Is that correct?
25 MR. DAN GUIMOND: Yes, that's a -- a

1 challenge that we're currently facing, yes.
2 MR. BYRON WILLIAMS: And just so I
3 understand, sir, is -- is your current or vice
4 president IT and business transformation and the chief
5 -- and CIO, is that still Mr. Bunko?
6 MR. DAN GUIMOND: Yes.
7 MR. BYRON WILLIAMS: And subject to
8 check, he would have made about a hundred and seventy-
9 seven dollars ($177,000) last year plus benefits?
10 That -- that's on the record through the PU -- CAC-
11 150.
12 MR. DAN GUIMOND: Subject to check,
13 yes. It's published in the -- in the report, sir.
14 That -- that resinates with me, that number,
15 approximately, yeah.
16 MR. BYRON WILLIAMS: And would it also
17 be correct to suggest that he was once a consultant
18 for MPI?
19 MR. DAN GUIMOND: I -- I don't recall
20 that, no. No.
21 MR. BYRON WILLIAMS: Going back to
22 that line on page 543, lines 14 to 15, when you say
23 you can't put your chief technical officer on your
24 payroll, do you mean you can't put him on the payroll
25 because of optics?

1 MR. DAN GUIMOND: No, our -- our pay
2 scale in terms of relativity of the jobs and the
3 integrity of the -- of -- of the -- of how our pay
4 scale works, we're not able to hire somebody with --
5 with the pay that we would pay for that job. It's --
6 the private sector pays too much money for those
7 people.
8 MR. BYRON WILLIAMS: And -- and does
9 this individual, she or he, work for MPI full-time as
10 an external contractor?
11 MR. DAN GUIMOND: Yes.
12 MR. BYRON WILLIAMS: And do they
13 report to the chief technical officer?
14 MR. DAN GUIMOND: No, the chief
15 technical officer, which is the person that we have to
16 hire externally because of the relativity of our pay
17 chart that we can't put them on our payroll, reports
18 to the CIO. Dotted line to the CIO with a direct
19 report to the business transformation executive
20 director.
21 MR. BYRON WILLIAMS: And -- and if you
22 can't answer this this is fine, but when you suggest
23 that he -- he or she is probably making more than you,
24 was that a hyperbole or was that a fact?
25 MR. DAN GUIMOND: I don't know, but I

1 do know when I was in the private sector those people
2 made a lot of money for a size of the company we do,
3 so that's where it comes. My -- my experience in the
4 private sector when I was in the private sector and
5 what we paid for these people, we -- we paid quite a
6 bit of money for them. And I don't want to make this
7 about my salary. It's irrelevant.
8 MR. BYRON WILLIAMS: I wasn't
9 interested in your salary, sir. I was just interested
10 in whether you were using that for hyperbolic purposes
11 or -- or whether you were making a statement of fact.
12 You indicate just above on page 543 that you would be
13 farther ahead if internal.
14 Do you recall that statement, sir?
15 MR. DAN GUIMOND: Yes, I believe we
16 would be. And the 'I believe' is important. But,
17 yes, I do sincerely believe that we would be further
18 ahead from a bottom line perspective if we could hire
19 more people on the payroll than hire all -- the way we
20 do it right now, yes.
21 MR. BYRON WILLIAMS: And you would be
22 staying farther ahead, sir, like, in terms of the
23 basis for that conclusion. Is that because you would
24 be saving on salary or you would be retaining the
25 knowledge internally? What's the basis for your

1 suggestion you would be farther ahead?
2 MR. DAN GUIMOND: The knowledge, I --
3 I am not too focused on that because today you have to
4 have a lot of documentation and so on because these
5 people tend to -- to work on a project, and it's not
6 uncommon for them to go work on something else. It's
7 not uncommon for them, especially with today's world,
8 like, if there's an interesting project in -- in
9 another part of the world that they can work from
10 Winnipeg and work on that interesting project, so
11 they'll go based on their own -- so the -- the
12 internal knowledge is not as critical because you have
13 to document in today's world.
14 And we know the young people now, they
15 -- they have -- they never stay at -- at the same
16 place, like, for thirty-four (34) years. Like, those
17 days are gone.
18 But from a dollar perspective, right,
19 if you could have somebody where you -- you would
20 avoid, for example, the profit that the -- the person
21 -- or the general administration fee, you could avoid
22 that, as well. And then if you paid the salary that
23 was market value, you -- you would be able to be ahead
24 from a dollar perspective because you're avoiding the
25 G&E, you're avoiding the profit, and you're able to

1 pay market value for that -- for that person.
2 MR. BYRON WILLIAMS: And, sir, in --
3 in terms of the external FTEs that you might wish to
4 bring in-house, are we talking less than ten (10),
5 more than ten (10)? What kind of numbers are we --
6 are we talking about where you feel there would be
7 that value proposition?
8 MR. DAN GUIMOND: We'd have to do an
9 analysis on that for -- to know the specific numbers.
10 MR. BYRON WILLIAMS: Perhaps we can
11 turn to PUB Information Response 1-17.
12
13 (BRIEF PAUSE)
14
15 MR. BYRON WILLIAMS: And specifically,
16 page 3. And I should note Ms. Desorcey has -- has
17 joined us. To the MPI panel, what this table compares
18 is the pre-BI3 -- let me back up for a minute.
19
20 (BRIEF PAUSE)
21
22 MR. BYRON WILLIAMS: A central
23 objective of MPI is to assist claimants with returning
24 to the pre-accident status in a timely manner, agreed?
25 MR. DAN GUIMOND: Agree.

1 MR. BYRON WILLIAMS: It's important to
2 the physical and mental health of the applicant if
3 it's possible?
4 MR. DAN GUIMOND: Yes.
5 MR. BYRON WILLIAMS: It's also a
6 important aspect of risk reduction -- financial risk
7 reduction, agreed?
8 MR. DAN GUIMOND: Yes.
9 MR. BYRON WILLIAMS: And that's
10 because much of the risk is in -- in long-tailed
11 claims. Much of the Corporation's financial risk is
12 long-tailed ca -- claims?
13 MR. DAN GUIMOND: The -- the -- from
14 my perspective, the risk is a triage on day 1 to
15 really to know what you're up against. That's why we
16 went with the ICD-10 codification. Now you know what
17 kind of injury.
18 And then to have the Presley Reed
19 statistics to be able to show, based on this
20 codification -- this is the -- the best outcome in
21 terms of recovery, like in going back to work, if you
22 can go back to work. This is kind of the average, and
23 this is where it can go off the deep end kind of
24 thing.
25 So that's where the risk is,

1 identifying what are you up against, and really
2 helping that customer to recover and -- and be able to
3 -- in -- in some cases, you have to go back -- the
4 faster you go back to work, the better it is for you.
5 But the risk is proper codification of
6 the loss, and then the rehab management plan for that
7 customer based on that information. If you got that
8 wrong, that's where the risk is.
9 MR. BYRON WILLIAMS: Apart from the
10 mental and physical health of the -- of the claimant,
11 there -- the -- for the Corporation, if someone's
12 staying on the system longer than they need to be,
13 there is a financial consequence, agreed? There's
14 leakage.
15 MR. DAN GUIMOND: If you have
16 something that -- that doesn't go according to the
17 rehab plan and you can't -- you don't understand it or
18 you can't -- yeah, that's -- that's -- that would not
19 be good.
20 MR. BYRON WILLIAMS: There's leakage,
21 and there's a cost to the Corporation from that
22 leakage, agreed?
23 MR. DAN GUIMOND: Assuming there's no
24 explanation for it, yes.
25 MR. BYRON WILLIAMS: Okay. And one

1 (1) of the key benchmarks that MPI monitors is claims
2 retention, agreed?
3
4 (BRIEF PAUSE)
5
6 MR. DAN GUIMOND: I'll pass it on to
7 Mr. Johnston.
8 MR. LUKE JOHNSTON: Yes, it is.
9 MR. BYRON WILLIAMS: And what this
10 table shows is the -- a comparison in terms of the
11 income replacement claims where payments have been
12 made during various stages of development relative to
13 the historical pre-BI3 trends, agreed?
14 MR. LUKE JOHNSTON: Maybe just to
15 assist the Board, some of these tables are com --
16 complicated. But there's a data loss column. So when
17 -- when did the claim happen?
18 And the active claim just is
19 indicating, again from actuarial perspective, I'm
20 counting claims where we're paying money. So we're
21 paying money on these claims at -- at that point in
22 time, and all we're doing is looking back in time,
23 saying, How -- what percentage of our total IRI claims
24 were we paying money on at that point in time? So one
25 (1) year later, two (2) year later, three (3) year

1 later.

2 So similar to the discussion we had

3 earlier about mortality rates, same idea. How many

4 claims do you have open? How many do you continue to

5 pay?

6 MR. BYRON WILLIAMS: And, Mr.

7 Johnston, when you use the term "IRI", that's related

8 to income replacement indemnity, which -- which is out

9 of accident benefits, WI.

10 Is that how you capture it in the

11 claims incurred?

12 MR. LUKE JOHNSTON: That's right. And

13 the reason we consistently look at income replacement

14 is because the benefits are -- are usually relatively

15 clear and consistent, unlike medical expense payments

16 or personal care payments with -- which fluctuate.

17 You get the term in for IRI, and you

18 have a continual income replacement stream. And then

19 when you're back to work, it -- it stops. So it --

20 it's the most consistent, easy thing for us to measure

21 in terms of claims duration.

22 MR. BYRON WILLIAMS: And when you --

23 focusing your attention on the second and third column

24 to the -- the word "benchmark", the benchmark that's

25 employed here is the pre-BI3 initiative benchmark.

1 Is that right, sir?
2 MR. LUKE JOHNSTON: That's right. So
3 for the 2010 example, pre-BI3 we would say claims at
4 that age, so as of the end of the '14/'15 year, that
5 would be five (5) years old. I think I'm counting my
6 fingers right again. Typically, we have about 3.34
7 percent of those claims still receiving payment from
8 that year.
9 MR. BYRON WILLIAMS: And -- and moving
10 over to the actual column that's based on the -- the
11 post BI3 experience and there, using your example of
12 2010/'11, you have a higher number of active claims
13 being one hundred and four (104) as compared to the
14 benchmark of sixty-four (64), agreed?
15 MR. LUKE JOHNSTON: Agreed.
16 MR. BYRON WILLIAMS: For that
17 particular -- for that particular year, you're
18 carrying 5.4 percent of the -- of the claimants on
19 with weekly indemnity as compared to the pre-BI3
20 benchmark of three point three-four (3.34)?
21 MR. LUKE JOHNSTON: Yes, and I -- I
22 talked a little bit about this last week. Initially
23 when BI3 was implemented, I -- again from actuarial
24 perspective I need -- I care about the -- how claims
25 develop, how many remain open, how much money we pay,

1 so this analysis is really part of the actuarial
2 exercise.
3 What we've found as the years have past
4 is that the actuals aren't changing. Like they're
5 remaining at a level above pre-BI3, and that's despite
6 consistent work with the claims division. And they
7 say they're follow -- you know, they're meeting the --
8 the targets that they have with the new ICD-10
9 guidelines.
10 So we're spending more time now
11 understanding what's changed, both from how they
12 access claims but also other policies in terms of what
13 claims maybe we pay today that we didn't pay pre-BI3,
14 et cetera. And I think -- one second.
15
16 (BRIEF PAUSE)
17
18 MR. DAN GUIMOND: I'm just trying to
19 find the exhibit number for this one here.
20 MR. BYRON WILLIAMS: It's CAC-12.
21 MR. DAN GUIMOND: CAC-12? So if we
22 could go to Exhibit CAC-12?
23 MR. BYRON WILLIAMS: Well, hold on,
24 Mr. Guimond.
25 MR. DAN GUIMOND: Yeah.

1 MR. BYRON WILLIAMS: You're more than
2 welcome but let me finish my discussion, if you would,
3 with Mr. Johnston. And then I'll certainly invite
4 comments from you, if I might?
5 MR. DAN GUIMOND: Okay.
6 MR. BYRON WILLIAMS: Is that okay,
7 sir? And I will come to that -- to that exhibit in
8 just a second.
9 MR. DAN GUIMOND: I just think it's
10 pertinent to your leakage discussion.
11 MR. BYRON WILLIAMS: And we'll --
12 we'll get -- give you that opportunity, sir. Mr.
13 Johnston, I apologize. I just don't want to get
14 sidetracked away from this table quite yet.
15 And I -- I understand your point about
16 further explanation but if we -- we look at each of
17 the years here being the '08, '09, up to the 2014/'15,
18 we see a difference between the -- the benchmark and
19 the actual in each year, agreed?
20 MR. LUKE JOHNSTON: Agreed, and it --
21 it seems to consistently run at about thirty (30) --
22 thirty (30) claims over the -- ignoring the
23 percentages for a moment but approximately thirty (30)
24 claims over the benchmark, and that's particular -- in
25 particular what we're investigating because it seems

1 fairly consistent.

2 You would think if -- if you had

3 implementation issues, maybe things would get a little

4 bit out of control and be higher on implementation and

5 then recover. It seems to just maintain at this

6 thirty (30) claim mark, which may indicate that

7 something -- you know, or several fundamental things

8 have changed in how this -- how we handle these

9 claims.

10 MR. BYRON WILLIAMS: Okay. Thank you.

11 And before we -- we go where Mr. Guimond wants to go,

12 let's -- Mr. -- just let me direct your attention, Mr.

13 Johnston, to CAC-14, page 1,363.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: And lines --

18 paragraph 7 -- paragraph constituting paragraph 7

19 through 13.

20 MR. LUKE JOHNSTON: Sorry, can you

21 repeat that reference there?

22 MR. BYRON WILLIAMS: Yeah. Paragraph

23 -- the paragraph starting on line 7 and running to

24 line 13. I'll give you a second to look at that, Mr.

25 Johnston.

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: I think that --

4 MR. BYRON WILLIAMS: And -- and this

5 is --

6 MR. LUKE JOHNSTON: -- yeah. I think

7 that characterizes what I've -- what I've said in

8 terms of from a actuarial perspective. I need to know

9 if we're going to have thirty (30) more claims open at

10 this stage or going forward from -- from both a

11 forecasting and a liability assessment perspective.

12 MR. BYRON WILLIAMS: And, Mr. -- Mr.

13 Johnson -- Johnston, excuse me, at this point of our

14 conversation last year you were concerned with claims

15 staying longer -- open longer than you would have

16 expected them to stay open, agreed?

17 MR. LUKE JOHNSTON: Yes. Anytime

18 something does what I don't expect it to do I -- I'm

19 concerned, especially if it's persistent like this,

20 that it's not just random variation, it's consistently

21 over.

22 MR. BYRON WILLIAMS: And focusing your

23 attention on this paragraph being on page 1,363, what

24 you're saying here is you're -- you were starting to

25 track the performance relative to the pre-BI3

1 experience, agreed?

2 MR. LUKE JOHNSTON: Agreed.

3 MR. BYRON WILLIAMS: And then, from an

4 actuarial basis, you were expecting the target to

5 meet, and then expeed -- exceed those benchmarks,

6 agreed?

7 MR. LUKE JOHNSTON: From an actuarial

8 perspective, I would like the data to remain

9 consistent through time, but that's appearing to be

10 not realistic based on what's changed over -- over

11 this time period, but that's still yet -- yet to be

12 determined based on the work we're doing in the BI

13 division.

14 MR. BYRON WILLIAMS: Okay. And to the

15 Corporation generally, it would be fair to say that

16 when the capital plan for BI3 was being initiated the

17 expectation was that one (1) of the values of BI3 in

18 terms of case management and business rules would be

19 that there would -- you could use the injury care

20 guidelines to improve outcomes and reduce cost to

21 settle claims; agreed?

22 I'm asking the Corporation.

23 MR. DAN GUIMOND: Relatively speaking?

24 Yes.

25 MR. BYRON WILLIAMS: And at the time

1 the business plan was put in place for the information
2 technology investment in BI3, the indication by the
3 Corporation was that the value proposition in terms of
4 case management and business rules was in part that
5 there would be a reduction in average disability claim
6 duration and time lost from work, agreed?
7 MR. LUKE JOHNSTON: Maybe not those
8 exacts words, but that's -- that's consistent with my
9 recollection, yes.
10 MR. BYRON WILLIAMS: Well, actually,
11 perhaps, Mr. Johnston, you can turn to CAC-12, page
12 11. And, Diana, if you could do the same, that would
13 be helpful.
14
15 (BRIEF PAUSE)
16
17 MR. BYRON WILLIAMS: And directing
18 your attention under 6, under... Just one (1) second.
19
20 (BRIEF PAUSE)
21
22 MR. BYRON WILLIAMS: Excuse me, I've
23 got -- given you the wrong page. I believe it's page
24 10. Just one (1) second though, Diana, before I send
25 you -- yeah, it's page 10, I apologize.

1 Mr. Johnston, focusing on page 10, case
2 management and business rules. And you can see on the
3 right-hand side under number 2 the use -- reference to
4 the -- the value proposition being the use of injury
5 care guidelines to improve outcomes and reduce cost to
6 settle claims, agreed?
7 MR. LUKE JOHNSTON: Yes, I see that.
8 There's a bunch of other items, as well, but I see
9 that one (1) now. Thanks.
10 MR. BYRON WILLIAMS: And also number
11 3, the value proposition, recognizing that there are
12 other ones, was a reduction in average disability
13 claims duration and time loss from work, agreed?
14 MR. LUKE JOHNSTON: Agreed.
15 MR. BYRON WILLIAMS: And so at the
16 time the -- the business case was developed, one (1)
17 of the expectations in terms of this significant
18 information technology investment was that there would
19 be a reduction in the average disability claim
20 duration; agreed?
21 MR. LUKE JOHNSTON: Yeah. At the time
22 this was prepared, that was a -- an expectation or a -
23 - or a target that we thought may be able to be
24 achieved.
25 But again, we don't -- using new tools

1 and -- and assessment techniques for these claims,
2 obviously different than the kind of more -- how do
3 you say? -- subjective-based assessments that were
4 happening before, so the consistency, et cetera.
5 MR. DAN GUIMOND: One (1) of the
6 things that I think is very important for the -- for
7 the panel members to understand is that when we go
8 back to 2006 on this report -- and if -- if you -- if
9 you're okay with going to --
10 MR. BYRON WILLIAMS: I'm fine with
11 that now, Mr. Guimond. Go ahead.
12 MR. DAN GUIMOND: Let's go to page 4.
13 There seems to be an in -- an inherent assumption in -
14 - in our discussion that meeting the BI -- the pre-BI3
15 benchmark is something that -- that's how it's
16 assessed as being good or bad. That's -- that's
17 something that's -- that's a false assumption to make.
18 We wanted to have the -- our benchmark
19 pre-BI3, but not necessarily with the intent of
20 beating or exceeding those benchmark.
21 Let's go back in time because I was
22 there. We knew back then that (a) we did not codify
23 the injury on a personal risk loss. That's -- that's
24 not a good thing. We did not have the Presley Reed to
25 say, Based on the rehab management plan, are you

1 meeting expectation for that injury, yes or no? We --
2 we couldn't answer that back then.
3 Post-BI3, you know, we now codify the
4 loss, and we are able to show with the Presley Reeds
5 if we're meeting expectations or not. I don't really
6 care if we meet the pre-BI3 benchmark or not. What's
7 important is to understand why it's different or why
8 it's not the same.
9 When we -- and I said it would take
10 seven (7) years of data to really know what's going on
11 because once you start to codify the loss on the first
12 notice of loss and you're able to do a rehab plan
13 based on that loss and you're able to compare it to
14 the Presley Reed and work with the medical community
15 to be able to get that customer back as much as
16 possible to pre-accident condition, that's what's
17 important.
18 And what will be important when we do
19 the audit for you is to explain the difference in the
20 benchmark. And, yes, the medical community -- since
21 2010, the medical business, it's changed a lot. They
22 can do a lot more things than they could in 2010.
23 Technology has changed a lot. They can do a lot more
24 things than in 2010.
25 What's important for you in the

1 meantime as we go there is that we share like -- like
2 the audit of the Auditor General, value for management
3 that says, Yeah, MPI's doing okay.
4 And, by the way, you should index some
5 of the things regarding medical reports and meal
6 allowances. So -- so we're indexing all these things.
7 When you index all these things, it's going to cost
8 more money.
9 So it's very important to say -- to
10 stay true to your vision, which is what you see here.
11 And then I -- I apologize, I don't remember the slide
12 for the benchmarks. But if we go back to the slides -
13 - to the benchmark that you had, do you know which one
14 it was? I'm sorry, I -- yeah, that one.
15 So -- so this thing we've got to be
16 really careful about, you know, what are we shooting
17 for. It's important to know what we were doing before
18 BI3. It's going to be a lot more important to
19 understand the -- whatever the benchmark are, why is
20 it those numbers and why is it different than pre-BI3.
21 And as long as we can rationalize it,
22 if it's technology, medicine, it's the fact that we
23 codified the loss, are people getting what they're
24 entitled to? Are things changing.
25 Like, for example, we just did the --

1 the PIPP housing in -- in Brandon. Like what are
2 things that are changing? And explain to you what's -
3 - what's making those numbers change.
4 So I'd be very, very cautious to say,
5 Oh, because the benchmark has changed there's leakage.
6 No. People are getting what they're entitled to, and
7 we're only going to know the answer once we do our
8 audit for sure because we said we need at least seven
9 (7) years of data.
10 But in the meantime, we shared with you
11 the -- that audit, and we're keeping you informed.
12 But to say that because the numbers are not the same
13 that we have leakage, or BI3 is a -- is a failure, no.
14 I'd be very cautious about that when you start to
15 factor in the rate of medical improvement, the rate of
16 technical -- technological improvement, and also the
17 fact that we weren't even codifying our last pre-BI3.
18 MR. BYRON WILLIAMS: And, Madam Chair,
19 I --
20 MR. DAN GUIMOND: That's all I have to
21 say about that.
22 MR. BYRON WILLIAMS: I -- I think
23 rather than take a break it might be useful to spend a
24 couple more minutes on this just -- I'm not sure we'll
25 finish it before lunch. I won't...

1

2 (BRIEF PAUSE)

3

4 MR. BYRON WILLIAMS: Mr. Guimond,
5 rather than suggesting that BI3 is a failure or a
6 success, I'm suggesting to you that the expectation as
7 -- as set out in this IBM document would be that one
8 of the achievements of BI3 would be a reduction in
9 average disability claim duration.
10 MR. DAN GUIMOND: And -- and I think
11 we will. I mean, once you codify the loss and you
12 know what you're up against, and you're -- you're
13 saying that you can compare it to -- our performance
14 to -- to the Presley Reed, you can -- you can start to
15 see if -- if we're on track.
16 So -- so I think in the bigger picture
17 when you step back and you say, Whoa, you're not
18 codifying your losses. You don't have a rehab plan
19 linked to that codification. You don't have the
20 Presley Reed. So I said, Okay, let's have a -- let's
21 have a benchmark as we do business today. Let's stay
22 true to our vision statement. And then let's explain
23 the difference in 2017 from the benchmarks.
24 And I truly believe that what we're
25 doing now, that we are achieving all these goals. And

1 that's why we have the lowest insurance -- one of the
2 lowest insurance rates across Canada. That's exactly
3 why we're having this, and that's exactly why you're
4 seeing some of the benchmarks that you're seeing. So
5 I just want to make sure that we put a stop to this
6 inference that we have leakage and all that stuff
7 because until we do the study in 2017 to really
8 understand the difference in the benchmark, I wouldn't
9 run to any conclusions that we're not meeting our
10 original business plan. Far from it.
11 MR. BYRON WILLIAMS: Mr. Guimond,
12 would it be accurate to say that in terms of the
13 projected savings in the BI3 business case, the bulk
14 of those were associated with the assumed reduction in
15 claims leakage?
16
17 (BRIEF PAUSE)
18
19 MR. DAN GUIMOND: I think there was a
20 lot of savings in operational costs. I remember when
21 we went in we had two hundred and twenty-two (222)
22 FTEs. We wanted it down to one eighty (180) for
23 running the department. So it's not just about
24 leakage, no.
25 MR. BYRON WILLIAMS: I wonder if we

1 can turn to CAC -- go ahead. Sorry, Mr. Guimond.
2 MR. DAN GUIMOND: Until you -- until
3 we have the data though in terms of -- of the -- your
4 point of leakage, I'm just saying I don't agree with
5 the inference that because these benchmarks are
6 different that it means we have leakage. That's the
7 message that I want to say.
8 MR. BYRON WILLIAMS: Okay.
9 MR. DAN GUIMOND: And I also want to
10 say that with the medical improvement, the
11 technological improvement, and the fact that we codify
12 our loss, that relatively speaking we still have the
13 savings in leakage for that loss if we hadn't done
14 BI3.
15 So that's -- that's a very important
16 thing to be aware of, and me personally, like when we
17 talk amongst ourselves and when I -- I talk, we will
18 maybe increase severity, you know. Like I gave you
19 some examples about the person who had the traumatic
20 brain injury. I gave you the example about the
21 wheelchairs. There's a lot of wheelchairs. I got
22 some that need more than one wheelchair, depending
23 what they do or where they go. Prosthetic. Want to
24 talk about prosthetic?
25 You know, I -- I don't go in my shed

1 and -- and saw something off and give somebody a -- a
2 wooden stick there and say, There I'm done. No, they
3 -- they -- some of these prosthetics cost seven
4 thousand dollars ($7,000) now. That's almost a bionic
5 man, you know. We've got some -- I'm sorry?
6 MS. HEATHER REICHERT: Seventy (70).
7 MR. DAN GUIMOND: Seventy thousand
8 (70,000), sorry. Yeah, seventy thousand dollars
9 ($70,000) for artificial legs now. I got kids now.
10 You know, like I don't give them a hook with, Here,
11 extend it as you grow older, so it's the same length.
12 You know, if they want to swim they get one (1) for
13 this. Some of them now they can link to their nerves
14 and be able to move them.
15 You want to do shops, you want to do
16 this or that, you know, you can switch them. I'm not
17 going to say, No, here's a hook and we're done. I
18 mean, come on. We're -- I think sometimes we forget
19 the humanity side of things and what we're here to do
20 as a public auto insurance, but I told you, I'm still
21 going to be here in 2017. I'm going to come back and
22 I'm going to show you that what we've done, we've met
23 our business plan.
24 And in the meantime I'm giving you
25 things like the office of the auditor general report,

1 sharing with you Gartner reports, and showing you that
2 the Company is performing. So I -- I just want to
3 stop this thing about -- this inference of leakage and
4 all that stuff. I don't buy into it, just like I
5 don't buy into the intergenerational thing.
6 MR. BYRON WILLIAMS: And just turning
7 to CAC-11, page 17 of 21.
8
9 (BRIEF PAUSE)
10
11 MR. BYRON WILLIAMS: And -- and, Mr.
12 Guimond, the word "leakage" of course is a word that -
13 - it's not my word, it's your word, right?
14 MR. DAN GUIMOND: I think it's an
15 industry word actually.
16 MR. BYRON WILLIAMS: Okay. And page
17 17 of 21, please. And just in terms of the projected
18 benefits, the business case for -- for the Corporation
19 was projecting financial benec -- benefits of 41.9
20 million, sir, agreed?
21 MR. DAN GUIMOND: Yes, that relatively
22 speaking we would be paying less than that, yeah.
23 MR. BYRON WILLIAMS: Yes. And of
24 that, about 8.6 million we expected to be related to
25 productivity improvements, correct?

1 MR. DAN GUIMOND: Yes, that's what it
2 says.
3 MR. BYRON WILLIAMS: With 33.4 million
4 being associated with the reduction in claims leakage
5 in -- in the business case?
6 MR. DAN GUIMOND: Correct.
7 MR. BYRON WILLIAMS: And, of course,
8 you were expecting that the full benefits to be
9 achieved within five (5) to seven (7) years of
10 implementation, agreed?
11 MR. DAN GUIMOND: Agree.
12 MR. BYRON WILLIAMS: Okay. Madam
13 Chair, I think that's a nice place to stop. Thank
14 you.
15 MR. DAN GUIMOND: Maybe just to
16 finalize on that, I agree, and I still think we're on
17 track relatively speaking, based on the ICD 10 coding
18 compared to what it would have cost us.
19 MR. REGIS GOSSELIN: Mr. Guimond, I
20 guess I -- before we break for lunch I want to give
21 you time to think about what I'm going to say. It's
22 in relation to the proposal that Mr. Williams was
23 advancing to the effect that -- whether or not there
24 would be value in engaging the Intervenors with
25 respect to the issue of benchmarking.

1 And Mr. Williams talked about the
2 Ontario Energy Board's regulatory framework. And I'll
3 just mention very quickly, because you can probably
4 look it up, but the regulatory framework that has been
5 established by the OEB, which is different than MPI,
6 because it covers a numbers of electric and gas
7 utilities in the province, but it has four (4)
8 groupings for benchmarking, customer focus,
9 operational effectiveness, public policy
10 responsiveness, and financial performance. So there's
11 four (4) indicators.
12 And a series of benchmarks that
13 accompany those four (4) -- those four groups of -- of
14 -- four (4) areas, let's call them four (4) areas.
15 And so customer focus is one (1) that comes to mind
16 immediately. And so you have -- you have customer
17 focus benchmarking in your report.
18 Now, have you ever thought of engaging
19 customers in developing those measures? And I think
20 that's what -- in part what Mr. Williams was talking
21 about. You know, you -- instead of saying to your
22 customers, these are the benchmarks we're going to
23 use, you would say to customers, can you come and talk
24 to us about the importance of your -- what -- what's
25 important to you and develop benchmarks that reflect

1 the -- the desires or the needs or the wants of the
2 customers?
3 MR. DAN GUIMOND: When I think of
4 that, there's -- there's two (2) -- two (2) key things
5 that are important when you step back from that.
6 First of all, what you do in terms of benchmarking has
7 to resonate with the public. That -- that's where
8 that regression analysis that I gave you and the
9 surveys we do and the customer service standards,
10 everything is focussed on customer expectations,
11 number 1.
12 Number 2, there's also the -- at the
13 highest level, the policy side of things in terms of
14 the Government of Manitoba in terms of the coverage
15 that they incorp -- because our -- our policy is in
16 the -- in -- in the legislation, right? We don't
17 issue you a policy per se, like an insurance policy,
18 it's -- it's in the regulations and so on.
19 So from a policy perspective, there's
20 also that side of it that has to resonate with the
21 public in terms of what we're doing resonates with
22 what the public wants. Okay, a good example of that,
23 for example, would be statutes related to impaired
24 driving when it comes to the personal insurance
25 protection plan in terms of, you know, when you're

1 incarcerated you don't get income replacement, for
2 example.
3 So everything that has to do -- has to
4 resonate with our customers. And from a government
5 perspective in terms of legislation also has to be
6 aligned with -- with the public's expectations. So,
7 these benchmarks are driven towards that data.
8 And my concern with what's being
9 proposed, I guess, is that we don't want to create an
10 inherent conflict from a rating perspective that may
11 not -- like, the driver has to the customer and, also,
12 the government be able to meet Manitobans'
13 expectation. And we cannot sort of start creating
14 benchmarks that could conflict with that. That's a
15 huge -- there could be a huge potential for -- for
16 conflict. And then you start to get into a situation
17 where it -- it's not -- you know, it just -- it just
18 leads to conflict.
19 MR. REGIS GOSSELIN: Yeah, the -- the
20 -- you know, the -- the regulatory framework that was
21 put in place by PUB was done after significant
22 consultations with the interested parties, including
23 consumers and utilities and so on. So everybody was
24 engaged in developing this regulatory framework. And
25 that's the litmus test that's used by the regulator to

1 determine the performance of the utility.
2 Now, I guess what Mr. Williams is
3 getting at is that, you know, expect the regulator to
4 develop these -- this framework in a vacuum is -- is a
5 pretty difficult thing to do for a regulator. I mean,
6 you know, the regulator has -- has a responsibility to
7 ensure that the rates that you charge are -- are
8 prudent and just and reasonable.
9 So -- and expecting us to establish a
10 framework against which we can judge their performance
11 absent from the Intervenors who are, frankly, your
12 clients, it seems to me that we're missing an
13 opportunity there. You know, the -- the way --
14 expecting us to rule on the adequacy of your benchmark
15 from -- from this process that we see in this room,
16 it's a tough challenge to do.
17 It seems to me we would all benefit
18 from a dialogue around what would represent regulatory
19 certainty for -- for you. And -- and then that's the
20 framework against you're judged when you get to this
21 room as opposed to having us, you know, tackle issues
22 that arise spontaneously.
23 An example would be community impact
24 measures may be important to your board, may be
25 important to the government, but when it gets to this

1 room it's not of significance to us. I mean, we're
2 interested in it. We like to hear what you're doing
3 on the committee level, but when it gets to rate
4 setting we're most concerned about what people are
5 paying for rates.
6 So -- so measures that you've
7 developed, I think, are -- are good; they're getting
8 better. But I also think that what would be important
9 to the rate-setting process may be different than what
10 you're setting as objectives on -- on -- you know,
11 with respect to your board, the government, and so on.
12 MR. DAN GUIMOND: It might be
13 something that maybe we should look into more, like,
14 the pros and cons of doing something like this. And
15 if we were to do it, to make sure, you know, if we --
16 if we did decide that it would be a good thing to do,
17 to make sure that we don't inherently build conflict
18 in terms of how the program is designed, right.
19 So if -- if something would be
20 important to you, I think the first step would be to
21 look at: Does this make sense? What are the pros and
22 cons? And how would we make sure that there's no
23 inherent conflict into the process?
24 THE CHAIRPERSON: Thank you very much,
25 Mr. Guimond. Now we'll break for lunch. We'll return

at 1:15.

--- Upon recessing at 12:18 p.m.

--- Upon resuming at 1:17 p.m.

THE CHAIRPERSON: Welcome back, and we'll continue with Mr. Williams' cross-examination.

MS. KATHY KALINOWSKY: Good afternoon. If I could just...

THE CHAIRPERSON: My apologies. There are some exhibits to go on the record from Ms. Kalinowsky.

MR. BYRON WILLIAMS: Where's the Board secretary? Darren is not here.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Good afternoon. We do have a number of exhibits, which we thought should be marked into the exhibit list and into the record. And the first one that we have in the pile would -- is marked MPI -- or sorry, PUB Exhibit interest rate impact for 2014/'15, and that should be marked as MPI Exhibit number 20, and Ms. Reichert will speak to that, along with the next one.

1 --- EXHIBIT NO. MPI-20: Interest rate impact for
2 2014/'15
3
4 MS. KATHY KALINOWSKY: Which is a
5 table entitled 'Investment and claims net interest
6 rate impact Basic,' and that should be marked as MPI
7 Exhibit number 21.
8
9 --- EXHIBIT NO. MPI-21: Investment and claims net
10 interest rate impact Basic
11
12 MS. KATHY KALINOWSKY: Undertaking
13 number 10 should be marked as MPI Exhibit number 22.
14
15 --- EXHIBIT NO. MPI-22: Response to Undertaking
16 number 10
17
18 MS. KATHY KALINOWSKY: Undertaking
19 number 13 should be marked as MPI Exhibit number 23.
20
21 --- EXHIBIT NO. MPI-23: Response to Undertaking
22 number 13
23
24 MS. KATHY KALINOWSKY: Undertaking
25 number 14 should be marked as MPI Exhibit number 24.

1 --- EXHIBIT NO. MPI-24: Response to Undertaking
2 number 14
3
4 MS. KATHY KALINOWSKY: Undertaking
5 number 15 should be marked as MPI Exhibit number 25.
6
7 --- EXHIBIT NO. MPI-25: Response to Undertaking
8 number 15
9
10 MS. KATHY KALINOWSKY: And Undertaking
11 number 16 should be marked as MPI Exhibit number 26.
12
13 --- EXHIBIT NO. MPI-26: Response to Undertaking
14 Number 16
15
16 MS. KATHY KALINOWSKY: So at that
17 point, I know that Ms. Reichert wanted to speak to the
18 first two (2) exhibits.
19 THE CHAIRPERSON: Ms. Reichert...?
20 MS. HEATHER REICHERT: Thank you very
21 much. So the -- the first exhibit is something that I
22 was speaking with Mr. Cathcart in regards to and said
23 that we would complete this table.
24 There were a lot of questions trying to
25 understand the changes between what we filed in 2015

1 GRA with respect to the 2014/'15 year, which at -- at
2 the time that we filed, we were estimating a minus $38
3 million loss.
4 Then during the hearing, we were asked
5 to update our interest rate forecast. It was the only
6 thing that we changed between the two (2) forecasts.
7 We were asked to update it based on end of September,
8 middle of October, whatever the -- the most current
9 forecasted interest rates were at that time.
10 And then we had been talking, and in my
11 presentation I was -- was explaining to the Board the
12 difference to what we actually ended up finishing the
13 year, which was the two point four (2.4) income. So
14 what we've done on this table is shown what the
15 changes in the interest rate were from the end of 2014
16 to the end of 2015.
17 When we were originally forecasting, or
18 when we were originally doing our estimates, the bank
19 forecasts were indicating a seventy-one (71) basis
20 points increase over that time period.
21 The impact on our bonds was a gain --
22 or, pardon me, a loss on our bonds of fifty-one point
23 nine (51.9). That was embedded within our forecasts
24 of the GRA, and a positive impact on claims, so a
25 negative here is reduction in our claims costs. So

1 that was seventy-eight point one (78.1) for a net
2 positive benefit of twenty-six point two (26.2).
3 So within the forecasted loss of 38
4 million for the year was a positive forecasted net
5 impact of interest rates of twenty-six point two
6 (26.2). That's how we filed.
7 So there were other items that caused
8 the loss of minus thirty-eight (38), and that would
9 have been the subject of discussion at last year's
10 hearing on what else was -- was impacting our overall
11 forecasted results of minus thirty-eight (38).
12 Then we did the Pre-Ask. The Pre-Ask
13 there was a very slight -- at the time that we updated
14 the interest rate forecast, a very slight decrease of
15 four (4) basis points, which caused very -- very --
16 somewhat minor changes in marketable bonds and the
17 claims liability, for a negative impact of 17 million.
18 Now, in this case, we would typically
19 expect that the changes would go the same way. If you
20 have a -- a negative change in your bonds, you'd
21 expect a positive -- i.e., reduction -- in your claims
22 liabilities.
23 The reason that didn't occur in that
24 Pre-Ask was that was happening at the same time that
25 the -- the duration -- if you'll recall last year, it

1 was in 2014/'15 that we reduced the duration gap from
2 a minus two (2) to a minus (1). And that occurred
3 halfway through the year.
4 So it was just a -- a bit of an anomaly
5 that these differences aren't -- aren't offsetting,
6 per se. But regardless, there was a minus 17 million
7 negative impact included within the minus eighty-two
8 point five (82.5) that was being forecasted as the
9 overall loss based on that Pre-Ask 5.
10 So you can see the change in the
11 overall forecasted loss from the 2015 GRA to Pre-Ask 5
12 was a difference of forty-four point five (44.5), a
13 difference specifically related to the impact on
14 interest rates as it -- as it impacted on bonds and
15 liabilities.
16 You can see twenty-six point two (26.2)
17 to a negative seventeen (17). That's forty-three
18 point two (43.2). The difference, which was -- sorry,
19 that's forty (40) -- yeah, forty-three point two
20 (43.2).
21 The difference, the 1.3 million
22 difference -- excuse me -- just -- that had to do with
23 the -- the overall reduction in interest rates on the
24 -- the actual yield of the bonds.
25 So it wasn't an impact as -- as to the

1 claims, per se, or the bonds fluc -- fluctuating in
2 value. It was an actual interest -- like decreased
3 yield, if you will. So that explains the entire
4 change between minus thirty-eight (38) and minus
5 eighty-two point five (82.5).
6 And then, when you come to what
7 actually happened in the year, so none of the
8 forecasts of increasing interest rates or at the
9 October time frame of a modest reduction in interest
10 rates, none of those came to fruition. We actually
11 saw a hundred and thirteen (113) basis point decline
12 in interest rates over the year. That impact was a
13 negative thirty-eight point one (38.1).
14 That negative thirty-eight point one
15 (38.1) is embedded in the overall 2.4 million net
16 income for the year. And we explained in the
17 presentation done the first day that there were
18 positive impacts because we had one (1) of the best
19 claims experience winters in, like, twenty (20) years.
20 So that was a positive impact of about 40 million, or
21 something like that.
22 So I just wanted to show -- show this
23 table. It was something that MR. Cathcart had -- was
24 trying to -- trying to lay out for -- for the Board,
25 and so I thought that this would be helpful in trying

1 to understand that, you know, embedded within big
2 negative numbers there are different impacts as it
3 relates to the bonds and the -- and the claims as it
4 relates to the interest rate forecast. So hopefully
5 that's helpful.
6 THE CHAIRPERSON: Thank you very much,
7 Ms. Reichert.
8 MS. HEATHER REICHERT: And there's one
9 (1) other exhibit, so Exhibit number 21. I thought,
10 again, this would be helpful for the Board when we
11 were talking about investment income and how
12 investment income seemed to be fluctuating quite a bit
13 in the outlook years, and in the actual years, as
14 well. And I was talking about having to remove from
15 that comparison the impact of the interest rates on
16 the marketable bonds because up and down fluctuations
17 in the interest rates can significantly change your
18 overall investment income.
19 So what this table is doing is the --
20 the first set of boxes across the -- across the page
21 is just giving some of the data behind what actually
22 occurred and behind our forecast for the five (5)
23 outlook years. So that's -- that's just the
24 information that says, you know, what in fact did the
25 interest change by in each year and what the duration

1 gap was over that year period.
2 So you can see there was a decline in
3 the duration gap, as we intended. From 2013/'14 to
4 2014/'15 we went from one point four (1.4) negative to
5 point seven (.7) negative. That was the year where we
6 were going from a plus or minus two (2) to a plus or
7 minus one (1). So we -- we should have expected to
8 see that. And then, on the outlook years, as you
9 know, we are forecasting a zero duration gap.
10 So the next section takes what the
11 Basic investment income was off of the table that is
12 the -- the main table of our investment section, so
13 this is the Basic portion, and it backs out what the
14 marketable bond gain or loss was that was included in
15 that Basic investment income to get to Basic
16 investment income excluding anything to do with the
17 marketable bonds valuation.
18 So you can see there are some
19 fluctuations in the actual investment income. In
20 particular, 2013/'14 there's quite a significant
21 increase in investment income for that year. There
22 are two (2) reasons for that. One (1), it was during
23 that year that the equity investor -- investment that
24 we had in the states stopped paying dividends. And it
25 was very important to us that we had cashflow from the

1 investment. So we switched at that time from that
2 particular investment portfolio to one (1) that paid
3 dividends because we needed that cashflow.
4 So as a result of moving out of the one
5 (1) portfolio and moving into the -- I think it was
6 the ETFs at that time, we experienced a significant
7 gain on the disposition of those investments. And I -
8 - if memory serves me, it was in and around 40 or 50
9 million in that year.
10 And then, later in that year, if I'm
11 not mistaken, there was a rebalancing. There was a
12 rebalancing that occurred. And if you'll recall, our
13 rebalancing policy says that, if we are outside of the
14 min or max target for a six (6) month period we have
15 to look to rebalance so that we are mitigating again
16 the risk of having too much in any one (1) particular
17 area. So that also occurred in 2013/'14. And that
18 also generated some gains that you're seeing reflected
19 in the total of a hundred and sixty-nine point four
20 (169.4).
21 So as you go forward into the outlook
22 years, which was the point that I was trying to make
23 when we were talking about this last week, you can see
24 that it is relatively stable, the forecast for
25 investment income exclusive of the marketable bonds.

1 It does tend to grow, but you would expect that to
2 happen as our portfolio overall is growing. It's not
3 a shrinking portfolio as -- as we have more claims
4 than -- we are going to have more assets to pay those
5 claims.
6 So -- so that was to reflect that. And
7 then we're just showing the interest rate impact that
8 occurred on claims in the same way and showing what
9 the net -- again, net impact of the interest rate
10 changes in any given year was on our bottom line. So
11 you can see the actual does fluctuate, but then if you
12 look above you'll see, yeah, the -- the interest rates
13 themselves fluctuate from increasing by two (2) basis
14 points to decreasing by thirty-three (33), decreasing
15 by four (4), increasing by nine (9), decreasing by
16 fifty-three (53.)
17 So you'll see significant losses in the
18 years where interest rates decreased, which is as
19 we've expected, that when interest rates decrease,
20 especially when we had a larger duration gap, we lost
21 significant money. And that thirty point eight (30.8)
22 and the thirty-eight point one (38.1) in '14/'15 are
23 reflective of the fact that there were significant
24 decreases during those years.
25 And because of the -- the way that we

1 were not at a perfect match, that caused us to lose
2 significant dollars. I can tell you if we had been
3 perfectly duration matching in those years that these
4 significant decreases had occurred, then the net
5 impact to our bottom line would not have been as
6 significant as what we actually saw.
7 And going forward you'll see how we're
8 forecasting going forward. The banks are still
9 forecasting increasing interest rates. You'll see
10 eighty-six (86) basis points, fifty (50) -- this is at
11 the top, fifty-six (56), seventy-eight (78), minus
12 three (3), and minus two (2), but they're, you know,
13 in the early years are definitely still forecasting
14 significant increases in interest rates.
15 The impact is still positive overall to
16 MPI as you can see at the -- the very bottom line
17 there, okay. So again, it's not going to be as
18 positive as it would have been had we had a different
19 matching strategy, but just as what we're doing is
20 mitigating against that downside risk, the interest
21 rates actually decrease instead of increase. So we
22 are wanting to mitigate that downside risk, not lose
23 the 30 and 40 million that we've been losing in the
24 past.
25 In that same way that is going to mean

1 that we're not going to gain as much when the interest
2 rates increase, if in fact the interest rates
3 increase. So we -- we can't have it both ways. We
4 have to mitigate the risk. It's very important to us
5 to have the assets matching with the liabilities as --
6 as best we can to -- to mitigate that very significant
7 risk that we have.
8 So with that I'll open to questions if
9 there are any.
10 THE CHAIRPERSON: Thank you, Ms.
11 Reichert. We'll now continue with Mr. Williams and
12 his cross-examination.
13
14 CONTINUED BY MR. BYRON WILLIAMS:
15 MR. BYRON WILLIAMS: Ms. Reichert,
16 just while you have these exhibits in front of you,
17 just a -- a couple of questions. Referring you to MPI
18 Exhibit 20, in terms of the forecast on the left-hand
19 column for the 2015 GRA, that would have been based
20 upon a margin for adv -- adverse deviation of -- of 1
21 percent.
22 Is that right?
23 MS. HEATHER REICHERT: Correct.
24 MR. BYRON WILLIAMS: And then in terms
25 of Pre-Ask 5, that would have been based upon a margin

1 for adverse deviation of 1 percent as well?
2 MS. HEATHER REICHERT: Correct.
3 MR. BYRON WILLIAMS: And then the
4 actual would be of point seven five (.75)?
5
6 (BRIEF PAUSE)
7
8 MS. HEATHER REICHERT: We'll double-
9 check on when we actually reduced from the one (1) to
10 the -- or the hundred basis points to the seventy-five
11 (75) basis points, but regardless that would not be
12 reflected in these numbers that you're looking at
13 here. They are -- they are treated separately.
14 MR. BYRON WILLIAMS: Okay. Yeah, I'm
15 just trying to get my head around the -- the
16 scenarios.
17 And then just to MPI-21 for a second
18 and focusing on the 2011/'12 year, the $30.8 million
19 negative net impact on interest rates, that would be
20 the product of a declining interest rate environment
21 coupled with the fairly significant duration gap of
22 one and a half (1 1/2) years?
23 MS. HEATHER REICHERT: That's correct.
24 MR. BYRON WILLIAMS: Okay. Thank you.
25 Ms. Reichert, I think you were the only person that

never got asked a question about BI3, so here you go. It's -- I just did not want you to feel excluded.

In terms of the deferred development costs for BI3, am I correct in suggesting that that is amortized over three (3) years because of the product cycle only being three (3) years?

MS. HEATHER REICHERT: Originally when it was first developed, or first put into operation we would have been amortizing that over five (5) years. It was later when we determined that the upgrades that were going to be required are significant, and I believe that the actual cycle for upgrading it is four (4) years, there was a delay in the first upgrade occurring.

And so it now looks like we might have to start the second upgrade within three (3) years, but we're looking very much at ensuring -- and I may have some of my dates wrong -- but we're very much looking at ensuring that we are not amortizing the cost of the upgrade longer than the period between upgrades. So we're very much looking at matching the useful life of the upgrade, and we have to upgrade every four (4) years, to four (4) years.

I'm just -- like the -- it is something that we are very closely looking at so that we aren't

1 amortizing it over too long of a period.
2 MR. BYRON WILLIAMS: And just so I
3 understand, generally with deferred development costs
4 you would amortize them over five (5) years.
5 Is that correct?
6 MS. HEATHER REICHERT: That's correct.
7 Generally it's five (5) years.
8 MR. BYRON WILLIAMS: And for this
9 particular project -- pro -- product relating to BI3
10 we know it will be less, and the question is whether
11 it will be four (4) years or three (3) years?
12 Is that what I'm hearing?
13 MS. HEATHER REICHERT: That's correct.
14 MR. BYRON WILLIAMS: And is that the
15 Fineos project? F-I-N-E-O-S, for the reporter.
16 MS. HEATHER REICHERT: Yes, it is.
17 Fineos is the company that developed the bodily injury
18 improvement initiative is what the BI3 stood for.
19 MR. BYRON WILLIAMS: And this may be
20 premature, and you'll -- you'll chastise me if it is,
21 but in terms of BDR -- PDR, excuse me, too many
22 acronyms. In -- in terms of PDR, is -- is MPI also
23 looking at a Fineos product associated with that?
24 MS. HEATHER REICHERT: No, not that --
25 that I'm aware.

1 MR. BYRON WILLIAMS: Okay.

2

3 (BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: I've got some
6 questions about IT benchmarking and also staffing
7 levels, so I'm not sure who that goes to, Ms. Reichert
8 or Mr. Guimond, but one of you is smiling so I'll
9 direct my questions to you for the first point, Ms.
10 Reichert.
11 In -- in terms of the Gartner Group, am
12 I correct that there -- there was not a benchmark
13 report for this year?
14 MS. HEATHER REICHERT: There will be a
15 benchmark report for this year. It was not received
16 in time to be able to -- it hasn't even been received
17 yet, so it -- it was not received in time to -- to be
18 filed with -- with this GRA. We are trying to get --
19 and we've talked about this before. We're trying to
20 get both the Ward and the Gartner benchmarking reports
21 done on the same fiscal year basis so that we have
22 both reports coming in in the year and relating to the
23 same fiscal year so that we can just get them in
24 synch. And that's -- that's what we're doing this
25 year.

1 MR. BYRON WILLIAMS: And when are you
2 expecting to receive the Gartner Group report?
3 MS. HEATHER REICHERT: We won't be
4 receiving the Gartner CIO scorecard -- that's the --
5 the benchmarking report -- until sometime in November.
6 MR. BYRON WILLIAMS: And the
7 Corporation -- perhaps my memory is faulty, but did
8 the Corporation used to receive quarterly Gartner
9 reports? If not -- if it's not ringing a bell, Ms. --
10 MS. HEATHER REICHERT: No. We -- we
11 didn't receive the CIO scorecards quarterly.
12 MR. BYRON WILLIAMS: Okay. I wonder
13 if I can ask you to turn to PUB/MPI-1-21, and
14 specifically recommend an -- recommendation 4.10,
15 4.10, which appears on page 14. Page 14,
16 recommendation 4.10. Thank you, Diana.
17 Now, Mr. Guimond, this was the -- the
18 recommendation to develop a three (3) year staffing
19 model to ensure key skills are available in house to
20 reduce reliance on contractors and consultants,
21 correct?
22 MR. DAN GUIMOND: That's correct.
23 MR. BYRON WILLIAMS: And at the time
24 this Information Response was prepared, MPI indicated
25 that it hadn't evaluated this and didn't have

1 information regarding the financial impact of
2 implementing the requirement, agreed?
3 MR. DAN GUIMOND: Subject to check,
4 yes.
5 MR. BYRON WILLIAMS: Anything changed,
6 Mr. Guimond?
7 MR. DAN GUIMOND: Well, I think yes in
8 the sense that we openly talked this year about the --
9 the constraints that exist of -- of the public sector
10 compared to the private sector.
11 I'm trying to re-explain why we have so
12 many consultants on the payroll versus having more
13 people on our payroll. So I think it's -- it's
14 something as a Corporation we need to deal with.
15 And I know that in our December joint
16 planning session with our board of directors, that's
17 something that we're going to be discussing in terms
18 of where do we go because the amount of money involved
19 keeps getting bigger and bigger. So it's something we
20 need to -- to address somehow and explain ourselves as
21 to why we're doing the things we're doing.
22 MR. BYRON WILLIAMS: And I appreciate
23 the update. Mr. Guimond, for the -- the purposes of
24 those of us who follow the General Rate Application
25 process with interest, would -- would we be expecting

1 an update on -- or a -- let me try that again. Would
2 we be expecting a plan to address this issue for the
3 purposes of the next GRA?
4 MR. DAN GUIMOND: No, because I -- I
5 don't know what the outcome of the joint planning
6 session will be. I don't know what the position of
7 the Corporation will be.
8 I just acknowledge right now that when
9 you look at it and -- and you look at the costs that
10 we're spending on -- on consultants and you look at
11 what could be done maybe on our payroll, that it's
12 something we need to look at.
13 And it starts to show itself in those
14 kinds of audits and reports. And I think we're at a
15 point in time that it needs to be addressed. And
16 then, depending on the -- the decisions will be made,
17 I think we can provide you with an update on the
18 decisions that are made. But in terms of doing what
19 is recommended there, I -- I don't know the answer to
20 that. It'll be -- it requires a lot of discussions.
21 MR. BYRON WILLIAMS: Thank you.
22
23 (BRIEF PAUSE)
24
25 MR. BYRON WILLIAMS: Diana, if you can

1 pull up PUB/MPI-2-18.

2

3 (BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: And -- and, Mr.
6 Guimond, I -- I appreciate your answer, but it is
7 important just to make sure our client has some
8 comfort with the statistics. What this response
9 captures, sir, is the relationship between internal
10 FTEs and con -- external consultants for the years
11 2010/2011 through 2014/2015.
12 Is that right?
13 MR. DAN GUIMOND: Yes.
14 MR. BYRON WILLIAMS: And I guess, in -
15 - in fairness, we -- we should leave out the 2010/'11
16 year. That's based upon budget figures rather than
17 actuals, or is that your understanding, sir?
18 MR. DAN GUIMOND: Yes.
19 MR. BYRON WILLIAMS: And so in terms
20 of the -- in terms of the total FTEs, information
21 technology FTEs, that would be the -- the lowest year
22 would be the 2011/'12 year at three hundred and
23 thirteen (313).
24 Would that be fair?
25 MR. DAN GUIMOND: Yes.

1 MR. BYRON WILLIAMS: And the highest
2 year would be the next year, 2012/2013, at three
3 hundred and fifty-six (356) FTEs, agreed?
4 MR. DAN GUIMOND: Well, it's equal to
5 2010 -- 2010/2011 at three fifty-six (356) --
6 MR. BYRON WILLIAMS: Well, remembering
7 that that's --
8 MR. DAN GUIMOND: Yeah, in terms of
9 the consultant? Yes.
10 MR. BYRON WILLIAMS: Yeah. And -- and
11 just re -- just remembering, sir, that the 2010/'11 is
12 a budget --
13 MR. DAN GUIMOND: M-hm, yeah.
14 MR. BYRON WILLIAMS: -- rather than
15 actuals, so.
16 MR. DAN GUIMOND: Yeah, yeah.
17 MR. BYRON WILLIAMS: And we're coming
18 in 2014/'15 at two -- two hundred and ten (210) for
19 internal and external being a hundred and ten (110)
20 for a total of three hundred and twenty (320).
21 Is that right?
22 MR. DAN GUIMOND: Yes.
23 MR. BYRON WILLIAMS: And is there
24 somewhere on the record of this Hearing that I've
25 missed a projection for 2015/'16 in terms of internal

1 FTEs and external and -- and consultants?
2 MS. HEATHER REICHERT: No, I don't
3 believe that you've missed that. It's not -- how we
4 budget and forecast for consultants is relative to
5 each project. So on our capital forecast, depending
6 on the -- the projects that are being undertaken, each
7 of those would have a detailed budget that would
8 indicate how many consultants are on that particular
9 project. So that's how we go about doing the budget.
10 We don't sort of say, oh, it's a
11 hundred and ten (110) actual in '14/'15 and we'll
12 assume a 2 percent or 4 percent growth. We do it
13 specific to the project. So that is why you see
14 variations year over year. It depends on what the
15 actual projects are that are being undertaken and the
16 composition of an individual project, vis-a-vis
17 consultants or not.
18 MR. BYRON WILLIAMS: Okay, thank you.
19 Thank you for that. For the 2015/'16 year, as I
20 understand it, the Corporation is looking at a
21 reduction of -- of a full-time equivalence of -- of
22 thirty (30) persons, am I correct, or thirty (30)
23 FTEs?
24 MS. HEATHER REICHERT: Yes, from our
25 staff establishment. So -- so go -- we -- I can't

1 remember the numbers from last week, but, yes, a net
2 thirty (30) reduction.
3 MR. BYRON WILLIAMS: And in terms of
4 the IT FTEs, would we expect any of those thirty (30)
5 to be related to them?
6 MS. HEATHER REICHERT: I -- I know
7 that there is an Information Request that asks for the
8 breakdown of the thirty (30). And if my memory serves
9 me, there was in the neighbourhood of around ten (10)
10 of the thirty (30) that was a reduction in IT FTEs, or
11 that division's.
12 So the IT division has more than just
13 IT professionals. They also have knowledge management
14 services, which is the -- the training aspect of -- of
15 how we train all of the brokers on new policies and
16 procedures, et cetera. So it is not just IT
17 professionals within the IT division. But there was
18 about a reduction of, I think, ten (10) --
19 MR. BYRON WILLIAMS: Okay.
20 MS. HEATHER REICHERT: -- of that
21 thirty (30).
22 MR. BYRON WILLIAMS: And I should have
23 picked that up. I apologize for that. In terms of
24 the average salary saving associated with the -- the
25 reduction in those FTEs, it's about fifty thousand

1 (50,000) per position, correct?

2 MS. HEATHER REICHERT: Again -- again,

3 we -- we did, for purposes of that IR, I believe, cost

4 it out on the -- on the average of what an IT position

5 is. Typically for the Organization as a whole we use

6 the figure of seventy-five thousand (75,000) as a,

7 quote, "typical on average," FTE salary. For purposes

8 of that IR we broke down. Clerical is something less

9 than that. Professionals are more than that. And it

10 came out to the costing of those thirty (30) FTE. I

11 don't remember the exact number.

12 MR. BYRON WILLIAMS: Subject to check,

13 it's in the range of fifty thousand (50,000), Ms.

14 Reichert?

15 MS. HEATHER REICHERT: Subject to

16 check. Honestly, my gut would tell me that it would

17 be higher than -- than fifty (50), but we can check

18 that out.

19 MR. BYRON WILLIAMS: I will -- I'll

20 check it.

21 MS. HEATHER REICHERT: Okay. Thank

22 you.

23 MR. BYRON WILLIAMS: Okay. Thanks.

24 If I could ask Diana to turn to AI-12, page 28.

25 That's the benchmarking appendices, page 28, section

1 2.21.

2

3 (BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: And just scroll

6 down just a little bit, Diana. Thank you.

7 Ms. Reichert, would -- would -- this

8 observation prepared by the Gartner Group is -- is a

9 comparison of IT full-time equivalence as a percentage

10 of company employees, agreed?

11 MS. HEATHER REICHERT: Yes, I -- I

12 seem to remember -- this has come up before and so

13 hopefully it says in there and I just can't read it,

14 in this instance I'd --

15 MR. BYRON WILLIAMS: Scroll down,

16 Diana.

17 MS. HEATHER REICHERT: Scroll down a

18 bit. Yes, the IT FTE, I believe, includes consultants

19 as a -- like they -- they're converted to a full-time

20 equivalent. So we can -- we can look into that, but

21 this is my -- my remembrance is this is a percentage

22 of all IT people converted into FTEs, so consultants

23 and staff combined as a proportion of our total

24 company employees. And...

25 MR. BYRON WILLIAMS: Thank you for

1 that, Ms. Reichert. And just -- just so I'm clear,
2 it's -- it's -- assuming that's right and that's my
3 recollection as well, it's still an apples to apples
4 comparison. You're looking at the full -- full-time
5 equivalent staff -- staff associated with IT as a
6 percentage of company employees.
7 You're not taking issue with the
8 metric?
9 MS. HEATHER REICHERT: No. I just
10 think that the metric includes consultants as well as
11 staff.
12 MR. BYRON WILLIAMS: Okay. And the --
13 and we see on the right-hand side that the peer
14 average for the '13/'14 year was 11 percent.
15 Do you see that, Ms. Reichert?
16 MS. HEATHER REICHERT: Yes, I do.
17 MR. BYRON WILLIAMS: And the MPI
18 comparator was 17.2 percent.
19 Is that correct?
20 MS. HEATHER REICHERT: That's correct.
21 And this is where I highlight that from my perspective
22 what is important to see here is a reduction in the
23 percentage of IT staff to company total staff over the
24 -- over the year. So what I would look for is the
25 trend of bringing that percentage or that ratio down.

1 MR. BYRON WILLIAMS: Okay. Thank you.
2 And just to turn to the -- page -- go ahead, Mr.
3 Guimond.
4 MR. DAN GUIMOND: I'm sorry. I just
5 wanted to add to that, this is another good example of
6 what we're talking. It's not a bad statistic or a
7 good statistic for a public auto insurer when you're
8 compared to -- to peers, right.
9 Because when you look at MPI, first of
10 all you got a fixed market. You can't just go grow my
11 business overnight and lower my costs. I have to
12 provide realtime online transactions throughout the
13 province. We do -- we have to have 99.9 percent
14 availability for customer service realtime online,
15 right, networked throughout the province, and we do
16 24.5 million transactions a year.
17 So this is a good example of having a
18 discussion about really how it's inferred it's a bad
19 number, but from a public auto insurance with the
20 customer service levels, the realtime online, the
21 geography of MPI, being in the fixed market, that
22 that's a good number.
23 So that's -- that's the kind of thing
24 that I think is very important to -- to -- for the pan
25 -- for the members to know, because a lot of things

1 I'm seeing they're inferred maybe as negative when
2 it's absolutely not
3 MR. BYRON WILLIAMS: Okay. Thank you.
4 And just so I'm clear, Ms. Reichert, you're looking
5 for a reduction in the relative percentage of IT/FTEs
6 as a percentage of company employee and, Mr. Guimond,
7 you think this is a heroic and good thing?
8 MR. DAN GUIMOND: I think as a public
9 auto insurer in a fixed market with what we're -- what
10 we have to do to meet our mandate in terms of if
11 you're in Thompson you get the same service levels
12 that if you're in Winnipeg. It's real time online.
13 It's 99.9 percent availability. We live in a fixed
14 market.
15 So I'm saying that we will constantly
16 strive to improve. I just don't want the members to
17 be inferred implicitly, or unknowingly, to think this
18 is a bad number. That's the point that I want to make
19 --
20 MR. BYRON WILLIAMS: And if we --
21 MR. DAN GUIMOND: -- that it's not.
22 MR. BYRON WILLIAMS: Thank you for
23 that. And if we stay on this page, you see Gartner
24 Group talking about it's reflective of IT ratios, and
25 warning that it may be required -- or a significant

1 amount of IT initiatives, and warning that this may be
2 required until these initiatives are completed. See
3 that, sir?
4 MR. DAN GUIMOND: Yes.
5 MR. BYRON WILLIAMS: Now, Ms.
6 Reichert, the other issue that we were talking about
7 was the -- if we turn to page 29, the in-house versus
8 the contractor. And again this is what -- what we're
9 having in terms of the peer average on the right-hand
10 side for the 2013/'14 year.
11 External consultants for the peer
12 average was 24 percent, and in-house was 76 percent,
13 Ms. Reichert?
14 MS. HEATHER REICHERT: Yes -- excuse
15 me -- yes, that's correct.
16 MR. BYRON WILLIAMS: And the MPI
17 proportion was somewhat higher at 36 percent in-house
18 -- 36 percent external consultants for 2013/'14, and
19 64 percent in-house. Is that right?
20 MS. HEATHER REICHERT: Correct. And
21 just to -- again what -- what as CFO I look to is to
22 always be finding efficiencies, and always to be
23 trying to reduce our overall costs. So I look to see
24 that that trend of -- of consultants is decreasing
25 over time.

1 To Mr. Guimond's point, I'm not saying
2 that I expect us to ever get to 24:76 for some of the
3 very reasons that Mr. Guimond was referencing earlier
4 today. Given our construct, given the environment
5 that we are -- are in, it's probably unrealistic to
6 expect we're ever going to get to a 24:76 split.
7 So what I look for are the trends, and
8 I think I mentioned this before when -- when checking
9 -- or when looking at benchmarks, is looking into --
10 at -- at the MPI trend, and are we trending positively
11 as it relates to a particular measure.
12 MR. BYRON WILLIAMS: Okay. Thank you
13 for that. If -- I don't know if we will need to pull
14 it up but, Diana, perhaps you can just pull up the
15 transcript reference starting at page 523. And if we
16 need it, we'll -- we'll go to it.
17 Mr. Guimond, you're going to be busy
18 out to the summer of 2017 presumably given the --
19 preparing for and negotiating the new four (4) year
20 contract with the repair industry?
21 MR. DAN GUIMOND: I'm hoping the
22 negotiations to be complete by end of December 2016.
23 MR. BYRON WILLIAMS: Okay. And a
24 critical element of your discussions with the industry
25 will -- will relate to issues relevant to the PDR,

1 agreed?

2 MR. DAN GUIMOND: Yes.

3 MR. BYRON WILLIAMS: Those issues

4 would include items such as quality control, key

5 performance indicators, accreditation training, and --

6 and many others. Fair enough?

7 MR. DAN GUIMOND: Yes.

8 MR. BYRON WILLIAMS: And in terms of

9 the magnitude of that four (4) year contract, we're

10 talking in the range of at or above $1 billion.

11 Is that fair, sir?

12 MR. DAN GUIMOND: Yes.

13 MR. BYRON WILLIAMS: And without

14 asking you to elaborate, could I ask you to confirm

15 that the PDR is nul -- now scheduled for completion in

16 2019 rather than 2017?

17 MR. DAN GUIMOND: From a program

18 perspective in terms of the -- if you're talking about

19 the $65 million, we should be all done by then. But

20 now, after that's all about -- it's all about the --

21 the way we serve our customers for the balance of how

22 fast people will go directly to the shops versus our

23 service centres.

24 It'll be about making sure that -- in

25 terms of what we have to do with our infrastructure

1 and so on, so it'll be -- it'll be like a transition
2 now to finish it by -- by February 2019, yes. So now
3 we're talking about post-implementation finalization
4 of the service delivery model.
5 MR. BYRON WILLIAMS: Just so I
6 understand that answer, Mr. Guimond, by February of
7 2019, you're aiming for -- to have the -- the
8 infrastructure and the training in place.
9 And then after that, there's a -- a
10 timing issue in terms of making it fully operational?
11 MR. DAN GUIMOND: Yes. So -- so the
12 first time, if I recall, I said you'll see the bottom-
13 line money is starting March 1, 2019, to February 28,
14 2020, is when you see all the savings to the bottom
15 line in its entirety. It'll come in gradually, but
16 the -- the charter, like the whole amount, I think
17 it's the $13 million we put in, you'll see that for
18 the first time there, yes.
19 MR. BYRON WILLIAMS: And in terms of -
20 - perhaps I could ask Diana to go back to page 522,
21 line 5. My -- My Friend -- Learned Friend Ms.
22 Grammond asked you for some of the explanation of the
23 change in the time frame. And one (1) of the points
24 you made was that the project was even bigger than --
25 than you had originally thought.

1 Is that correct?
2 MR. DAN GUIMOND: Yes. The
3 implications to our business partners, you've seen
4 some of it through the slides this morning in terms of
5 the issues we're going to face with customer service,
6 infrastructure, all these things because of where
7 people are located throughout the province. Yes, it -
8 - when we went into the data and did the pilots, we
9 realized it was a bit more profound than we had
10 originally thought.
11 MR. BYRON WILLIAMS: Well -- well,
12 then, just on that point, as I -- as I read Ms. Gram -
13 - your answer to Ms. Grammond, you found out it was
14 even bigger than you thought. And then you decided
15 that doing pilots would be very important.
16 Do I have that timing right?
17 MR. DAN GUIMOND: That's correct, yes.
18 We -- as we -- we have to think we started this in
19 about 2010/'11. We never thought the structural
20 change in the auto industry would be as significant as
21 they would be. We never thought that the investments
22 level would be as significant as they would be.
23 And we never really understood how --
24 how, for the first time, MPI would not be able to
25 bring all the shops along -- along since -- since the

1 -- since we started as a Corporation. It's the first
2 time where people realized that, Oh-oh, this -- this
3 is a game changer. So that requires a lot of thinking
4 how we're going to deal with that.
5 So -- so, yes, it -- it's -- yes. And
6 that's why we decided to do the pilots and really
7 think it through and see what we can do. And I -- you
8 haven't shown all the slides that I have this morning,
9 but you can see them starting to dialogue about --
10 with the industry, what we can do to help.
11 MR. BYRON WILLIAMS: And just so I
12 understand, Mr. Guimond, in terms of the realization
13 that you wouldn't be able to bring all consumers along
14 -- or, excuse me, all shops along, was that reached
15 sometime in 2014?
16 MR. DAN GUIMOND: I can't recall when
17 it really hit us. When the -- the -- you know, as the
18 data was coming in, I -- I -- we -- we realized that,
19 but I can't remember exactly in the last four (4)
20 years when we triggered, we said, Oh, we've -- we've
21 got a -- a big issue here.
22 MR. BYRON WILLIAMS: Okay. And the
23 only reason I ask is because it seems to me last year
24 we were talking about 2017, and now we're talking two
25 (2) years later.

1 Would that be your recollection as
2 well, sir?
3 MR. DAN GUIMOND: It hasn't -- I think
4 that it's the distinction of when the project is done
5 versus the transitioning so that the whole ecosystem
6 can adjust without creating chaos. That's -- that's
7 the thing now between March 1, 2017, to February 2019.
8 That's -- that's -- in the negotiation I think we'll
9 have a lot to say about that.
10 So even what we're thinking now may
11 very well change depending how much time the industry
12 will need to morph into this new customer service
13 delivery model.
14 MR. BYRON WILLIAMS: Okay.
15 MR. DAN GUIMOND: So that may even
16 change after our negotiations. But right now, we
17 think we're probably going to need a year or two (2)
18 for -- for the transition.
19 MR. BYRON WILLIAMS: And just to
20 scroll down to the bottom of -- of this same page, par
21 -- the par -- lines 20 to 25. Mr. Guimond, you're --
22 you're talking about the completion of collaborative
23 estimating.
24 And I can assure you I've read some of
25 the material, but can you just remind us what

1 collaborative estimating was -- was -- what it was
2 about, that -- that stage of the pilot?
3 MR. DAN GUIMOND: The collaborative
4 estimating was to introduce technology in all of our
5 repair shops. It's called RepairCentre. It's the
6 software from -- that's provided by Mitchell. And --
7 and being able to -- when we do an estimate at our
8 service centre, that you could download the estimate
9 electronically to the repair shops and that you could
10 also -- if there was any modifications required to the
11 estimate, to be able to take pictures, load it. And
12 you can have the conversation realtime online between
13 our service centres and -- and the repair shops to
14 finalize the estimate.
15 And that's what we -- that's why we
16 call it collaborative, because it's -- you
17 electronically can now have the back and forth. And
18 it also allowed us to start introducing technology in
19 some of the shops, having people to learn how to use
20 PCs, also making sure that the telecommunication
21 infrastructure was in place, and then be able to teach
22 people slowly to work together realtime online to make
23 decisions. That was the goal of it.
24 MR. BYRON WILLIAMS: Okay. And as I
25 understand it, MPI paid for the -- the Mitchell

1 software and the -- the shops were responsible for the
2 computers and -- and for the data connection. Is that
3 right, sir?
4 MR. DAN GUIMOND: Yes, we -- we pay
5 for the licensing fee and they provide their -- the
6 computers and they pay for the telecommunication,
7 yeah.
8 MR. BYRON WILLIAMS: And recognizing
9 that not all shops -- you won't be able to bring all
10 the shops along in terms of the new -- the new world
11 order -- or the new PDR, did all the -- did all the
12 shops invest in -- in this pro -- project or did you
13 have some decline?
14 MR. DAN GUIMOND: They -- they all got
15 it because they -- they needed to do business with
16 MPI. We -- we don't want to start doing business.
17 It's a bit like the brokers. You need the technology
18 to be able to do business with us, so they all had the
19 software rolled to them.
20 MR. BYRON WILLIAMS: And turning to
21 the top of page 523. Just directing your attentions
22 to line 1 through 3. You indicate that this process
23 in terms of the collaborative estimating and putting
24 the technology into the shops took a bit longer than
25 anticipated with a quite significant learning curve,

1 agreed?

2 MR. DAN GUIMOND: Yes.

3 MR. BYRON WILLIAMS: And what -- in

4 terms of the learning curve, sir -- sir, what were you

5 referring to?

6 MR. BYRON WILLIAMS: Some shops didn't

7 have computers. It's -- like -- like, the accredited

8 shops from -- from a technology perspective you could

9 say are -- are very different from shop to shop to

10 some people not using software at all, like -- like, a

11 repair -- the -- the software were rolled out. Some

12 people didn't even have a computer.

13 So -- so it was very important to us to

14 make it available to all the shops so that it's also a

15 way to work with industry to make them understand how

16 things are really changing and to accept that the

17 world is changing, and also to provide information.

18 And also to show that MPI wants to --

19 to be able to work with them collaboratively. And it

20 gives them a chance to put their hand around on what's

21 happening to them because the -- the business owners

22 are -- are -- you've got like people -- big, big

23 businesses to very, very small businesses so we -- we

24 felt it was very important to be able to take our

25 time, make sure everybody understands what's

1 happening, and to start the awareness of what's going
2 on in that industry, and give people a chance to adapt
3 and make business decisions.
4
5 (BRIEF PAUSE)
6
7 MR. BYRON WILLIAMS: I want to --
8 we'll come to distributed estimating in just a second,
9 sir, but a while ago in -- in terms of talk --
10 speaking of the realization that -- that you wouldn't
11 be able to bring all the shops with you, you referred
12 to the data coming in.
13 What type of data are you talking
14 about, sir?
15 MR. DAN GUIMOND: What you saw in the
16 slides -- slide deck that I showed you this morning.
17 We -- if you look at the amount of investments that
18 you need to make --
19 MR. BYRON WILLIAMS: Okay.
20 MR. DAN GUIMOND: -- and then with the
21 certified shops and -- and the certified programs, the
22 tools, the training, the facilities, even the power
23 that you need for some of these tools, some -- some
24 shops have to -- like you have -- you need a new
25 transformer that Hydro has to put in at -- at quite an

1 expensive -- so all of this was starting to come in.
2 And we didn't realize how fast it would go, and we
3 didn't realize how much money it would be.
4 MR. BYRON WILLIAMS: Okay. And -- and
5 in terms of distributed estimating, you've talked
6 about that with My Friend, Ms. Grammond, but it's fair
7 to say that you -- you started that pilot in -- in
8 August or September of 2015. Is that correct, sir?
9 MR. DAN GUIMOND: Yes.
10 MR. BYRON WILLIAMS: And you expect it
11 will take about a year for you to have enough data
12 from the -- the project to come in, sir?
13 MR. DAN GUIMOND: Yes. We're -- we're
14 giving ourselves a year to collect data to prepare for
15 the negotiations in the fall.
16
17 (BRIEF PAUSE)
18
19 MR. BYRON WILLIAMS: And in terms of
20 your discussion of -- of how much money it would cost,
21 you're speaking primarily -- you're suggesting that
22 you -- as you learn more, the -- the magnitude of the
23 investment that would be required by the repair
24 industry became more apparent to you.
25 MR. DAN GUIMOND: Yes, and I think the

1 -- the Ford 150 aluminum, for example, was a way --
2 this is the catalyst that the Corporation used to make
3 the point how it's not viable to invest that kind of
4 money in two hundred and ninety-seven (297) accredited
5 shops. And also the way the certified programs that
6 would be rolled out by the manufacturers, in terms of
7 how they're going about it, and how they're focusing
8 on making sure that you have enough volume to be
9 profitable and so on, so they're only going to
10 accredit so many in our province.
11 That -- that's something that's
12 starting to come out. We understand these things
13 more. We didn't have all that information back then.
14 So -- so now, yes, that's the kind of stuff -- that's
15 the kind of information that -- that is coming to our
16 attention, and -- and that we didn't know back then.
17 MR. BYRON WILLIAMS: And -- and so
18 with all these moving parts in terms of a longer
19 rollout, and pilot projects, and collaborative
20 estimating taking longer than expected, in terms of
21 the internal cost to MPI there's been no revision to
22 the estimated cost of 65 million, correct?
23 MR. DAN GUIMOND: Yes, because it's
24 more an issue of timing than funding envelope. So
25 it's cashflow versus funding envelope.

1 MR. BYRON WILLIAMS: Now, if you could
2 -- Diana, if you could turn up PUB/MPI-1-16 for a
3 moment. First Round Number 16, please, of the PUB.
4 Thank you.
5
6 (BRIEF PAUSE)
7
8 MR. BYRON WILLIAMS: And you can
9 scroll down to the -- Mr. Guimond, just -- just to --
10 to move a little more quickly, the -- the PUB in its
11 order last year had indicated its -- its desire to see
12 the cost containment achievements of the PDR, at least
13 the preliminary metrics, and the Corporation advised
14 that they won't be available till the summer of 2017
15 due to the ongoing negotiation with the repair
16 industry, agreed?
17 MR. DAN GUIMOND: Agreed.
18 MR. BYRON WILLIAMS: And in addition
19 to those negotiations, there's also some negotiations
20 ongoing with the MGEU related to this project, which
21 you hope to complete in 2016?
22 MR. DAN GUIMOND: Yes, we hope to have
23 a ratified agreement by March 2016, so we're in a
24 position to finalize the negotiations between
25 September and December 2016 with the repair industry.

1 MR. BYRON WILLIAMS: And you can see
2 for the -- the response to PUB/MPI-1-16 that some of
3 the information essential to the cost containment
4 models you need to garner from the distributed
5 estimating pilot, agreed?
6 MR. DAN GUIMOND: Agreed that some of
7 it, yes.
8 MR. BYRON WILLIAMS: And I guess
9 factually, Mr. -- Mr. Guimond, the -- the thrust of
10 this answer is that the -- the Public Utilities Board
11 will in essence have to wait till after you've
12 completed your negotiations with the repair industry
13 before it -- it has access to the -- the metrics
14 associated with the -- the cost containment models?
15 MR. DAN GUIMOND: That is the
16 Corporation's position, yes.
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: And -- and, Mr.
21 Guimond, I -- I wonder if the Corporation has given
22 any consideration prior to the next general rate
23 application hearing in October of 2016 in recognizing
24 that the distributed estimating information should be
25 available by then in terms of providing a briefing in

1 confidence to -- to the Public Utilities Board or
2 others to enable the Public Utilities Board to make a
3 determination in terms of the risks associated with
4 the negotiations around this new billion dollar deal
5 and MPDR?
6 MR. DAN GUIMOND: I would prefer not
7 to do that. And -- and I'm very concerned about --
8 because of the magnitude of the contract, poten --
9 potential leaks and so on, so I -- I would prefer not
10 -- not to do that. It -- it -- there's a lot at -- at
11 stake. I'd rather that I -- I be held accountable
12 when I come back in -- in 2017.
13 I mean, I've -- I've made my
14 commitments to the PUB. I've told you I'm on track
15 with the numbers. I've told you that I feel confident
16 we're going to be okay and just hold me accountable in
17 -- in June 2017. I have no issues with that.
18 MR. REGIS GOSSELIN: Mr. Guimond,
19 would you -- would -- could you clarify for me,
20 please, the negotiations involving the industry --
21 repair industry, are broader than -- broader --
22 broader than just the distributed estimating process.
23 I mean, it encompasses the hourly rate. It
24 encompasses a number of -- of issues. And the -- the
25 estimating process is a -- is a module, if you were,

1 within those negotiations?

2 MR. DAN GUIMOND: That is correct.

3 MR. REGIS GOSSELIN: Okay.

4

5 CONTINUED BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: Diana, I wonder

7 if you can turn to CAC-2-13.

8

9 (BRIEF PAUSE)

10

11 MR. BYRON WILLIAMS: Mr. Guimond, you

12 see the question here is: Please confirm that the

13 repair industry is expected to fund the retooling

14 investments and is not expecting a contribution or

15 subsidy from MPI going forward.

16 Do you see that, sir?

17 MR. DAN GUIMOND: In the question

18 area? Yes, I -- yes.

19 MR. BYRON WILLIAMS: And -- and the

20 Corporation's response, you'll agree, is that MPI will

21 not be providing any individual contribution or

22 subsidy to any specific repair shop or industry to

23 fund retooling unless warranted circumstances are

24 identified.

25 Did I paraphrase that appropriately,

1 sir?

2 MR. DAN GUIMOND: Yes.

3 MR. BYRON WILLIAMS: And any sense of

4 what "warranted circumstances" are?

5 MR. DAN GUIMOND: Again, I -- I would

6 respectfully ask that we not go into these kinds of --

7 of questions because everything's on the table for

8 negotiation. It's a bit like the other question. I

9 can't remember what the number is of the question, but

10 it was about who pays for the estimate and things of

11 that nature.

12 So I -- I think it's very important

13 that in this forum we not talk about all the things

14 that will be discussed during negotiations.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: I understand, and

19 certainly my client does as well, Mr. Guimond, your --

20 your position. I suppose you can understand how, from

21 a consumer perspective, there are important public

22 policy and rate implications potentially flowing if

23 issues like funding the -- some of the retooling of

24 the -- of the industry were -- are all on the table.

25 MR. DAN GUIMOND: Yes, I acknowledge

1 your customer's point of view, yes.
2 MR. BYRON WILLIAMS: And especially
3 given the fact, sir, that you've indicated that one
4 (1) of the real revelations of this project has been
5 how much more it will cost than -- than you had
6 originally anticipated for the industry.
7 You'll -- you understand that
8 perspective?
9 MR. DAN GUIMOND: The implication to
10 the repair industry, yes.
11
12 (BRIEF PAUSE)
13
14 MR. BYRON WILLIAMS: Diana, if you
15 could pull up the response to CAC-II-29.
16 And, Mr. Guimond, we -- we probably
17 don't need to look at this, but the -- the reality of
18 the PDR is that, once it is fully deployed, presumably
19 in 2019/'20, that's going to reduce the space required
20 at service centres, agreed?
21 MR. DAN GUIMOND: Agree.
22 MR. BYRON WILLIAMS: And on the table
23 will be whether the current number of service centres
24 continues or whether there -- it's no longer feasible
25 to keep all those service centres in -- in place.

1 Is that fair?

2 MR. DAN GUIMOND: Yes. We're going to

3 have to look at the implications to our service

4 centres once the full implementation of the service

5 delivery model is in place.

6 But you're starting to see how we're

7 slowly reacting to that. We're closing two (2)

8 facilities by 2017, one (1) in Brandon and one (1) in

9 Winnipeg. We're going to start leveraging those

10 facilities a little bit differently.

11 We also had talked to you about our

12 strategic roadmap, about the diversification of -- of

13 the -- of the Corporation. You can see, for example,

14 you know, it -- it's almost like -- you know, when

15 you've been around for a while, it almost repeats

16 itself.

17 But you can see how our serv -- now we

18 don't have claim centres but we have service centres.

19 You can see that today in our service centres we do a

20 lot of things that our claims centres didn't do

21 fifteen (15) years, ten (10) years ago.

22 Today, we do a lot of DVA activities in

23 there in terms of road tests, in terms of language

24 tests, in terms of -- so -- so I think we're probably

25 going to need less service centres in Winnipeg. I

1 wouldn't say for the rest of the province because we
2 have to find a way how we're going to serve our
3 customers with the way things are -- are going.
4 But in Winnipeg, I would say that we
5 might need less service centres but not in rural
6 Manitoba.
7 MR. BYRON WILLIAMS: Okay. And thank
8 you for that thoughtful answer. And again, maybe it's
9 my aging memory, but didn't we just recently complete
10 two (2) new service centres in Winnipeg, one (1) being
11 on Gateway Road and one (1) being on Main Street?
12 MR. DAN GUIMOND: I don't know if five
13 (5) or six (6) years ago is recent, but, yeah, we --
14 we did do some new service centres to -- to meet the
15 needs of -- of the -- of our customers.
16 MR. BYRON WILLIAMS: Okay. But moving
17 forward and -- and perhaps by 2019/'20 there may be a
18 reduction of service centres in Winnipeg?
19 MR. DAN GUIMOND: I would say it's
20 more between 2020 and 2023. And then it also depends
21 on strategically what diversification will mean for
22 MPI as we prepare for the autonomous car. So just
23 like today, we do a lot more in our -- they've come --
24 service centres now instead of claim centres, so it
25 depends strategically where the Corporation will go as

it prepares itself for the reality of the autonomous car and what does diversification mean.

So from a strategic standpoint, I wouldn't go too -- you know, it -- it depends how -- how things are going to go.

MR. BYRON WILLIAMS: And the two (2) places that were annou -- that closure was recently announced, one (1) was on -- in Brandon and one (1) is on Ellice Avenue. Is that correct, sir?

MR. DAN GUIMOND: Yes.

MR. BYRON WILLIAMS: And you see in the response to CAC-1-29 that going...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Not a problem. You see in -- in terms of going forward the determination of the long rates service centre strategy will be determined by customer usage patterns and location's specific demand. Is that right?

MR. DAN GUIMOND: At this point in time? Yes.

MR. BYRON WILLIAMS: So were those the criteria that were applied in terms of closing the Brandon facility and the Ellice Avenue facility?

1 MR. DAN GUIMOND: Not quite. The --
2 the driving factor for those two (2) facilities are
3 the fact that we rent them, number 1. Number 2,
4 they're -- they're not open -- well, the one (1) on
5 Ellice is not open to the public. That's where we
6 have our -- our IT initiatives done. So we're going
7 to move them into our facilities to -- to leverage the
8 space that we have in our facilities instead of paying
9 for rent.
10 The one (1) in Brandon, when we did the
11 merger it was -- there was a lease agreement until
12 2017. So we're just waiting until that lease
13 agreement expires. And then we're going to move them
14 into our -- our Brandon service centres.
15 MR. BYRON WILLIAMS: And so just so
16 I'm clear, the Ellice facility wouldn't be a ser --
17 would not have been a service or claim centre in the
18 way we understand it. It was where some of the in --
19 initiative folks were -- were housed?
20 MR. DAN GUIMOND: That's correct, it
21 was never a service centre. It was always a place
22 where we had our initiatives done. The only time it
23 was open to the public was when we rolled out -- it
24 was temporarily the Enhanced Driver Licence Program,
25 where people went for interviews there. It was a very

1 short period of time.

2 MR. BYRON WILLIAMS: And just a couple

3 of last questions on service centres or centres. You

4 -- the Corporation will be building a new physical

5 damage centre of excellence with -- with a cost of in

6 the range of $4.1 million plus contingency for a total

7 of 6.3 million.

8 Is that right?

9

10 (BRIEF PAUSE)

11

12 MR. DAN GUIMOND: I just want to

13 clarify what we mean by -- by building a centre of

14 excellence. We're actually modifying our existing

15 buildings.

16 MR. BYRON WILLIAMS: The Plessis Road

17 one?

18 MR. DAN GUIMOND: Right, exactly.

19 There's two (2) of our buildings at Plessis Road that

20 need to be modified.

21 MR. BYRON WILLIAMS: Okay.

22 MR. DAN GUIMOND: And we're still

23 working -- this was a primary funding envelope that

24 was approved when we got the green light to -- to do

25 this. The final numbers, you know, we're -- we're

1 looking at ways to maybe reduce the cost, but that's
2 the funding envelope at this point in time.
3 MR. BYRON WILLIAMS: Okay. Madam
4 Chair, I'm just moving to a new subject, so I don't
5 know if that would be an appropriate time to...
6 THE CHAIRPERSON: We'll break for
7 fifteen (15) minutes. Thank you.
8
9 --- Upon recessing at 2:29 p.m.
10 --- Upon resuming at 2:49 p.m.
11
12 THE CHAIRPERSON: Okay. Welcome back.
13 Mr. Williams, would you like to continue -- oh, you've
14 got a couple more -- sorry, they haven't -- Ms.
15 Kalinowsky, would you like to put some exhibits into
16 the record, please?
17 MS. KATHY KALINOWSKY: Yes. I have
18 two (2) exhibits here that we can put into the record.
19 The first will be the product and policy management
20 PIPP value added legislation amendments, and that
21 should be marked as MPI Exhibit number 27. And Mr.
22 Guimond will speak to that in one moment.
23
24 --- EXHIBIT NO. MPI-27: Product and policy
25 management PIPP value

1 added legislation
2 amendments
3
4 MS. KATHY KALINOWSKY: We also have
5 another table which is accident benefits weekly
6 indemnity estimated net ultimate claims, and that
7 should be marked as MPI Exhibit number 28, and Mr.
8 Johnston will be speaking to that.
9
10 --- EXHIBIT NO. MPI-28: Accident benefits weekly
11 indemnity estimated net
12 ultimate claims
13
14 THE CHAIRPERSON: Thank you, Ms.
15 Kalinowsky.
16 Mr. Guimond, would you like to speak to
17 number 27, please?
18 MR. DAN GUIMOND: Yes. Thank you very
19 much. I wanted to make -- follow up a little bit to
20 our discussion regarding benchmarking and how things
21 change all the time. So at -- at a point in time in
22 2010, we -- if we have benchmarking not only do we
23 codify the loss now with ICD-10 and so on, but I
24 wanted to show you all the legislative changes that
25 have taken place on the PIPP program that we have in

1 place, and how that increases severity but -- but we
2 have to resonate with our customers in terms of
3 expectations and societal needs, and so on while we
4 still find ways overall to cut our costs to be able to
5 have the lowest premiums across Canada.
6 So if you look on page 1, it starts
7 from June 29, 1998, until the date. And I wanted to
8 show you, if we go to page 10, you can see all the
9 changes starting from December 2010, of all the PIPP
10 changes that have occurred that increase coverage.
11 And I also wanted to be able to -- in
12 terms of making the point on technology, if you go to
13 page 11 you can also see -- I'm -- I'm sorry, it --
14 beyond 2010 it actually starts on -- on page 4. I'm
15 sorry. But I also wanted to show you that on page 11
16 the use of technology, for example.
17 Like I mentioned in 2006, you know,
18 there was no iPad and things of that nature but
19 somebody who is stuck in a wheelchair can now use an
20 iPad to open the drapes, open the lights, do all kinds
21 of -- of things that -- from their wheelchair that
22 they would have difficulty if -- if they didn't have
23 that technology.
24 So I wanted -- you know, sometime we
25 talk but me, I'm passionate about our customers. I'm

1 passionate about what we do. And I wanted to show you
2 that -- what I was referring to about how we continue
3 to improve our coverage and we make sure we resonate
4 with our customers and how things are changing all the
5 time. I wanted to give you some evidence to that
6 effect. And that's the purpose of this exhibit.
7 The other thing that I'd -- I'd like to
8 be able to do if -- if I can take a few minutes, just
9 to do a follow-up on the facilities that MPI has. If
10 we go to the IR in Round 1 called CMMG/MPI-1-18, page
11 2, please.
12
13 (BRIEF PAUSE)
14
15 MR. DAN GUIMOND: We've been in
16 business for forty-four (44) years. People move
17 around. Riverpark South didn't exist in 1971. So I
18 just wanted to show you over time -- those are all the
19 buildings that MPI has closed over time. And we're
20 going to -- and if you scroll down you're going to see
21 a footnote there that we're going to be closing those
22 two (2) buildings.
23 And so, yes, we -- we build new
24 locations and it's because it's satisfied where our
25 customers are moving, and where they're living, and

1 what they're doing, and where they go to do business.
2 And yes, we will continue to adjust to where our
3 customers move. And as builders continue to create
4 new areas for people to live and where people
5 interact, we will follow them and we will provide the
6 service that they expect of us.
7 And so when a business stays in time --
8 in business as long as we have, I don't think it's
9 unrealistic that at certain points in time you have to
10 close facilities and open others where people are.
11 Thank you.
12 THE CHAIRPERSON: Thank you, Mr.
13 Guimond. Mr. Johnston...?
14 MR. LUKE JOHNSTON: Thanks. So MPI
15 Exhibit 28, earlier we were talking about the
16 Corporation's response to CAC-1-1 and that was the
17 table where we're looking at actual termination rates
18 of claimants versus what we expected them to be based
19 on our mortality tables and -- and the conclusion kind
20 of drawn from that table was that our actual
21 experience was more favourable than we expected and
22 that's -- that's true.
23 So the part that I referenced was that
24 we are gradually recognizing that experience in our
25 data as it occurs. So what happens for claims that

1 are more than ten (10) years old is from an actuarial
2 perspective we just reserve them for life. The case
3 manager keeps working the claim, as usual, but from my
4 perspective, they're -- they're lifetime claims. So
5 on the actual report we just post lifetime claims.
6 If we have favourable experience like
7 were shown in that table, well, the -- the claim will
8 close, the reserves will be deleted, and we'll have a
9 new estimate of all those claims. To the extent that
10 those results are favourable we start building tho --
11 that into our projections.
12 So that what this table shows is that
13 in the third column over that says, "Unadjusted Loss
14 Development Factors," that would be what our weekly
15 indemnity ultimate would be if we just took the -- our
16 -- our -- we call them tabular reserves and we just
17 took them as is and didn't make any adjustment for
18 favourable experience. And if you slide over to,
19 "Actuary Report 2015," column, that's what we actually
20 do after making that adjustment.
21 So it's really complicated to explain
22 in the actuarial report, but right now the impact of -
23 - of recognizing experience has lowered our estimates
24 by 7,359,000. And the net effect on the ultimates is
25 about 0.75 percent. Recognizing that there's a -- a

1 very large portion of PIPP claims that are not related
2 at all to lifetime benefits and they've already been
3 closed and paid.
4 But we'll continue to do this for as
5 long as the claims remain open, making this
6 adjustment, and it'll be ongoing. So I just wanted to
7 show that we -- we are making an adjustment and it's
8 worth about $7 1/2 million right now.
9 THE CHAIRPERSON: Thank you, Mr.
10 Johnston. Mr. Williams...?
11 MR. BYRON WILLIAMS: Yes. And just in
12 terms of timing for the Board, I'm next moving into
13 the area of -- of in -- investments and the asset-
14 liability matching. If we have a little bit of time
15 at the end, I'll -- I'll move to probably driver
16 safety rating.
17 I think if there's RSR folks here, it's
18 unlikely that they need to be hanging around, or road
19 -- road safety, just for the convenience of the MPI
20 back row.
21
22 CONTINUED BY MR. BYRON WILLIAMS:
23 MR. BYRON WILLIAMS: And, Mr.
24 Johnston, a -- a very, very small point. In your --
25 in your response and your articulation of MPI Exhibit

1 28, you may have said, responding to CAC-1-1, and if
2 you did, you -- you would have meant CAC-2-1, right,
3 sir?
4 MR. LUKE JOHNSTON: Thanks for that.
5 MR. BYRON WILLIAMS: I don't think it
6 was much of a contribution, but I'm just -- perhaps we
7 can turn to CAC First Round Information Request 60 --
8 1-60, excuse me -- and in particular, Diana, question
9 sub 'C'.
10 Actually -- yes, and whether this is to
11 Mr. Johnston or Ms. Reichert or others on the MPI
12 panel, in essence, what we were asking here were:
13 What if any material changes to the Corporation's risk
14 profile since the GRA?
15 And the -- the Corporation has
16 basically said the -- the material change has been the
17 reduction in the interest rate risk, agreed?
18 MS. HEATHER REICHERT: Agreed.
19 MR. BYRON WILLIAMS: Now, Mr.
20 Johnston, you can use a better definition if you
21 prefer, because I think you used a better one than I'm
22 going to offer right now. But in terms of the term
23 duration, when we're using it in the context of -- of
24 bonds, would it be accurate to describe it as a
25 measurement of how long in years it takes for the

1 price of a bond to be repaid by its internal
2 cashflows?
3 MR. LUKE JOHNSTON: That's fair. I
4 don't know if anyone would understand me if I told
5 them that, but -- but, yes.
6 MR. BYRON WILLIAMS: Okay. Well, Mr.
7 Johnston, work with me, make it understandable, sir.
8 MR. LUKE JOHNSTON: Similar to how we
9 talked about claim duration before, bonds also would
10 have a cashflow pattern. Often there's a series of
11 coupon payments with a lump sum at the end, but other
12 forn -- forms of bond.
13 In terms of the present-day value of
14 those cashflows, the bond -- the longer they are out
15 in the future, the more sensitive the bond is to
16 interest rate changes. And -- and the average -- the
17 average discounted cashflow at point in time, that's -
18 - that's essentially how you get your duration.
19 So if you had equal payments over once
20 a year for twenty (20) years, you'd probably have a
21 duration kind of like around the nine (9) years or so,
22 taking the present value of those cashflows. It
23 depends on the interest rate, of course.
24 MR. BYRON WILLIAMS: Mr. Johnston, I'm
25 still not sure that was any better, but we'll -- I

1 think we're on common ground.

2 MR. LUKE JOHNSTON: I think maybe what

3 I'll to it is, again, as I talk about on the claims

4 side, the longer the cashflows are out in the future,

5 the more sensitive the -- the amount is going to be to

6 interest rate changes.

7 MR. BYRON WILLIAMS: Thank you. And -

8 - and when we look at bonds -- and I'm not moving to

9 the liabilities side. I just want to look at -- at

10 bonds for a second. The risk to a bond purchaser are

11 twofold, one (1) being the credit risk or default

12 risk, and the second being the interest rate risk or -

13 - or rate fluctuations.

14 Would that be fair?

15 MS. HEATHER REICHERT: That's fair.

16 MR. BYRON WILLIAMS: And as Mr.

17 Johnston just said, the bigger the duration number the

18 greater the interest rate risk or reward.

19 Fair enough?

20 MS. HEATHER REICHERT: Fair enough.

21 MR. BYRON WILLIAMS: And we -- when we

22 get to the -- looking at the portfolio of MPI, in

23 addition to credit risk and -- and duration risk, is

24 it also fair to say that there's also a timing risk

25 just related to the long claim settlement patterns?

1 MR. LUKE JOHNSTON: Yeah, one (1) --
2 one (1) of the -- when we talk about the interest rate
3 provision on the claim side is that we're not -- we're
4 not doing perfect cashflow matching. We're doing --
5 we're doing duration matching, so it's not going to be
6 as -- as perfect as if you had every cashflow lined
7 up.
8 One (1) of the -- one (1) of the
9 particular issues with -- with matching the claims is
10 that we have cashflows thirty-five (35) years from
11 now. And it's -- finding bonds that are going to pay
12 out thirty-five (35) years and matching those up is
13 problematic. There's other ways people do it, like
14 they've matched to equities and stuff.
15 But -- so there's always -- the exact
16 timing and the shape of the yield curve and -- and all
17 that is definitely a risk for a ten (10) plus year
18 duration portfolio.
19 MR. BYRON WILLIAMS: And -- and I
20 apologize, Mr. Reichert and Mr. Johnston, I am going
21 to bounce around a little bit for this discussion.
22 But if we could pull up MPI Exhibit 17
23 for a moment. And I think Ms. Kalinowsky might have
24 just filed this earlier today. But this is -- this
25 defines tracking error to be the measure of the

1 volatility as represented by standard deviation of the
2 difference between two (2) numbers, in this case, the
3 change in the range of fixed income portfolio and the
4 ca -- claims liabilities, agreed?
5 MR. LUKE JOHNSTON: Agreed.
6 MR. BYRON WILLIAMS: And if -- in
7 terms of the tracking error, the -- what -- what this
8 response is intended to demonstrate is that the -- as
9 compared to the -- that the -- the volatility here is
10 related to Series 3, the green -- green one. That's
11 where there's the volatility up and -- up an down
12 relative to the blue line, agreed?
13 MR. LUKE JOHNSTON: Correct.
14 MR. BYRON WILLIAMS: Now, Diana, in
15 the investment income report, the Aon document,
16 Attachment B at page 54...
17
18 (BRIEF PAUSE)
19
20 MR. BYRON WILLIAMS: It's PDF page 54.
21 Yeah, that's perfect.
22 Mr. Johnston, on the right-hand side of
23 this table is an explanation of how the -- the risk
24 associated with different asset classes was -- was cal
25 -- was generated, agreed?

1 MR. LUKE JOHNSTON: Agreed.
2 MR. BYRON WILLIAMS: And we see that
3 for global bonds they used a relatively short time
4 period of 1990 to 2013, correct?
5 MR. LUKE JOHNSTON: Correct.
6 MR. BYRON WILLIAMS: I guess the
7 longest time period they used was -- for high yield
8 bonds was from 1987 to 2013, correct?
9 MR. LUKE JOHNSTON: Yes, looking at
10 the table, correct.
11 MR. BYRON WILLIAMS: And -- and for
12 bank loans they used a relatively short period of
13 time, and that's really because there was a break in
14 the data in the sense that there was a high -- a
15 beginning of a high correlation between bank loans and
16 high yield bonds, agreed?
17 MR. LUKE JOHNSTON: I don't recall
18 that and -- and obviously I don't have a lot of
19 concern about bank loans, but -- but subject to check,
20 I accept your description.
21 MR. BYRON WILLIAMS: And, Ms. Reichert
22 -- or actually, this -- Mr. Johnson -- Mr. Johnston, I
23 apologize.
24 Just in terms of -- you recall a
25 discussion you had with Ms. -- My Learned Friend Ms.

1 Grammond. She had Mr. Pelly by -- by aside and you
2 were -- you were talking about the degree of
3 immunization for the Basic portfolio as compared to
4 the corporate portfolio.
5 Do you remember that discussion, sir?
6 MR. LUKE JOHNSTON: Yes, I do.
7 MR. BYRON WILLIAMS: And the
8 conclusion that the discussion seemed to garner from
9 your DCAT report was that on a corporate basis the
10 immunization and the protection was very close, but
11 that on the Basic side while there have been
12 significant improvement there was still a significant
13 difference.
14 MR. LUKE JOHNSTON: So the -- to -- a
15 two (2) part question, I guess. On the corporate
16 basis, the durations are very close to matched.
17 Obviously there's some volatility in -- in timing, but
18 that's the intent.
19 The issue I had when -- in discussions
20 with Ms. Grammond and -- and likely Mr. Pelly, as
21 well, is that we are to a large extent, or were, even
22 matched. Before we used to come to the PUB and the
23 question would come up, How -- show us the -- you
24 know, the matching between assets and liabilities, and
25 we would say, You know, maybe 75 or 80 percent

1 matched.

2 So with the move to ALM, Mr. Williams,

3 it's correct, it's not -- Basic is not as tightly

4 matched as corporate is, but we've increased that

5 matching percentage. So I -- I don't know the exact

6 number, but the percent we were matching to Basic

7 before is -- is -- we're now higher precent matching

8 now, but not perfect.

9 MR. BYRON WILLIAMS: And the

10 conclusion one would draw from the DCAT, sir, is that

11 from the perspective of the Basic portfolio there is

12 still a material risk related to adverse interest rate

13 developments?

14 MR. LUKE JOHNSTON: Depending on the

15 size of the interest rate change, the -- but if we're

16 talking more than 10, 30, $30 million for larger

17 interest rate changes as being material, which it is,

18 then I agree with that statement.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Mr. Johnston, I

23 may be presenting to you a definition that both of us

24 struggle with. Let's see.

25 But in terms of parallel shifts in the

1 yield curve, would it be fair to describe that as a
2 shift in economic conditions in which the change in
3 the interest rate on all maturities is the same number
4 of basis points?
5 MR. LUKE JOHNSTON: That's reasonable,
6 yes.
7 MR. REGIS GOSSELIN: Could -- could
8 you repeat that question, Mr. Williams, please?
9
10 CONTINUED BY MR. BYRON WILLIAMS:
11 MR. BYRON WILLIAMS: I'm not
12 confident, Mr. Chair (sic), but I was asking my -- Mr.
13 -- Mr. Johnston, in terms of -- we -- we see the word
14 "parallel yield curve," and whether it would be fair
15 to describe it as a shift in economic conditions in
16 which the change in the interest rate on all
17 maturities is the same number of basis points?
18 MR. LUKE JOHNSTON: Yes. And to -- to
19 assist the Board in -- in my mind visualizing that,
20 there would be -- let's say interest rates are
21 increasing and there's a line like this, the whole
22 like just slides up fifty (50) basis points all across
23 the -- the whole graph.
24 MR. BYRON WILLIAMS: And that would be
25 for -- notionally it could be from a three (3) month

1 maturity to a -- to a twenty (20) year, or -- et
2 cetera?
3 MR. LUKE JOHNSTON: Correct.
4 MR. BYRON WILLIAMS: And similarly, I
5 hope, non-parallel shift in the yield curve could be
6 described as a shift in the yield curve in which
7 yields do not change by the same number of basis
8 points for every maturity?
9 MR. LUKE JOHNSTON: Correct, such as
10 if -- if short-term maturities increase then long-term
11 interest rates stay the same, would be example.
12 MR. BYRON WILLIAMS: Thank you. If we
13 could turn to -- actually Investment Income Attachment
14 B, PDF page 9.
15
16 (BRIEF PAUSE)
17
18 MR. BYRON WILLIAMS: Mr. Johnston,
19 you'll recognize this material. It -- it's produced
20 by Aon, agreed?
21 MR. LUKE JOHNSTON: Agreed.
22 MR. BYRON WILLIAMS: And I'll
23 paraphrase the first bullet, but the suggestion of --
24 of Aon is that duration matching protects against
25 parallel shifts of the yield core -- curve, which

1 explains approximately 85 percent to 90 percent of
2 interest rate risk?
3 MR. LUKE JOHNSTON: Yes, I see that.
4 MR. BYRON WILLIAMS: The pros are set
5 out there, Mr. Johnson -- Mr. Johnston, but in terms
6 of the con, Aon suggests that the -- the biggest con
7 is that the tracking area is -- tracking error is the
8 largest among the hedging strategies.
9 Would that be a fair statement?
10 MR. LUKE JOHNSTON: That's fair, and -
11 - and expected, relative to the other strategies
12 proposed, which went to the extreme of cashflow
13 matching in -- in the report.
14 MR. BYRON WILLIAMS: And, Mr.
15 Johnston, we'll -- we'll get to that, but at a -- at a
16 high level what the Corporation is grappling with, at
17 both the Corporate level and the Basic level, is that
18 tradeoff between a reduction in volatility versus
19 opportunity, agreed?
20 MR. LUKE JOHNSTON: I believe you're
21 saying the -- the --
22 MR. BYRON WILLIAMS: Risk --
23 risk/reward.
24 MR. LUKE JOHNSTON: -- risk/reward
25 relationship. Yes, if you're -- if you want tighter

1 matching, that'll -- that'll come with a price.
2 MR. BYRON WILLIAMS: Now, in terms of
3 duration matching, Aon suggests that -- that the
4 portfolio could significantly underperform the
5 liabilities in the case of an unfavourable yield curve
6 move.
7 Do you see that expla -- that
8 articulation by Aon, Mr. -- Mr. Johnston? It's --
9 MR. LUKE JOHNSTON: Is it --
10 MR. BYRON WILLIAMS: -- bottom under --
11 MR. LUKE JOHNSTON: -- on this page?
12 MR. BYRON WILLIAMS: The very last two
13 (2) lines, sir.
14 MR. LUKE JOHNSTON: Yes, I see that
15 now.
16 MR. BYRON WILLIAMS: And could you
17 expl -- explain your understanding of what they meant
18 by unf -- unfavourable yield curve move?
19
20 (BRIEF PAUSE)
21
22 MR. LUKE JOHNSTON: I'm just trying to
23 think of a -- a good example for you. But we're
24 talking about non-parallel shifts here, and again
25 given that the -- it's only the duration that is

1 matched and not the cashflows, particularly in the --
2 in the longer maturity end of the spectrum, changes
3 there that could affect the liabilities more, could --
4 and possibly not affect assets in the same way are --
5 are possible.
6 MR. BYRON WILLIAMS: Could you
7 elaborate on that example just a bit more, Mr.
8 Johnston?
9 MR. LUKE JOHNSTON: If the -- if the
10 yield curve -- let's say short-term interest rates
11 rose by twenty-five (25) basis points, but long-term
12 interest rates didn't increase at all, there could be
13 implications given that the liabilities are so far
14 into the future and the -- the discount rate didn't
15 change, essentially, for those liability cashflows,
16 but there may be an impact on assets for other
17 shorter-term interest rate changes.
18 MR. BYRON WILLIAMS: Diana, if you
19 could move to page 14 of -- of -- PDF page 14 of the
20 same document.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: Mr. Johnston, in
25 -- in the third bullet on this page, Aon provides its

1 estimated annual tracking error between MPI's
2 liabilities and fixed income portfolio for three (3)
3 different strategies, being duration match, hybrid
4 solution, and cashflow match, agreed?
5 MR. LUKE JOHNSTON: Agreed.
6 MR. BYRON WILLIAMS: And -- and in
7 terms of the estimated annual tracking error for the
8 purposes of Aon, it suggested that the -- the lowest
9 error was the cashflow max -- match at fifteen (15)
10 basis point?
11 MR. LUKE JOHNSTON: Agreed. And --
12 and not surprising.
13 MR. BYRON WILLIAMS: And again, the --
14 the highest volatility would be associated with --
15 potentially would be associated with the duration
16 match at one hundred and twenty (120) basis points?
17 MR. LUKE JOHNSTON: Correct.
18
19 (BRIEF PAUSE)
20
21 MR. BYRON WILLIAMS: If we could turn
22 to PDF page 60. PDF page six zero (60). Oh, I
23 apologize. It's Attachment C, page 60, Diana. My
24 apologies.
25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Mr. Johnston,
4 Attachment C represents in essence some of the final
5 recommendations of -- of Aon.
6 Fair enough?
7 MR. LUKE JOHNSTON: Yes.
8 MR. BYRON WILLIAMS: And directing
9 your attention to the second bullet again, I'll
10 suggest to you that Aon ex -- ex -- provides its
11 explanation for why it's recommending Portfolio 2
12 based upon its assumptions, with one (1) element of
13 that decision being that Portfolio 2 exceeded MPI's
14 objective of breaking even, agreed?
15 MR. LUKE JOHNSTON: Agreed. That's
16 what it said. We -- we talked about the practical
17 implications of that, but that is what it says, yes.
18 MR. BYRON WILLIAMS: And it noted
19 that, in terms of average basic net income, there were
20 increased opportunities with Portfolios 3 to 8,
21 agreed?
22 MR. LUKE JOHNSTON: Agreed.
23 MR. BYRON WILLIAMS: But that this
24 came at a cost of greater retained earnings
25 volatility, correct?

1 MR. LUKE JOHNSTON: Agreed. And if --
2 to take it to extreme, if you just invested in 100
3 percent equities, we'd have a high expected return and
4 extreme volatility.
5 So the -- it's just kind of going --
6 not that it says 100 percent equities in any of the
7 portfolios, but just to give you an idea that, sure,
8 if you invest in different asset types with higher
9 returns and more volatility, you'll get higher returns
10 and more volatility.
11 MR. BYRON WILLIAMS: And in terms of
12 the risks that Aon is concerned about, it is greater
13 returned -- retained earnings volatility, agreed?
14 MR. LUKE JOHNSTON: Agreed, and we had
15 a few back and forths about retained earnings and
16 whether it was appropriate. But given retained
17 earnings are going up and down from net income, we're
18 really talking about net income volatility as well.
19 But -- but their measurement use is retained earnings.
20 MR. BYRON WILLIAMS: Well, and in --
21 in essence, sir, was not a -- a cree -- key measure of
22 volatility RSR rebates and surcharges?
23 MR. LUKE JOHNSTON: Can you repeat
24 that, just to make sure I understand it?
25 MR. BYRON WILLIAMS: In terms of

1 retained earnings volatility, Aon was focused on
2 surcharges and rebates related to the rate
3 stabilization reserve, were they not?
4 MR. LUKE JOHNSTON: Okay. I
5 understand now. So if -- if there -- if rules were in
6 place to rebate and -- and surcharge to keep retained
7 earnings within a certain bandwidth, then for sure the
8 volatility of retained earnings would -- would decline
9 in such a scenario. And I -- I think that's what
10 you're asking, yeah.
11 MR. BYRON WILLIAMS: Just for clarity,
12 sir, I'm trying to understand, in terms of how Aon
13 measured retained earnings volatility, would it
14 measure it as rebates and surcharges from the RSR?
15
16 (BRIEF PAUSE)
17
18 MR. LUKE JOHNSTON: Yes, that's my
19 understanding. And we -- we went through a graph,
20 which I don't think we have to go there. But we
21 actually showed the -- the current percentage of
22 premium targets. And that obviously had a low
23 volatility because we had a very tight range with --
24 with frequent surcharge rebates occurring.
25 MR. BYRON WILLIAMS: And later on, we

1 will go there, Mr. Johnston, don't worry. Slide 125,
2 I've got it memorized, I think. But -- but the point
3 you're making is that when we see the words 'greater
4 returned earnings -- retained earnings volatility',
5 that we're relating to surcharges and rebates to the
6 RSR?
7 MR. LUKE JOHNSTON: It's -- it's a
8 little tricky because one (1) of the issues I have
9 with the presentation of -- of how it's presented is
10 take the -- this percentage of premium, these bands.
11 In terms of returned earnings after application of
12 surcharges and rebates it'll look like retained
13 earnings are staying in the band all the time, or
14 close it, and it'll look like it's stable.
15 But if you're having rebates and
16 surcharges every two (2) or three (3) years, well,
17 that kind of defeats the purpose of -- of having a
18 range in the RSR in general. So lower stability of
19 retained earnings? Yes. But the frequency of the
20 surcharge rebate -- surcharges and rebates is -- is a
21 big issue, as well, so that has to be considered.
22 MR. BYRON WILLIAMS: Turning to PDF
23 page 14 of Attachment C.
24
25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: And under the
2 revised RSR targets you again see a particular concern
3 of Aon with regard to the volatility associated with
4 the RSR.
5 Would that be fair?
6 MR. LUKE JOHNSTON: I agree with what
7 they said. But we talked about this in the PUB cross-
8 examination then. Obviously, if you have lar --
9 larger bands you're going to have less rate
10 adjustments, right? Like, if you have a humungous RSR
11 band you're more likely to fall out of that band or --
12 or less -- sorry, less likely to fall out of that
13 band. If it's really tight, you're -- you're more --
14 so the second bullet, a larger distance would reduce
15 the -- with our re-adjustments, well, of course it
16 would, right, but I note their concern.
17 In regard to this idea of smoothed rate
18 adjustments, I believe I already stated that. I
19 didn't think it was ever our intent to not apply for
20 breakeven net income. But the idea of smoothed RSR
21 rebuilding fees has been used by this Board and is --
22 is also a consideration that we use in our DCAT.
23 MR. BYRON WILLIAMS: Thank you. And -
24 - and perhaps we can turn to slide 25 of -- of this
25 document.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: And, Diana, could
4 you also have it -- or actually, the MPI witnesses, if
5 you could also have at hand from the PUB book of
6 documents tab 4, which is the excerpt from the pro
7 formas in terms of the statement of operations.
8 And, Ms. Reichert or -- or Mr. -- Mr.
9 Johnston, this -- this graph represents the trend with
10 regard to Basic net income as modelled by Aon. Is
11 that fair?
12 MR. LUKE JOHNSTON: Yes.
13 MR. BYRON WILLIAMS: And, Mr.
14 Johnston, just for comparability purposes, when I see
15 under the year 2017, would that be analogous to the
16 MPI 2017 year, as well, sir? Like, so if I'm trying
17 to compare the pro formas of MPI to the Aon material,
18 2017 means 2017, sir?
19 MR. LUKE JOHNSTON: So if -- if you
20 just -- it would be helpful just to look at the graph
21 at the top. So it's year ended February, so -- so
22 year ended February 2017 would be '16/'17.
23 MR. BYRON WILLIAMS: Okay, super. And
24 if I'm looking for the -- the black -- the black line,
25 Mr. -- Mr. Johnston, in terms of comparability with

1 the MPI projected net income, would the median or the
2 mean be most appropriate for comparisons?
3
4 (BRIEF PAUSE)
5
6 MR. LUKE JOHNSTON: We did -- we did
7 struggle a bit with the Aon median forecast, and again
8 it's their -- it's their proprietary model so they're
9 -- you know, we give them information about our claims
10 and assets, and et cetera, and they make their own
11 projections. So I don't know the fine details of how
12 they came up with their figures.
13 In terms of the mean or the median
14 question, the -- from my perspective, the -- the
15 median would probably be more useful because often
16 really significant claim scenarios can go way off the
17 rails on the high end, and raise up the -- the
18 average, or the mean whereas the median would kind of
19 give you the middle of all forecasts. That -- that's
20 just my opinion.
21 MR. BYRON WILLIAMS: Okay. So just --
22 let's take, if we would -- and I don't know if -- if
23 we were to look at the median forecast of Aon for the
24 year ended February 2017, the median forecast would be
25 63 million, sir.

1 Is that correct?
2 MR. LUKE JOHNSTON: That's correct.
3 MR. BYRON WILLIAMS: And as compared
4 to the MPI forecast, would that be 11.4 million, sir?
5 Negative eleven point four (11.4)?
6
7 (BRIEF PAUSE)
8
9 MR. LUKE JOHNSTON: I apologize, can
10 you repeat that for me, if you can remember?
11 MR. BYRON WILLIAMS: If we were
12 looking for a comparator from the -- from MPI, would
13 the -- that compare to negative eleven point four
14 (11.4) as forecast by Manitoba Public Insurance?
15 MR. LUKE JOHNSTON: The two (2) models
16 are different, so comparisons will be dif --
17 difficult, especially since we can't verify exactly
18 how Aon produced this information.
19 The other reason would be that this was
20 done prior to us making our forecast for this GRA, so
21 the timing is a -- is a bit different, as well.
22 MR. BYRON WILLIAMS: If I was trying
23 to get a sense of how the models are turning out net
24 income, would the -- okay. So as you walk along the
25 median for Aon we have -- have them forecasting a

1 median net income of MPI of 179 million by the year
2 ended February 2020.
3 Is that right, sir?
4 MR. LUKE JOHNSTON: That's correct.
5 MR. BYRON WILLIAMS: And we don't have
6 anyone from Aon here to -- to discuss this but what --
7 what, if any, conclusions can we draw about their
8 model from -- from that forecast median net income,
9 sir?
10 MR. LUKE JOHNSTON: Our focus was on
11 the variability around their -- their produced median,
12 so to your -- just using an example you just had, 2020
13 year -- year ending, their median was one seventy-nine
14 (179), and -- and they show that they have a
15 variability in -- in that example ranging from a
16 positive three hundred and ten (310) to a loss of 4
17 million. That's from a 5th to 95th percentile.
18 MR. BYRON WILLIAMS: Okay.
19
20 (BRIEF PAUSE)
21
22 MR. REGIS GOSSELIN: Why would there
23 be a bias towards the low end of the -- the band? You
24 know, if you look at the -- if you look at the -- at
25 the bands here, you know, the -- the yellow and the --

1 the light yellow and the deep yellow/orange, tend --
2 it -- you know, the results skew towards the -- the --
3 below the median as opposed to top end?
4 MR. LUKE JOHNSTON: I -- yes, I
5 apologize. I missed the first part of your question.
6 Was it just why is the -- is the -- the yellow so much
7 bigger than the or --
8 MR. REGIS GOSSELIN: Well, it seems to
9 be a bias towards the low end of the spectrum here of
10 the -- of the values and what causes that --
11 MR. LUKE JOHNSTON: Yeah, and that --
12 that's -- I touched on it just briefly with Mr.
13 Williams. So there can be a $300 million hail storm,
14 but there can't be a -- the reverse of that, right.
15 So like we might budget 20 million for hail, and oh,
16 200 million, but there can't be a negative one hundred
17 and eighty (180), that's all, yeah.
18
19 CONTINUED BY MR. BYRON WILLIAMS:
20 MR. BYRON WILLIAMS: Diana, could we
21 turn to PUB-2-33, please. Page 3 of that document.
22
23 (BRIEF PAUSE)
24
25 MR. BYRON WILLIAMS: And could you go

1 one (1) more page, please. On the -- in the top box,
2 Mr. Johnston and Ms. Reichert, you'll see a
3 recommendation from Aon in terms of that the
4 Corporation adopt an acceptable range of corporate
5 bonds within the funds asset allocation targets,
6 correct?
7 MS. HEATHER REICHERT: Correct.
8 MR. BYRON WILLIAMS: And -- and at
9 least as of the time of this Information Response,
10 this was a topic that was being studied in greater dec
11 -- detail, agreed?
12 MS. HEATHER REICHERT: Agreed.
13 MR. BYRON WILLIAMS: Is that issue
14 still being studied or has the Corporation come to a
15 conclusion?
16
17 (BRIEF PAUSE)
18
19 MS. HEATHER REICHERT: So yes, we are
20 still -- still investigating that. We focused on
21 other aspects of the implementation for the ALM and
22 our investigating whether or not it would make sense
23 for us to have more in corporate bonds.
24 MR. BYRON WILLIAMS: And we'll come
25 back to this page in a -- in a moment, but in terms of

1 going to PUB Attachment C, page 13 of PUB-1-50(a),
2 Diana, and I apologize for this. It's PUB-1-50(a),
3 Attachment C.
4
5 (BRIEF PAUSE)
6
7 MR. BYRON WILLIAMS: And page 13,
8 please. In -- in terms of MPI's peers, going to the
9 bottom bullet, we -- we see ICBC with a -- a weighting
10 of corporates to provincials of 37.1 percent to 11.2
11 percent.
12 Is that right?
13 MS. HEATHER REICHERT: Yes, that's
14 what it says.
15 MR. BYRON WILLIAMS: And we see SGI
16 with the weighting of corporates to provincials of
17 37.2 percent to 37.4 percent.
18 Is that correct?
19 MS. HEATHER REICHERT: Yes.
20 MR. BYRON WILLIAMS: And moving up,
21 again, if we looked at the universe bond allocation to
22 corporates and provincials. That's under the second
23 bullet. We see an allocation of around 30 percent for
24 corporate and around 31 percent for provincials,
25 agreed?

1 MS. HEATHER REICHERT: Agreed.
2 MR. BYRON WILLIAMS: And similarly, we
3 see that for the FTSE/TMX long-term allocation to
4 corporates and provincials, 23.46 percent to
5 corporates and 48.4 to provincials, correct?
6 MS. HEATHER REICHERT: Correct.
7 MR. BYRON WILLIAMS: And it would be
8 fair to say that the -- the one (1) outlier in -- in
9 terms of this page would be MPI with a ratio of
10 corporates to provincials of 4 percent to 70 percent?
11 MS. HEATHER REICHERT: Sorry. The
12 outlier -- could you repeat that, please?
13 MR. BYRON WILLIAMS: First of all, MPI
14 allocates, at -- at the time of this document, 4
15 percent to corporates and 70 percent to provincials,
16 agreed?
17
18 (BRIEF PAUSE)
19
20 MS. HEATHER REICHERT: Sorry. So
21 you're referencing that third bullet there, corporates
22 to provincials, as 4 percent to 70 percent, that third
23 bullet?
24 MR. BYRON WILLIAMS: Yes. Did I read
25 that cor --

1 MS. HEATHER REICHERT: Yes, you did.
2 But probably at this juncture I -- I should remind the
3 -- the Board panel. So it is the Department of
4 Finance that is responsible for the investment
5 portfolio or the investment decisions ultimately of
6 the Corporation.
7 And it has always been the province's
8 approach to underweight in corporate bonds and
9 overweight in provincial bonds, given that they feel
10 that the risk with provincial bonds is a lot less than
11 with corporate bonds.
12 And they've been able to, through their
13 bond management, to still garner favourable basis
14 points, you know, above what the benchmark would --
15 would typically have for -- for bond -- bond yields.
16 So the fact that we're so underweight
17 in corporate versus provincial is really a matter of
18 the investment policy that the -- the provincial
19 government follows.
20 MR. BYRON WILLIAMS: And just in terms
21 of -- you're not denying that MPI is an outlier as
22 compared to the other weights that are -- appear on
23 this page, Ms. -- Ms. Reichert?
24 MS. HEATHER REICHERT: No, I'm not
25 denying that. I'm just explaining why that would be

1 the case.

2 MR. BYRON WILLIAMS: And if we could

3 turn to page 25 of -- of this, the PDF page 25 of this

4 same document, you see that the con -- first

5 conclusion of Aon is that the stra -- strategic

6 overweight/underweight to corporates is -- is

7 difficult to support?

8 MS. HEATHER REICHERT: Yes. Excuse

9 me. I see that that is Aon's observation.

10 MR. BYRON WILLIAMS: Okay. And they

11 go on to say that long-term corporates offer a

12 consistent yield advantage?

13 MS. HEATHER REICHERT: Yes, they do

14 say that.

15 MR. BYRON WILLIAMS: And that lower

16 credit quality corporates offer greater opportunity

17 for value added, agreed?

18 MS. HEATHER REICHERT: Yes.

19 MR. BYRON WILLIAMS: And while noting

20 that provincials have a greater degree of downside

21 protection, they also note that they have greater

22 volatility as a result of greater duration?

23 MS. HEATHER REICHERT: Yes.

24 MR. BYRON WILLIAMS: And so that lies

25 at the -- the heart of the recommendation of Aon to --

1 to set a -- a range for corporate bonds as an
2 effective tool to increase corporate bond exposure and
3 facilitate future tactical exposures?
4
5 (BRIEF PAUSE)
6
7 MS. HEATHER REICHERT: It also says
8 here -- one (1) of their observations, forward -- at
9 the last one there:
10 "Forward-looking assumptions suggest
11 corporates may offer opportunity for
12 enhanced returns."
13 So it is the reason that we are looking
14 at their -- their recommendation to potentially
15 increase the weighting for corporates. But we are
16 limited by the investment policy of the provincial
17 government.
18 They also require that we have a
19 minimum credit rating in the bonds that we purchase
20 which does exclude some corporate bonds from being
21 able to be within our portfolio.
22 So, I do take all of Aon's observations
23 as stated there. That is their observations, and they
24 -- we have to work within the environment that -- that
25 we are in.

1 MR. BYRON WILLIAMS: And -- and if we
2 can turn to page 27, and focussing on that second
3 bullet, that's really the thrust of Aon suggesting
4 that MPI provide MPI with strategic and tactical
5 guidance on the fact that greater corporate bond
6 exposure may both increase long-term returns and help
7 achieve long-term objectives?
8 MS. HEATHER REICHERT: Again, very
9 much -- I see there where Aon has made that
10 recommendation. And they -- they're well within their
11 -- their ability to make that recommendation. We'll
12 look, as I said, on whether or not, you know, in
13 discussions with treasury this is something that they
14 are wanting to look at more closely and pursue.
15 In the meantime, we'll look from our
16 perspective to see if we can make the case to the
17 treasury branch that this is something that we should
18 be pursuing.
19 MR. BYRON WILLIAMS: And again, Ms.
20 Reichert, just going back to the tradeoff that the
21 Basic portfolio has undergone in the sense that
22 achieving somewhat higher protection against interest
23 rate risk while experiencing somewhat of a decrease in
24 terms of its projected investment income, that's --
25 that's the tradeoff that -- that essentially is -- is

1 represented by the asset liability matching report,
2 agreed?
3 MS. HEATHER REICHERT: Agreed, which
4 is why we opted to go with the option that gave us a
5 reduction in risk without sacrificing as much yield as
6 -- as the other options that -- that were being
7 reviewed.
8 MR. BYRON WILLIAMS: And within that
9 context though Aon is suggesting that there's an
10 opportunity to increase return without a material
11 increase in risk through corporate bonds, agreed?
12 MS. HEATHER REICHERT: That is what
13 they're trying to suggest; I give you that. And
14 again, we have to look at that in the context of the
15 environment that we -- that we have to operate within.
16
17 (BRIEF PAUSE)
18
19 MR. BYRON WILLIAMS: I'll probably
20 have a few cleanup questions in this area tomorrow,
21 but...
22
23 (BRIEF PAUSE)
24
25 MR. BYRON WILLIAMS: Actually, perhaps

1 before we leave here, let's -- Mr. Pal -- Mr.
2 Johnston, you wanted to go to slide 125 of -- and this
3 is from -- yes, thank you, Diana. And perhaps if we
4 could move a couple pages earlier, first of all, to
5 page -- slide -- I believe it's 123.
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: Mr. Johnston,
10 just to remind us, the -- the desired state rules
11 under which the recommendation of Aon for portfolio 2
12 were -- were -- the assumptions under which it was
13 operated was a 68 -- an MCT range of 68 percent to --
14 to a hundred percent.
15 Is that right, sir?
16 MR. LUKE JOHNSTON: I'm -- I'm
17 thinking 65 percent in my head --
18 MR. BYRON WILLIAMS: Sixty-five, sir.
19 MR. LUKE JOHNSTON: -- but -- but it
20 doesn't really matter. It -- it's in the sense it's -
21 - we try to approximate really the proposal that we
22 have here, the -- the DCAT, which is equivalent to
23 roughly 60 to 70 percent of MCT and an upper target of
24 100 percent MCT.
25 MR. BYRON WILLIAMS: And what Appendix

1 G attempts to do is provide projections under
2 alternative RSR rules, in -- in this -- in this -- the
3 one being the current state with a target range of --
4 of 10 percent to 20 percent of written premiums,
5 agreed, sir?
6 MR. LUKE JOHNSTON: Agreed.
7 MR. BYRON WILLIAMS: And if we turn to
8 slide 125 of this document. In terms of the 'Y' axis,
9 Mr. Palmer -- Mr. Johnston, my goodness, I apologize.
10 MR. LUKE JOHNSTON: That's twice.
11 MR. BYRON WILLIAMS: Twice.
12 MR. LUKE JOHNSTON: Maybe it's
13 preferred Mr. Palmer, but that's okay.
14 MS. CANDACE GRAMMOND: Not everyone
15 knows who you're referring to.
16 MR. BYRON WILLIAMS: Okay, there's a
17 lot of heckling going on here, and I believe I've --
18 I've brought it on myself. And I -- I apologize, Mr.
19 Johnston.
20 The 'Y' axis, what we're looking at is
21 the ten (10) year average annual basic net income,
22 agreed?
23 MR. LUKE JOHNSTON: Agreed.
24 MR. BYRON WILLIAMS: And in terms of
25 that access, the higher up you go the better you are,

1 correct?

2 MR. LUKE JOHNSTON: Better net income.

3 MR. BYRON WILLIAMS: The 'X' axis

4 reflects the average annual volatility of retained

5 earnings. Agreed, sir?

6 MR. LUKE JOHNSTON: Agreed.

7 MR. BYRON WILLIAMS: And the happier

8 place, in terms of reduced annual volatility of

9 retained earnings is to the left on that axis, sir?

10 This -- this is where you and Aon disagree.

11 MR. LUKE JOHNSTON: Yeah, happy and

12 better, but again you could -- if you have constant

13 aggressive rebates and surcharges you can bring

14 retained earnings volatility really tight.

15 So my -- my issue with that -- that

16 metric is that it -- we really needs to consider the

17 frequency of rebates and surcharges because that's

18 what we're trying to avoid with -- with the RSR. We

19 don't want constantly asking or -- or -- people for

20 money, or -- or paying them out large sums of money.

21 MR. BYRON WILLIAMS: And that's an

22 important point, Mr. Johnston. That's what MPI is

23 trying to avoid, the -- the -- that's the big risk

24 that -- in terms of their analysis and their direction

25 for Aon, that's -- that's what was guiding their

1 perception of risk, agreed?
2 MR. LUKE JOHNSTON: Rate
3 predictability and stability was seen as not only the
4 -- the basic break even rate but also the -- the ups
5 and downs caused by surcharges and rebates, yes.
6 MR. BYRON WILLIAMS: Indeed that was a
7 fundamental concern of the Corporation in its
8 analysis.
9 MR. LUKE JOHNSTON: It was -- it was a
10 key objective, yes.
11 MR. BYRON WILLIAMS: Okay. And
12 recognizing this is where you and Aon disagree, sir,
13 when -- what -- what I'd like to draw your attention
14 to is a comparison between the current state portfolio
15 at 60 percent bonds with the desired state portfolio
16 at 70 percent bonds.
17 Do you see that comparison, sir?
18 MR. LUKE JOHNSTON: Yes, I do.
19 MR. BYRON WILLIAMS: And by desired
20 state again, that's the MPI/MCT range of 65 percent to
21 100 percent. Is that right?
22 MR. LUKE JOHNSTON: Correct.
23 MR. BYRON WILLIAMS: And the current
24 state is the ten (10) to 20 percent premiums written,
25 agreed?

1 MR. LUKE JOHNSTON: Agreed.
2 MR. BYRON WILLIAMS: And recognizing
3 the difference of opinion between yourself and Aon,
4 and -- and focusing on the duration matching approach,
5 would I -- I be correct in suggesting that the return
6 between the current state and the desired state is
7 very comparable in -- in this comparison, sir?
8 MR. LUKE JOHNSTON: I agree, and I
9 just -- just wanted to emphasize another comment. I
10 don't -- I don't disagree with Aon, and their
11 portraying exactly what they modelled. I'm just
12 saying the missing piece of information on this slide
13 is the frequency of surcharges and rebates would --
14 would be a helpful comparison for these different
15 scenarios because it's -- that's -- that is important.
16 Regardless of what -- how much weight
17 you put into that, if one scenario had a -- it was
18 doing rebates and surcharges 25 percent of the time
19 and the other one was doing it 1 percent of the time,
20 that would be important to know when you're comparing
21 two (2) side by side models.
22 MR. BYRON WILLIAMS: And again in
23 terms of average annual volatility as -- as this
24 analysis has been undertaken by Aon, the current state
25 with the duration matching approach and a bond

portfolio of 60 percent perform slightly better than the desired state, Mr. Palmer -- Mr. Johnston?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: It's -- it's within five (5) to $10 million difference, if that -- yeah, thanks.

MR. BYRON WILLIAMS: So five (5) to $10 million, but performed somewhat better.

MR. LUKE JOHNSTON: Sorry, I didn't hear the last part of that.

MR. BYRON WILLIAMS: It's okay, Mr. -- Mr. Johnston. I think we -- we're agreed.

Madam Chair, I have more cross-examination, although there's -- it's for Mr. Guimond. And I -- I fear that I'll start calling him Ms. McLaren which -- which he may not mind and it wouldn't be an insult. But I -- I'm -- I'm happy to keep going or I could call it a day and -- and quit calling the incorrect names to the MPI panel, for which I apologize again, Mr. Johnston.

THE CHAIRPERSON: Well, the majority wouldn't mind continuing, at least till 4:00 or -- okay. Thank you.

1 (BRIEF PAUSE)

2

3 CONTINUED BY MR. BYRON WILLIAMS:

4 MR. BYRON WILLIAMS: Mr. Guimond, you

5 may recall a conversation that you had with My Learned

6 Friend Ms. Grammond in terms of the potential timing

7 of any review of the drivers' safety rating

8 initiative.

9 Do you recall that, sir?

10 MR. DAN GUIMOND: Yes.

11 MR. BYRON WILLIAMS: And the point you

12 were making to her, sir, was that, recognizing that

13 there was the potential for a change in provincial

14 government, and recognizing the importance of -- of

15 this issue, you were suggesting that it might be

16 prudent to wait a couple of years until 2017 to -- to

17 get some direction in terms of DSR.

18 Do you recall that, sir?

19 MR. DAN GUIMOND: Yes.

20 MR. BYRON WILLIAMS: And, Mr. Guimond,

21 what I understood you to mean is that, with any

22 election, there's a chance that the -- not only the

23 MPI Board would change, but -- not only that the

24 government would change, but the MPI Board would

25 change, agreed?

1 MR. DAN GUIMOND: Agree.
2 MR. BYRON WILLIAMS: And there also
3 presumably would be the possibility that -- that this
4 current Board, the Public Utilities Board, could
5 change as well.
6 Would that be fair?
7 MR. DAN GUIMOND: I can't speak to
8 that. I -- I don't know --
9 MR. BYRON WILLIAMS: Okay.
10 MR. DAN GUIMOND: -- how that
11 typically works.
12 MR. BYRON WILLIAMS: Mr. Guimond,
13 would it be fair to say that -- that, in conversations
14 that you have in -- in this hearing and -- and around
15 issues such as the rate stabilization reserve, you --
16 you often use terms such as "what I'm putting on the
17 table" or "if we can reach agreement".
18 Do you often use terms like that, sir?
19 MR. DAN GUIMOND: On occasions, yes.
20 MR. BYRON WILLIAMS: And I certainly
21 don't want to put words into your mouth, but would it
22 be fair to characterize your approach to those issues
23 as almost like it's a negotiation?
24 MR. DAN GUIMOND: No, I don't agree
25 with that. What I'm trying to say is that it goes

1 back to my slides on common ground. So I'm trying to
2 make the point that we've -- we've listened to all the
3 stakeholders.
4 And when I listen to all the
5 stakeholders, one being the regulator, that -- that I
6 think I found a way to be able to deal with what's
7 important to everyone and be able to find a way that -
8 - that public auto insurance in Manitoba can be
9 successful.
10 And at the same time, I understand when
11 you have all kinds of stakeholders and you're running
12 a business, that people sometimes are -- are focused
13 on what they want. But you have to find common ground
14 that it works for everyone. And I think that's the
15 message I'm trying to -- to convey.
16
17 (BRIEF PAUSE)
18
19 MR. BYRON WILLIAMS: In terms of
20 issues such as the RSR, sir, in finding common ground,
21 would it be fair to say that it's got to be principled
22 common ground such that it can survive the -- any
23 particular relationship between the current CEO of MPI
24 and the current -- current Board?
25 MR. DAN GUIMOND: I'm sorry, can you

1 repeat the question? I -- I --
2 MR. BYRON WILLIAMS: I -- I might ask
3 it better, Mr. Guimond, if I... It's important that
4 any resolution to the rate stabilization reserve issue
5 be a principled one that survives the relationship
6 between you as CEO and this Board and that is one (1)
7 that future Boards and future CEOs can look to and
8 rely upon, agreed?
9
10 (BRIEF PAUSE)
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12 MR. DAN GUIMOND: I hesitate using the
13 word 'principle'. I -- I think that things change
14 over time and that you have to make decisions that are
15 relevant at a certain point in time. So what is
16 decided today, or -- or what was decided fifteen (15)
17 years ago -- I mean, I lived through what happened in
18 the 80s. Like I started to work for MPI in 1990.
19 And I -- I know what it is when you
20 lose confidence of the public. And so the regulator
21 was brought in. We start to go in 1989 in front of
22 the regulator. And all these -- like our -- our rate-
23 setting methodology was approved over time by -- by
24 the regulator, but we've seen changes over time as
25 well like the loss transfer on motorcycles and things

of that nature.

So I think it has to resonate with our -- with the public and with the stakeholders, with the regulator, and it's like what I -- what I said a little bit -- like 100 percent MCT for us is important today with what we know, because the public expects us to follow the best practice if something goes wrong that you didn't do things that others are not doing or that you deviated from what are best practice.

In -- in five (5) years from now or four (4) years from now I recommend we do a review of that, so -- so principle you have to be -- I'm not too sure what it means to you, 'principled', so I -- I think it has to be -- I -- I would -- term to use pragmatic in that it resonates with the public and all the stakeholders.

MR. BYRON WILLIAMS: I'll take that answer for right now. I've -- I've taken us to four o'clock and that one works for me. Thank you.

THE CHAIRPERSON: Thank you very much. We'll now adjourn for today and we'll reconvene tomorrow at 9 a.m.

(PANEL STANDS DOWN)

1 --- Upon adjourning at 4:00 p.m.

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6 Certified correct,

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10 Bob Keelaghan, Mr.

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